March 14, 2023

Greenhouse Gas Protocol
World Resource Institute
10 G Street NE, Suite 800
Washington, D.C. 20002

WBCSD
Maison de la Paix
Chemin Eugène-Rigot, 2B
Case Postale 2075 CH-1211, Geneva 1
Switzerland

Re: Surveys on GHG Protocol Corporate Standards and Guidance

Dear Sir or Madam:

PricewaterhouseCoopers[1] is pleased to respond to the Greenhouse Gas Protocol's "Survey on Need for GHG Protocol Corporate Standards and Guidance Updates." Our response is informed by our interactions with clients and investors as well as our history of engagement and proactive thought leadership on ESG matters.

Please find our detailed responses to the Corporate Accounting and Reporting Standard survey, the Scope 2 Guidance survey, and the Scope 3 Standard and Scope 3 Calculation Guidance survey as well as our proposals for additional guidance in the attached appendices. This letter supplements our survey responses to provide an overview of our broad points for consideration as GHG Protocol contemplates updates and changes to its guidance.

Purpose

GHG Protocol is one of the most widely known and applied sustainability reporting frameworks. Even as ESG reporting continues to increase in prominence with proposed disclosures from the European Union as part of the Corporate Sustainability Reporting Directive (CSRD), internationally by the International Sustainability Standards Board (ISSB), and in the United States by the Securities and Exchange Commission (SEC), the criticality of GHG Protocol is reinforced by its incorporation in each of these "big three" proposals. The *GHG Protocol Corporate Standard* (the Corporate Standard) was created for this purpose, as a common standard intended to "improve[ ] the consistency, transparency, and understandability of reported information."[2]

Sustainability reporting, however, has evolved substantially since the GHG Protocol was launched more than 20 years ago. Not only is there increasing global urgency around greenhouse gas reductions, but

[1] "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarizes the views of those member firms that commented on the surveys.
[2] *GHG Protocol Corporate Standard*, page 3

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 46521

greenhouse gas data is being used by a growing array of stakeholders to assess the contribution of individual companies to global warming and to measure their success in transitioning to lower carbon business models. Further, the increasing integration of sustainability information — including greenhouse gas emissions data — with financial information, as well as its increasing prominence, requires standards with enhanced rigor, flexibility, and clarity. In response, we believe that GHG Protocol should consider strategic, structural, and technical changes to maintain the quality and relevance of its guidance in light of its increasing importance to a broader group of stakeholders.

As a first step, we recommend that GHG Protocol redefine its purpose — with more specific recognition of the needs of multiple stakeholders and without bias or tailoring for a particular user group. Given continuous development in the emissions reporting environment, we believe it is critical that GHG Protocol recognize that its standards are referenced and used beyond the scope of environmental science, further supporting the need to prepare standards through a lens of stakeholder neutrality. Developing a statement of purpose reflective of a broader mission and expanded usage alongside financial reporting will ensure that the protocol remains relevant and flexible as reporting frameworks continue to evolve.

We also have overarching recommendations in the areas of governance, organization of the reporting standards, interoperability, and enhanced data quality as discussed below.

Governance

The reporting of financial information has developed over decades, building credibility through a high-functioning ecosystem of players — including management, corporate directors, auditors, standard setters, and regulators — working together for the benefit of financial statement users. While the financial reporting ecosystem had decades to achieve a robust common framework, parties in the ESG ecosystem will need to emulate this progress at a dramatically accelerated pace to effectively meet the burgeoning demand for sustainability information.

Because its standards are the linchpin of emissions reporting, GHG Protocol is a crucial player in the future of credible, reliable sustainability information. Accurate greenhouse gas reporting is integral to achieving emissions reduction targets, monitoring emissions activity by governments and regulatory agencies, understanding the impact of corporate actions, and informing investment and similar decisions. The more than 20 years already invested by GHG Protocol provide it with a strong foundation of reporting requirements; however, we believe changes are needed to more formally embrace its role as a credible and established international standard setter. By formalizing its operational practices and policies related to the development of standards, GHG Protocol would build trust in the emissions reporting environment, enhancing transparency and allowing users to rely on and apply its guidance consistently.

In our experience, elements of high-quality standard setting include:

- An oversight board comprised of key stakeholders
- A standard setting board with relevant expertise (e.g., engineering, sustainability reporting, standard setting)
- Formal due process over issuance of new standards
- Post implementation review
- Process for continuous updates and maintenance
- Competent staff from all relevant disciplines in sufficient number to achieve the objectives of the organization
- Independent source of funding

We also believe that there is value in developing a mechanism for interpretative guidance, similar to the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) or the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). An implementation and interpretation group — with representatives drawn from a cross section of GHG Protocol's constituencies, including preparers, environmental scientists, auditors and greenhouse gas attest providers, standard setters, regulators, and others — would improve the consistency and quality of emissions disclosures while providing a resource to preparers as the expectations of users continue to escalate.

In addition, the heightened focus on emissions reporting creates an increase in expectations for GHG Protocol to address and resolve related reporting issues (e.g., estimation techniques, measurement methodologies) as well as to continue to evolve with changing user expectations. To support the effective reporting of emissions, we strongly believe there is a need for GHG Protocol to invest in its own organizational structure, ensuring that relevant expertise and capital are dedicated to the improvement and maintenance of its reporting standards. This investment will provide returns to all stakeholders in the sustainability reporting ecosystem.

Organization of the reporting standards

As greenhouse gas emissions reporting continues to increase, so too will the need for complete, clear, and actionable guidance. GHG Protocol's current guidance — including the Corporate Standard, the Scope 2 Guidance, and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard — developed over time and intermingles background information, case studies, definitions, required and optional disclosures, and more. Further, in some cases it may be difficult for a user to identify the appropriate source of guidance and to reconcile differences among the standards and guidance or discern how they interact with one another, posing a risk that relevant information is misinterpreted or overlooked. The availability of separate guidance for cities and communities (e.g., Global Protocol for Community-Scale Greenhouse Gas Inventories), sector-specific guidance (e.g., A Recommended Methodology for Estimating and Reporting the Potential Greenhouse Gas Emissions from Fossil Fuel Reserves), and other supplemental standards (e.g., Product Life Cycle Accounting and Reporting Standard) may add to the confusion.

We believe now is the time to restructure the full suite of standards and guidance, emulating some of the elements of financial reporting — standards issued by the FASB and IASB — that are being leveraged by the SEC and standard setters such as the ISSB and the European Financial Reporting Advisory Group (EFRAG) in its drafting of the European Sustainability Reporting Standards (ESRS). We recommend that GHG Protocol consider the following elements that in our experience support the effectiveness of standards on any topic:

- Topical delineation — the standards and guidance could be separated among categories such as general topics, scope 1, scope 2, scope 3 reporting, and sector-specific guidance; each topical area could be further divided by subtopic.
- Archetypal organization — for example, each topic could include the purpose, background, recognition, measurement, required disclosures, and optional disclosures, supplemented with the basis for conclusions, case studies, and definitions. This type of organization would facilitate understanding of the core requirements, provide context for the users through background and basis for conclusions, and ensure relevant guidance is not overlooked. In addition, in some cases, elements of the existing content may be more appropriately included as supplemental educational materials, which would further clarify the requirements for users.
- Numbered standards and paragraphs — a common numbering scheme would facilitate referencing and understanding.

Consolidating all relevant emissions reporting guidance into a structured group of standards would also help foster a strong governance and standard-setting environment, further supporting climate objectives and global climate goals. It would also allow for more targeted updates to be made to specific elements of the GHG Protocol without reconsideration of all elements, making it easier for users to understand which elements may have been updated and how.

Third-party standards

We have observed that certain sectors are developing supplemental guidance outside the auspices of GHG Protocol. Leveraging the work of other organizations may have been an effective strategy for GHG Protocol as it sought to expand its available guidance. Ultimately, however, to be the premier standard setter for greenhouse gas emissions reporting, we believe it is important for GHG Protocol to control the development of its standards, thus avoiding potential bias that may be inherent in standards developed by industry groups or others interested in promulgating a specific viewpoint. Ensuring all standards governing emissions reported in accordance with the GHG Protocol's standards and guidance are subject to its own due process would ensure that its suite of standards are robust, independent, and fit for purpose across a broad spectrum of users.

Interoperability

We believe that GHG Protocol's primary responsibility is to establish baseline expectations with respect to the recognition and measurement of greenhouse gas emissions. There are, however, other aspects of reporting greenhouse gas emissions, including materiality, organizational boundaries, presentation (e.g., number of years to be presented, disaggregation of greenhouse gases, scopes to be presented), required disclosures, verification and attestation, and similar matters that may be dictated by other frameworks. For example, the big three proposals all reference GHG Protocol in some manner for recognition and measurement but provide their own guidance on the other matters.

To be most useful to the widest range of preparers, standard setters, regulators, and other stakeholders, we recommend that GHG Protocol structure its guidance such that its recognition and measurement considerations are foundational and applicable in both voluntary and mandatory GHG reporting schemes. The recognition and measurement foundation should be coupled with supplemental guidance that could be applied in the absence of requirements specified by a regulator or another standard setter. These "building blocks" should provide sufficient guidance to support consistent and high quality disclosures for those not reporting under prescriptive frameworks.

For example, the supplemental guidance would include information on the assessment of materiality and acceptable forms of attestation as well as requirements for organizational boundaries, presentation, and disclosure. Other stakeholders may identify additional matters that would also be helpful to ensure consistent and transparent reporting. These elements, where applicable, should leverage similar concepts in financial reporting and other recognized standards such as the International Organization for Standardization environmental management standards (ISO 14000).

We believe this change in structure and approach would enhance GHG Protocol's interoperability with emerging required reporting frameworks, minimizing incremental costs and effort for preparers while continuing to provide sufficient guidance for voluntary reporters.

Organizational boundaries

Determining the appropriate organizational boundaries for emissions reporting is one of the areas of considerable discussion and debate among the big three sustainability proposals. Each of the proposals, however, ties the required organizational boundaries for greenhouse gas emissions reporting in some manner to those used in financial reporting. This movement toward consistency with the financial statements is consistent with our overall view that alignment between financial reporting and sustainability reporting, where possible, provides more useful and actionable information.

Further, the determination of which entities should be included in a company's consolidated financial statements is based on a significant volume of generally accepted accounting principles that have developed over decades of standard setting. Investors understand the concept of consolidated financial statements and rely on the knowledge that the primary information reported in the statements is reported on the same basis, for the same group of entities. In contrast, the definitions of organizational and operational boundaries outlined in GHG Protocol were designed to standardize greenhouse gas reporting, with a dual benefit of providing information for use by policymakers and architects of GHG programs. Because the guidance was not originally developed in the context of reporting emissions together with financial information, many of the principles are incongruent. In addition, the current optionality within the Corporate Standard diminishes the comparability and usefulness of information across companies.

We believe the general alignment of the big three proposals with the financial reporting guidance is reflective of the current direction of sustainability reporting. As such, we recommend that GHG Protocol eliminate the current options available for the determination of organizational boundaries, coalescing around a model consistent with financial reporting. An added benefit of alignment would be the ability to leverage the years of effort devoted to developing the current consolidation models, allowing GHG Protocol to focus its efforts on other pressing emissions reporting issues.

Notwithstanding this recommendation, if GHG Protocol retains its current approach for determining organizational boundaries, we recommend that it develop enhanced standards and guidance with sufficient flexibility to address the plethora of control situations. For example, we believe guidance on multi-party arrangements should be reconsidered — moving beyond a singular factor such as the party that operates the facility — so that the resulting reporting better reflects the party with the ability to influence decisions impacting emissions over time.

Enhanced data quality

One of the frequent criticisms of greenhouse gas emissions reporting is the uncertainty inherent in the need for extensive estimates. Absent use of a continuous emissions monitoring system, emissions reporting by necessity incorporates some level of estimation. This leads to skepticism among many users, particularly as measurement methodologies — and the related measurements — change over time. Further, limitations in estimation techniques may hinder the ability of companies to meet their emissions reduction targets and other greenhouse gas emissions reductions goals, thus also potentially impacting broader societal climate change objectives.

We believe GHG Protocol is uniquely positioned to make a step change in emissions measurement techniques by more clearly outlining data expectations, requiring use of company-specific information where possible, and continuing to improve the methodologies used. We recommend that GHG Protocol focus on data quality improvement by users as a key tenet of its upcoming standard setting process.

In the interim, we believe that enhanced disclosures will aid users of reported emissions data by allowing better visibility into data strengths and weaknesses. Transparent disclosure of estimation techniques is a theme in financial reporting that has been welcomed by users making financial reporting an effective starting point to identify required disclosures. For example, fair value measurements in the financial statements are supported by detailed disclosures of the degree to which the data is observable and the extent of estimation needed to arrive at the amount of disclosed emissions. The relevant financial statement disclosures are supported by the fair value hierarchy elucidated in Financial Accounting Standards Board Accounting Standard Codification 820, *Fair Value Measurement*, and International Financial Reporting Standard 13, *Fair Value Measurement*. The accounting fair value hierarchy provides information about the types and quality of the inputs to valuation techniques used to measure fair value, separating such measurements into levels 1, 2, and 3. We believe a similar disclosure framework — based on factors and techniques of relevance in emissions measurement — would provide transparency and aid both preparers and users by promoting understandability.

We also recommend that GHG Protocol require enhanced disclosure about the key methodologies, assumptions, and estimates used in developing a company's greenhouse gas inventory (e.g., organizational boundaries considered, emissions factors used). Additional disclosures may help bridge the expectations gap of users, who are keen to understand the extent of management judgment underlying reported emissions.

Scope 3 emissions

By definition, scope 3 emissions are indirect and encompass emissions outside the direct control of the company. Scope 3 emissions disclosures are typically the most challenging to prepare and understand, given the often broad scope of a company's value chain and its varying degrees of influence over emissions. We acknowledge, however, that scope 3 emissions represent an important element of a company's overall carbon footprint.

To balance the importance of these disclosures with providing more decision-useful information, we recommend revising the scope 3 standard to better differentiate emissions over which a company has a degree of influence, with differentiated disclosures depending on the degree. For example, a large company may have visibility into the emissions of its suppliers and may be able to exert pressure to reduce those emissions in the future, whereas a small company may have limited visibility or influence, providing less useful information. Further, depending on a company's location in the value chain, it may have limited or no influence over the use and disposal of its products, and disclosures based solely on conjecture would not serve the interest of the company or its stakeholders.

Thus, we recommend that GHG Protocol rethink the depth and breadth of scope 3 disclosures and consider requiring a company to disclose its relative degree of influence over the entities generating such emissions. In addition, we would support disclosure of ranges when a company has more limited influence and there are multiple alternate scenarios.

* * * * *

If you have any questions, please contact Henry Daubeney at henry.daubeney@pwc.com, Heather Horn at heather.horn@pwc.com, or Andreas Ohl at andreas.ohl@pwc.com.

Yours faithfully,

PricewaterhouseCoopers

Henry Daubeney
Global Chief Accountant and Head of Reporting