

Greenhouse Gas Protocol  
c/o World Resources Institute  
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United States

14 March 2023

### **Consultation response to the Surveys on Need for Greenhouse Gas Protocol (GHG Protocol) Corporate Standards and Guidance Updates**

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the GHG Protocol Corporate Standards and Guidance, in the form of four surveys:

- ▶ Corporate Accounting and Reporting Standard (2004) survey
- ▶ Scope 2 Guidance (2015) survey
- ▶ Corporate Value Chain (Scope 3) Standard (2011) and Scope 3 Calculation Guidance (2013) survey and
- ▶ Market-based accounting approaches survey

We are responding to these surveys as a professional services firm, in which capacity we observe the application of the GHG Protocol in multiple engagements with clients around the world. We are not responding to this survey with any information about the GHG inventory of Ernst & Young Global Limited, as we believe that sharing our observations from a diverse range of engagements may be of greater value to you. Please note that we have only included responses to the questions in the surveys that were within the remit of this stated capacity.

We support the GHG Protocol's efforts to collect stakeholder input to inform potential updates and/or the need for additional guidance related to GHG Protocol's Corporate Standard, Scope 2 Guidance, Scope 3 Standard and supporting documents. Considering the 'building blocks approach' adopted by global standard setters to develop internationally recognised sustainability-related disclosure standards, it is crucial that the various frameworks in that approach are regularly maintained to ensure that they remain relevant. The GHG Protocol is the core standard setter for GHG emissions, so we agree that it is very important that GHG Protocol standards are updated to meet the demand for data quality and reporting expectations across all jurisdictions. Since the Standards and Guidance were issued, regulatory developments and an increased focus of stakeholders on sustainability reporting have generated new data quality and reporting expectations. We, therefore, recommend that the focus of the GHG Protocol is refined and clarified accordingly.

Our detailed responses to the four surveys were submitted through the online survey forms on the GHG Protocol website, on 14 March 2023. This cover letter provides an executive

summary of the main themes of our responses. We believe the following are areas where the GHG Protocol could be improved to supplement the existing Standards and Guidance.

### **Governance**

We recommend that the GHG Protocol promotes and expands its “built on GHG Protocol” mark, so that when other bodies publish resources based on a GHG Protocol standard, the GHG Protocol awards the “built on GHG Protocol” mark after performing a thorough review thereof, to recognise that the resource aligns with a GHG Protocol standard. To achieve this, the GHG Protocol may consider officially registering the name “Greenhouse Gas Protocol” as a trademark. We note, however, that once an initiative obtains the “built on GHG Protocol” mark, there is an ongoing challenge for the GHG Protocol to ensure that, when these initiatives update their guidance, the updated guidance also will need to be reviewed to ensure that it is still in alignment with the GHG Protocol’s views. This could be onerous for the GHG Protocol.

Therefore, we recommend that the GHG Protocol consider introducing a forum for stakeholders of the GHG Protocol to report inconsistencies in the interpretation and application of guidance, such as an official ‘interpretations committee’. Stakeholders of the GHG Protocol could also raise interpretative questions with such a committee in relation to references to the GHG Protocol that may appear inconsistent with the GHG Protocol. This may also result in other bodies that are referencing the GHG Protocol being more inclined to engage with the GHG Protocol and to apply for the “Built on GHG Protocol” mark. Ultimately, this should promote consistent application of the GHG Protocol among preparers. In terms of governance, including formalising interpretations through the ‘interpretations committee’ in the existing Guidance and Standards, GHG Protocol could reference similar committees, such as established within the Global Reporting Initiative, the IFRS Interpretations Committee within the IFRS Foundation and those of other standard-setting bodies.

Furthermore, we would recommend that the GHG Protocol consider formalising a due process structure that describes the process for future updates to the GHG Protocol Standards and Guidance. This process should include matters such as setting an effective date from which companies should apply updated content and how a company should incorporate any change required, taking into account the time companies would need to adjust their accounting principles and/or existing disclosures in line with the updated Standards/Guidance.

We would also recommend better alignment with, or even integration of, the Scope 3 Standard with the Corporate Standard and Scope 2 Guidance. It is often difficult to ascertain which guidance is applicable to a specific set of circumstances. We also recommend clarifying the distinction between requirements, application guidance (which would also be required) and illustrative guidance/examples (which would be optional).

## **Global consistency and comparability**

We recommend that the GHG Protocol aligns the definitions of financial accounting concepts, as described in the GHG Protocol, with those articulated by other internationally recognised financial reporting frameworks, such as International Financial Reporting Standards Accounting Standards (IFRS AS) and US GAAP. For example, defining what is meant by 'control' in terms of the financial control approach as included in the GHG Protocol, and updating the leases guidance in the GHG Protocol for the latest terminology used in financial accounting standards. We further recommend that the GHG Protocol aligns the approach taken by a consolidated entity and by an unconsolidated subsidiary or a joint venture, for example, with the principles in international sustainability reporting standards, such as the IFRS Sustainability Disclosure Standards (IFRS SDS) to be issued by the International Sustainability Standards Board (ISSB) and EFRAG's European Sustainability Reporting Standards (ESRS). This would essentially mean that the approach for the consolidated group entity would align with the consolidation approach as used in the consolidated financial statements, whereas for the non-consolidated entities, a choice of one of the consolidation approaches in the GHG Protocol can be made. Aligning to existing financial accounting and sustainability reporting principles would make it easier for preparers and investors to understand and compare the reporting requirements.

We can see the merits of the dual reporting requirement, where information is provided on both the location-based method (LBM) and market-based method (MBM). However, we observe that in the ISSB's draft IFRS SDS, S2 *Climate-related Disclosures*, the dual reporting requirement will not be mandated and only the LBM is required, in addition to qualitative and quantitative disclosures of any contractual instruments that have been entered into by the company. Therefore, we would recommend that the reporting requirement in the GHG Protocol is amended to only require the LBM for Scope 1, 2 and 3 emissions as a minimum, as well as separate disclosure of any contractual instruments and/or compensating measures that a company has entered into. We further recommend that the MBM is made optional, unless an entity has public targets based on a market-based accounting number, in which case it should be required. By doing this the GHG Protocol could be more widely applied, given that some jurisdictions, while requiring the use of the GHG Protocol to determine emissions, do not require the disclosure of the MBM.

## **Internal control and external assurance**

With respect to revisiting or making any changes to the current requirements and guidance on verification or assurance, we recommend revisiting the assurance section (in both chapter 10 of the *Corporate Accounting and Reporting Standard* and chapter 10 of the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*) to focus on providing companies with guidance related to data credibility (including sufficient and appropriate supporting documentation) and establishing a strong internal control environment in order to prepare for external assurance (instead of focusing the sections on the external assurance principles themselves). Indeed, when updating these sections, the GHG Protocol should consider including the so-called "three lines of defense model", where a company would determine its

need for external assurance after having implemented this model with clear roles for data gathering (line 1), internal control measures (line 2) and, optionally, internal audit (line 3). We also observe that local regulations increasingly specify whether external assurance would be required.

Should you wish to discuss the contents of this letter or our detailed survey responses with us, please contact Michiel van der Lof at the above address or on +31 88 407 1030.

Yours faithfully

*Ernst + Young Global Limited*