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GHG Protocol Standards Update Process

Topline Findings from the Market-based Accounting Survey

October 3, 2023

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Agenda

- **Introduction**
  - Pankaj Bhatia, Director of GHG Protocol, GHG Protocol
  - Michael Macrae, Scope 2 Senior Manager, GHG Protocol
- **Survey and Proposals Summary**
  - Kevin Kurkul, Associate, GHG Protocol
- **Next steps**
- **Q&A**

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Surveys and Proposal on GHG Protocol corporate-level standards

- **Survey and Proposal purpose**
  - Collect feedback from stakeholders to understand user needs and identify topics which may warrant revision, and recommendations on specific updates or additional guidance.
  - The scope of work for these updates is to be determined, including prioritization and sequencing.

- **Survey and Proposal process**
  - Between November 2022 and March 2023, GHG Protocol collected stakeholder input via four online surveys related to the following standards and topics:
    - Corporate Standard: 375 responses
    - Scope 2 Guidance: 403 responses
    - Scope 3 Standard and Scope 3 Calculation Guidance: 354 responses
    - **Market-based accounting approaches**: 343 responses
  - Respondents were also able to submit proposals
    - Over 230 proposals were submitted related to one or more survey topic

For more information, see https://ghgprotocol.org/ghg-protocol-standards-and-guidance-update-process-0

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GHG Protocol Update Process

We are here

1. **Global survey feedback and proposals submission** (Nov 2022 – Mar 2023)
2. **Developing workplans and forming governance bodies** (Q2 2023 – Q1 2024) — *We are here*
3. **Multi-stakeholder revision/development of standards based on survey outcomes** (2024 – 2025)
4. **Finalize & publish Updated Standards and Guidance** (2025)

High-level survey feedback

- Significant interest across surveys for enabling **methods to account for and recognize the impact of mitigation actions**
  - Current disclosure and target-setting programs mainly focus on inventory accounting, i.e., within the "scopes"
  - Methods to account for mitigation impacts need to be clarified and recognized within target- and goal-setting programs

- Many respondents requested that the **GHG Protocol provide clarity on**
  - Accounting methods applicable to both impacts within and outside the "scopes"
  - And, around the reporting of use and claims associated with project impacts, market-based instruments, etc.

- Respondents want to **maximize harmonization between the requirements of different voluntary and regulatory reporting programs**

Greenhouse Gas Protocol

- Greenhouse Gas (GHG) Protocol standards and guidance enable companies, cities and countries to:
  - measure, manage and report greenhouse gas emissions from their operations and value chains
  - track progress toward their emissions targets

- GHG Protocol provides the world's most widely used greenhouse gas accounting standards for companies
  - >10,000 companies report to CDP using GHG Protocol standards

- GHG Protocol develops accounting and reporting standards through inclusive global multi-stakeholder development processes that include representation from businesses, academia, governments, NGOs and civil society

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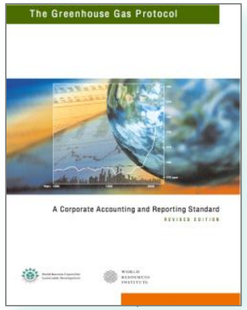
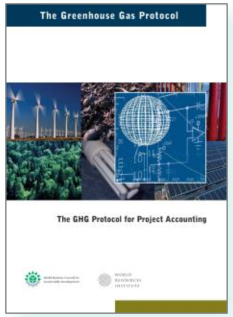
History of GHG Protocol standards

1998
Greenhouse Gas Protocol initiative convened

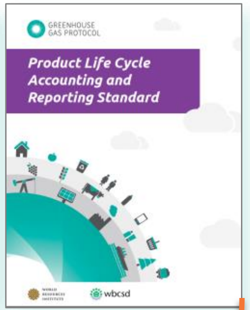
2001
Corporate Standard, First Edition

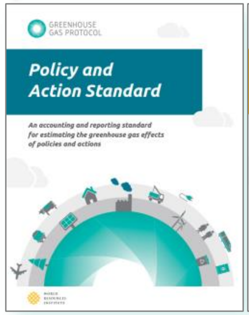
2004


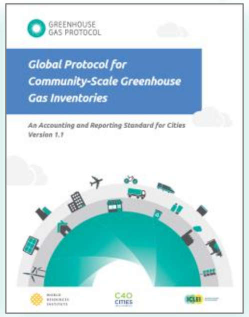
2005


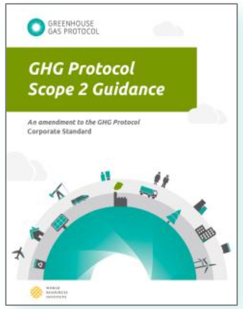
2008

2011

2014




2015


2017

2020

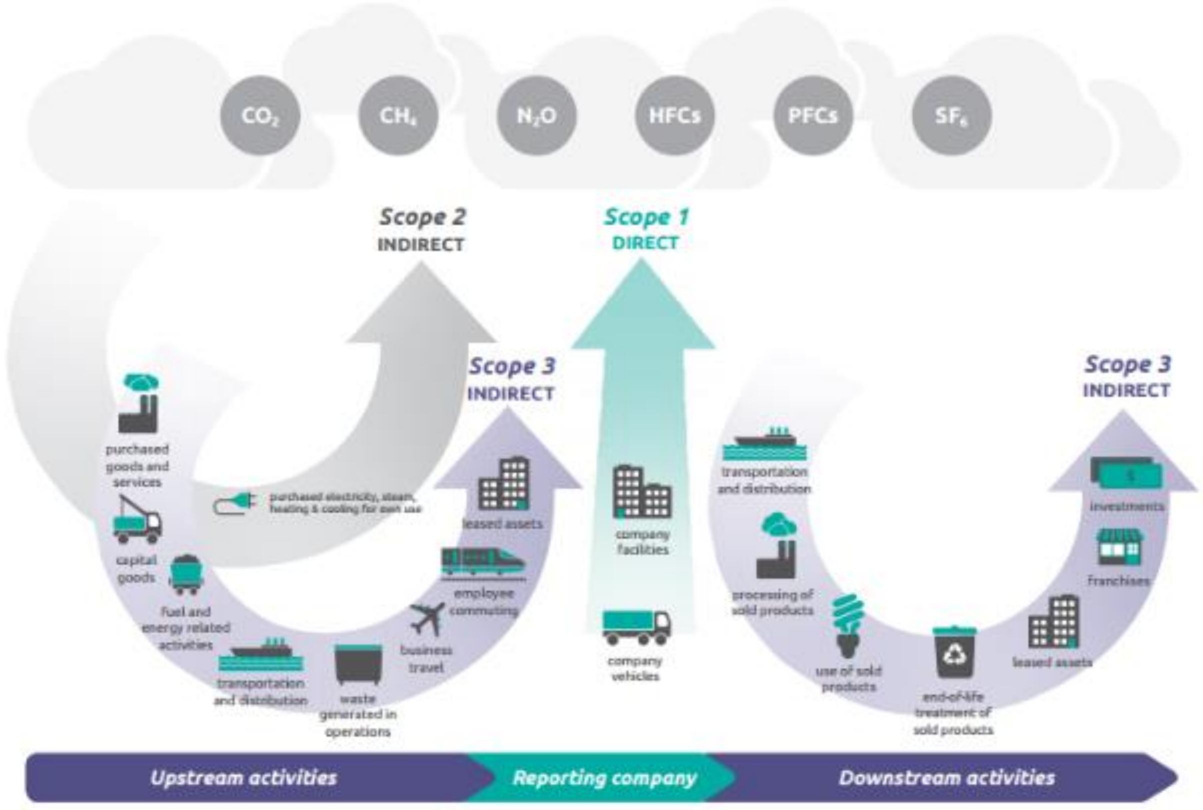
2022


2023
Corporate standards updates process begins

GHG Protocol Corporate Standard Inventory Accounting defines *Direct* and *Indirect* emission

- **Direct emissions (scope 1):** The emissions from owned or operated assets.

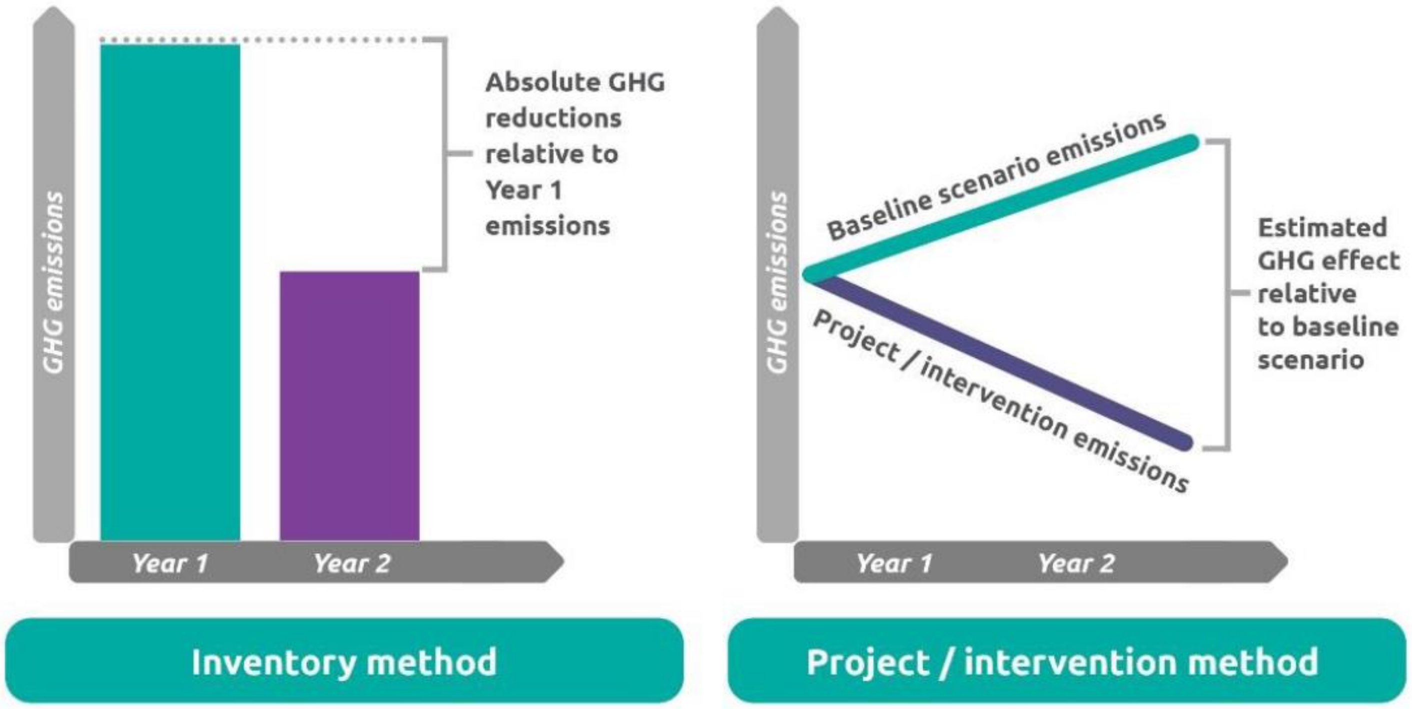
- **Indirect emissions (scope 2 & 3):** The emissions from the reporting company's value chain.



GHG Protocol provides standards for both Inventory and Project/Intervention accounting

- **Inventory accounting methods**
  - track GHG emissions and removals within a defined inventory boundary over time relative to a historical base year
- **Project/Intervention accounting methods**
  - used to quantify the impacts on GHG emissions or removals of specific projects, actions, or interventions, by estimating systemwide GHG impacts relative to a counterfactual baseline scenario

Figure 11.3 Comparison of inventory and project or intervention accounting methods



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GHG Protocol Emissions Reports are organized by disclosure categories

Similar to GHG Protocol standards, the following categorization will be used in this presentation:

GHG Protocol Inventory	• Corporate Standard
	  • Scope 1
	  • Scope 2
	  • Scope 3

GHG Protocol Emissions Report	• Purchases of credits, other instruments, etc., • GHG impact of actions or financing, e.g., avoided emissions, using Project or intervention accounting methods
Full ecosystem of climate disclosures, sustainability reports, goal- and target-setting, etc.	Includes accounting, reporting, and target-setting engagements by which a company seeks to evaluate and characterize the GHG emissions related to their operations

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Observation on high-level survey feedback across all surveys

- GHG Protocol provides standards for **two accounting approaches**:
  - **Inventory accounting**
  - **Project or intervention accounting**
- They represent two separate but valuable types of accounting methods.
- Stakeholder feedback has highlighted **both methods are viewed as essential** for companies in driving ambition and achieving meaningful decarbonization targets.

- **Key Challenge**: Metrics for intervention/project accounting are absent or a low priority within target- and goal-setting programs, disclosures, etc. used by companies.

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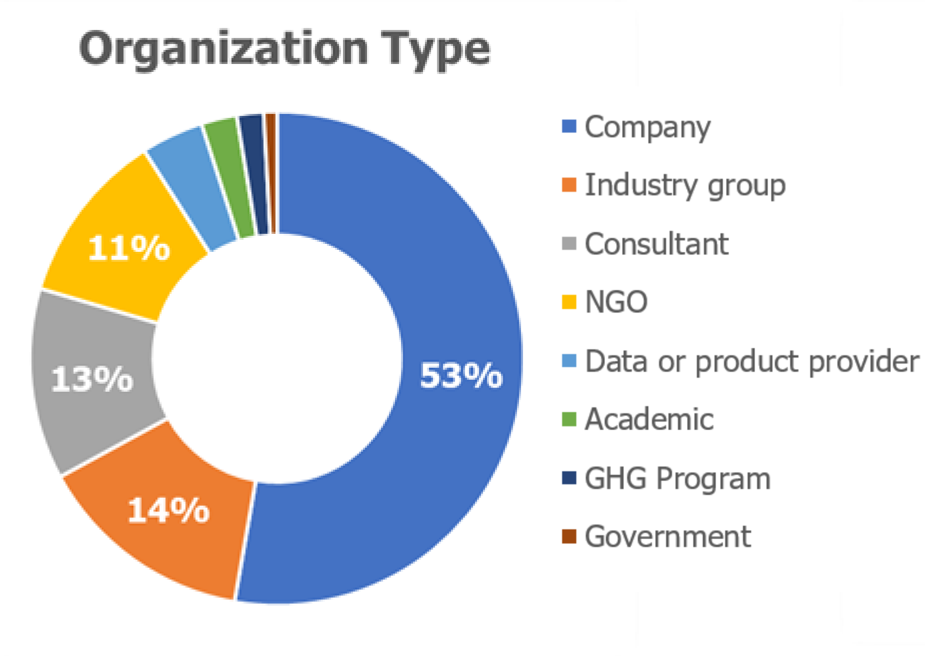
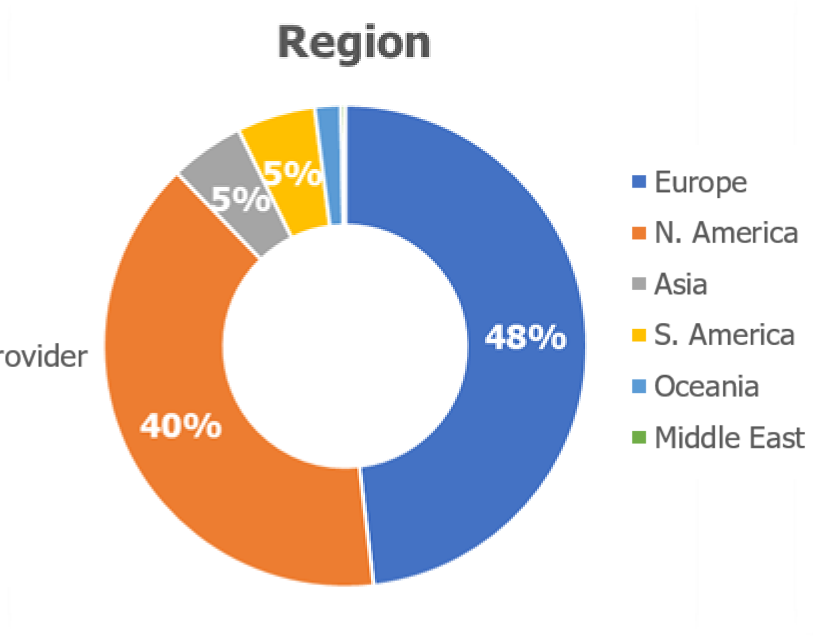
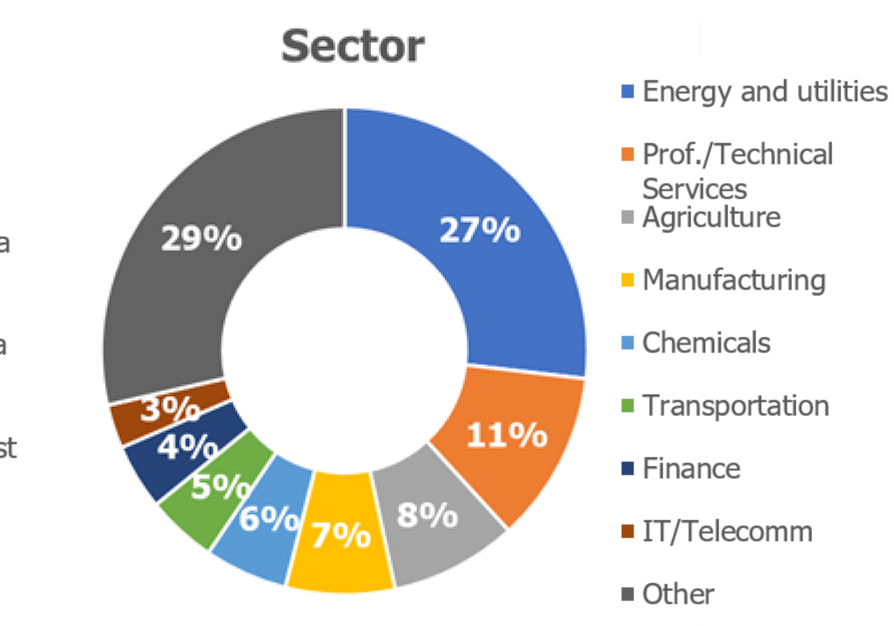
Market-based Accounting Approaches Survey and Proposal Summary

Market-based accounting survey response overview







Presentation outline

Feedback Topics

1. Accounting approach
2. Instrument reporting
3. Sectoral approach
4. Accounting objectives
5. Role of GHG Protocol
6. Partnerships and alignment
7. Proposal submissions

Slides are structured as either:

- **Feedback** – a reflection of the ideas submitted through the survey and proposals
- **Background** – information from the survey memo and GHG Protocol Standards used to contextualize the feedback

1. Background: Market-based accounting terminology

- Within the context of the survey, "Market-based accounting" was used to broadly refer to two different accounting methodologies:
  - Mechanisms designed to enable contractual traceability in a supply chain with limited physical traceability for use in Inventory accounting.
  - Mechanisms designed to measure and establish the relationship of the emission reductions or removals associated with a project or intervention, including ownership, for use in Project accounting.

- The categorizations and definitions related to market-based accounting within this webinar are used to provide some preliminary framework by which to solicit and understand the feedback provided through the survey and proposals.

1. Feedback: Uncertainty on relationship between Inventory & Project accounting

- Current GHG Protocol standards are based on a separation between Inventory accounting and Project/Intervention accounting.

- Survey responses expressed multiple perspectives on the role of Project or Intervention accounting methods relative to GHG Protocol Inventory accounting:

  - The **majority of respondents were unsure** whether they could be integrated

  - Some respondents suggested they **should be integrated**, citing:
    - Existing integration in practice or in other programs
    - A need for demonstration of impact

  - Some respondents suggested they **should not be integrated**, citing:
    - Inconsistent objectives between the two methods
    - Variability introduced via counterfactual scenario selection

1. Feedback: Inventory and Emissions Report structures

- In the survey and proposals, respondents suggested different Inventory and Emissions Report structures to accommodate or separate market-based or project-based accounting instruments:
  - **Dual reporting in all scopes**
    - Follow the principles for scope 2 dual reporting in all scopes, or
  - **Only market-based** reporting in the Inventory (i.e., scopes)
  - **Only location-based** reporting in the Inventory (i.e., scopes)
    - Note: Market-based, Project-based, etc. instruments would be reported separately in the Emissions Report
  - Introduce **impact or performance-based methods** in addition to the Inventory (e.g., in addition to or alongside scope 1, 2, and 3)
  - **Focus on accounting principles** and allow programs to determine treatment of specific methodologies

2. Background: Instrument definitions as stated in the survey memo

- **Offset credits**: generated from projects that reduce emissions or increase removals outside the reporting company's value chain
- **Inset credits**: generated from projects that reduce emissions or increase removals within the reporting company's value chain (using the same quantification methods as offset credits)
- **Supply shed/value chain interventions**: Projects/interventions that reduce emissions or increase removals inside the reporting company's supply shed or sourcing area and are accounted for using scope 3 inventory methods
- **Mass-balance**: Purchases of certificates in which materials or products with a set of specified characteristics are mixed with materials or products without that set of characteristics
- **Book-and-claim**: Purchases of certificates in which environmental attributes are separated from the products the company physically consumes

2. Feedback: Instrument definitions as stated in the survey memo

- Some respondents expressed **dissatisfaction with the provided categorizations** of instruments
  - Disagreement with the definitions
  - Definitions were confusing or vague
  - Potential overlap between categories

- Some respondents suggested **focusing guidance on generalized criteria** rather than the treatment of individual instruments
  - New approaches may be created
  - Allow other bodies within the accounting ecosystem to interpret criteria

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2. Feedback: Potential for expanded use of market-based accounting within an Inventory

- Much of the specific feedback for individual instruments was applied across instruments or applications:

Support to include market-instruments

- Lack of reporting options hinders decarbonization investments.
- Certificates for environmental attributes parallel chain-of-custody markets.
- Co-investment through market-based mechanisms benefits supply sheds.
- Market-based instrument reporting improves transparency and should be consistent for all scopes.

Support to exclude market-instruments

- GHG Inventory accounting should reflect physical emissions, both direct and from the value chain.
- Market-based accounting may obscure actual physical emissions.
- Reporting any additional categories would be overwhelming for many companies.
- More research needed to understand the effectiveness of market-based instruments.

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2. Feedback: Major themes grouped in three categories of response

- Survey respondents were asked to assess whether and how each of the five identified instruments should be used in relation to a GHG Emissions Report.

- Some of the major themes in that feedback are grouped in three categories of response:
  - **In scopes**: respondent suggests the instrument should be used within a GHG Inventory to calculate scope 1 and/or scope 3 emissions
  - **Reported separately**: respondent suggests the instrument should be reported separate from the GHG Inventory yet within a GHG Emissions Report, either to provide transparency or potentially to contribute to a target
  - **No role**: respondent suggests the instrument should have no role in a GHG Emissions Report

2. Feedback: Including instruments within the Inventory

- **High-level feedback in support of including instruments within the Inventory (i.e., within scopes)**:
  - Supports principle of transparency and aligns with mechanisms of investment
  - Can provide strong decarbonization incentives for organizations that otherwise lack the capabilities for implementing interventions
  - Decoupling physical use of a good from its environmental attributes enables more effective and efficient voluntary decarbonization

2. Feedback: Including instruments separately from the Inventory

- **High-level feedback in support of including instruments separately from the Inventory (i.e., scopes) but within the Emissions Report**:
  - Project/intervention accounting is inconsistent with an Inventory, but should be reported for transparency
  - Could be leveraged for target setting initiatives
  - Should be reported separately when decoupling environmental attributes from the products that a company physically consumes

2. Feedback: Establishing no role for instruments in reporting

- **High-level feedback in support of establishing no role for instruments in reporting**:
  - Not as rigorous or as traceable as is needed for credibility
  - If project/intervention accounting is required, it should not be included
  - Concerns over verification/assurance process and credibility of reductions

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3. Feedback: Recommendations on sectoral-specific accounting frameworks

- Responses included both recommendations for adopting sector-specific guidance or establishing a foundational framework for all sectors, organizations, etc. to follow.

Sector-specific approaches

- Some sectors may benefit from mechanisms for financing decarbonization elsewhere in their value chain
- Various mechanisms may serve as a bridge solution for certain sectors with defined, time-bound criteria/conditions
- May only be needed where value chain traceability issues exist

Uniform approach

- Accounting practices should be universally applicable
- Introducing case-by-case variation may cause confusion
- Variation could be introduced via sector-specific guidance, but the GHG Protocol should prioritize consistency

4. Feedback: Stakeholder perspectives vary on accounting objectives

- Evaluating any changes to reporting structures or instrument treatment will require assessing alignment and potential conflicts between accounting objectives.

- The following list summarizes some of the major objectives identified by survey respondents:

  - **Enhance emissions accounting and incentivize investments:**
    - Ensure emissions accounting rewards investments in low-carbon products on a life cycle basis.
    - Promote accounting framework that recognizes emission reduction efforts.
    - Encourage collaborative mitigation strategies and private financing in value chains.
    - Emphasize the role of GHG accounting standards in supporting cost-effective emissions reductions.

  - **Establish GHG Inventories purpose as exclusively physical accounting of emissions & removals:**
    - Focus only on measuring a company's physical emissions to enable evaluation and improvement of for process efficiency, climate-related financial risk, and other objectives.
    - Use other reporting metrics and disclosures to quantify impacts outside a GHG Inventory.

  - **Enable comparability and alignment:**
    - Enable comparability between companies using GHG Protocol standards.
    - Align GHG Protocol with existing compliance market systems to reduce reporting discrepancies and administrative burdens.

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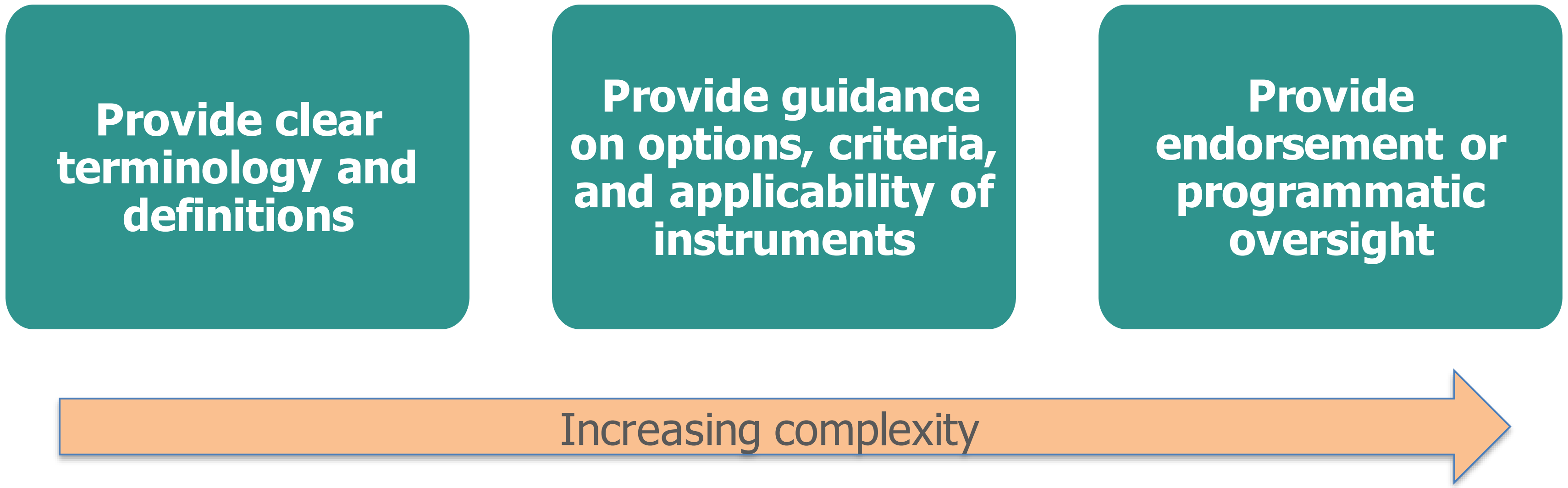
5. Feedback: Potential role of GHG Protocol relative to other programs

- Respondents suggested that the GHG Protocol should **provide guidance to reduce confusion** amongst accounting practitioners.
- **The degree of guidance ranged** from simply defining terminology to comprehensive oversight and endorsement of external reporting, target-setting, and/or disclosure programs.
- **Alignment of guidance** within the GHG accounting ecosystem (e.g., SBTi) was a common priority.



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6. Feedback: Success requires partnerships and alignment

- Many responses noted that **successfully resolving these issues requires collaborations** between the GHG Protocol and other programs, disclosures, etc.

- An effective accounting ecosystem requires coordination with partners such as:
  - Target setting & Disclosure programs (e.g., SBTi, CDP, etc.)
  - Voluntary carbon market initiatives (e.g., VCMI, ICVCM, etc.)
  - Governments and Regulators
  - Programs administrators, Assurance providers, etc.
  - Others

7. Feedback: Proposal submissions sample

(in no order)

- Develop hybridized approaches to integrate Project/intervention accounting with GHG Protocol Inventory accounting
- Prioritize "location-based" accounting within scopes plus reporting Project/intervention-derived instruments separately
- Allow instruments for certain commodities (e.g., biomethane, hydrogen) or for certain sectors (e.g., maritime, aviation) in GHG Protocol Inventory accounting
- Define necessary criteria for market instruments (e.g., additionality, temporal or geographic specificity, intervention evaluation, etc.)
- Use market instruments in all scopes/categories
- Do not use market instruments in any scopes/categories
- Use instruments in a separate impact-focused inventory
- Create new instruments or reporting categories (e.g., avoided emissions, impact reporting, carbon cost integration)

Next Steps

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Next steps

- A comprehensive summary of the survey responses will be shared in the future
- Determining the scope of work and output(s) of the process in consultation with key partners and governance bodies

Global survey feedback and proposals submission
(Nov 2022 – Mar 2023)

→

We are here

Developing workplans and forming governance bodies
(Q2 2023 – Q1 2024)

→

Next Steps

Multi-stakeholder revision/development of standards based on survey outcomes
(2024 – 2025)

→

Finalize & publish Updated Standards and Guidance
(2025)

Interested in receiving updates about the standards update process?
Please **subscribe** to the GHG Protocol email list to receive email updates at **ghgprotocol.org/subscribe**

Thank you!

Contact information

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Q & A

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