Template for submitting proposals related to GHG Protocol's *Corporate Standard, Scope 2 Guidance, Scope 3 Standard, Scope 3 Calculation Guidance* and market-based accounting approaches

(Optional)

Proposal instructions

GHG Protocol is conducting four related surveys in reference to the following GHG Protocol standards, guidance and topics:

1. Corporate Accounting and Reporting Standard (Revised Edition, 2004) ("Corporate Standard")
2. Scope 2 Guidance (2015)
3. Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) ("Scope 3 Standard"), and Technical Guidance for Calculating Scope 3 Emissions, version 1.0, 2013 ("Scope 3 Calculation Guidance")
4. Market-based accounting approaches

The survey is open until March 14, 2023. To fill out the survey, click here.

As part of the survey process, respondents may provide proposals for potential updates, amendments, or additional guidance to the *Corporate Standard, Scope 2 Guidance, Scope 3 Standard, or Scope 3 Calculation Guidance*, by providing the information requested in this template. You may also use this template to provide justification for maintaining a current approach on a given topic.

Submitting proposals is optional. Respondents may submit multiple proposals related to different topics.

Proposals should be as concise as possible while providing the requested information. Submissions that are outside of the template may not be considered. Proposals may be made publicly available.

To submit the proposal, please save this file and fill out the fields below. When you've completed your proposal, please upload the file via this online folder. Please name your file STANDARD_Proposal_AFFILIATION, e.g., *Scope 2_Proposal_WRI*.

Proposal and supporting information

1. **Which standard or guidance does the proposal relate to (Corporate Standard, Scope 2 Guidance, Scope 3 Standard, Scope 3 Calculation Guidance, general/cross-cutting, market-based accounting approaches, or other)? If other, please specify.**

Market-based accounting approaches. Scope 3 Standard.

2. What is the GHG accounting and reporting topic the proposal seeks to address?

Certification/chain-of-custody models: Book-and-claim certificates

3. What is the potential problem(s) or limitation(s) of the current standard or guidance which necessitates this proposal?

Currently, inventory accounting methods are independent from emission avoidance/reductions and removal. Corporate Value Chain Accounting Reporting Standard requires reporting total GHG emissions independent of any GHG trades. Companies also have the option to report information on purchases of GHG reduction instruments from outside the inventory boundary and information on the reductions at sources inside the inventory boundary that have been sold/transferred as offsets to a third party. GHG figures counted according to inventory accounting methods are accepted by most regulators, while the emission avoidance/reductions and removals are mostly not accepted for mandatory GHG reporting. Emission avoidance/reductions, often in the form of project-based crediting (offset credits an inset credits), are regulated separately.

The concept of the chain-of-custody is not discussed in either the Corporate Value Chain Accounting Reporting Standard or the GHG Protocol for Project Accounting. Furthermore, no guidance is provided on how to account for different instruments for GHG trades built on chain-of-custody models. Instruments for GHG trades built on the chain-of-custody models do not need to be in the form of offsets or allowances based on project-based crediting. This type of chain-of-custody model requires new guidance instead of the GHG protocol for Project Accounting.

A Book & Claim chain-of-custody model is under development in the maritime transport sector. This model enables traceable exchange of actual emissions resulting from the transport work rendered by ships. These exchanges and transfers of emissions take place directly in the boundaries of scope 3 inventories of the parties engaged in the exchange. The emissions exchanged are factual, ship specific, related to specific transport work, and based on primary data. This methodology is fundamentally different from offset or inset credits as emissions exchanged are not compared to a counterfactual baseline.

It is critical for GHG Protocol to **recognize the distinctive new methodology of emission trading based on the Book & Claim chain-of-custody models** and **differentiate this methodology from the previous GHG trading.**

If GHG Protocol could provide guidance on how such method can be included in the inventory accounting methods, it will safeguard the integrity of emission reporting using a Book & Claim chain-of-custody model. This will facilitate market-based innovations and unlock the potential of collaboration along and across value chains to accelerate the green transition.

4. Describe the proposed change(s) or additional guidance.

1. **Introduce and differentiate different applications of Book & Claim chain-of-custody models:**
   Relevant Chapters:
   - *Chapter 6 "Setting the Scope 3 Boundary"*
   - *Chapter 9 "Setting a GHG Reduction Target and Tracking Emissions Over Time"*

   1.1 Book & Claim chain-of-custody models can be used to produce offset or insets credits by de-coupling emission profiles from a physical supply chain and comparing the emission profiles against a baseline. This application of Book & Claim should be treated as an offset or inset. This application should be governed by the project accounting methods.

   1.2 Book & Claim chain-of-custody models can be used to de-couple emission profiles from a physical supply chain without producing offset or insets credits based on emission reductions/avoidance based on a baseline. This application of Book & Claim should not be treated as an offset or inset. If the emission profiles are de-coupled from activities within the pre-defined boundaries of inventories of different entities and exchanged across entities, it should be governed by the inventory accounting methods.

2. **Provide guidance on how to use the inventory accounting methods to report trades of emission profiles de-coupled by Book & Claim chain-of-custody models:**
   Relevant Chapters:
   - *Chapter 6 "Setting the Scope 3 Boundary"*
   - *Chapter 7 "Collecting Data"*
   - *Chapter 11 "Reporting"*

   2.1 Result of emission profiles exchange could be used in reporting towards the inventory of Scope 3 under the governance of the inventory accounting methods

   2.1.1 The emission profiles exchanged should take place between two entities/two GHG inventories

   2.1.2 Only emissions that result from activities that are same in nature should be exchanged. For example, emissions exchanged should originate from transport work rendered in the maritime sector, and these emissions should be counted towards Scope 3 Category 2 (upstream transportation and distribution) and Scope 3 Category 9 (downstream transportation and distribution).

3. **Provide Guidance on how to collect data to report the results of the trades between the emission profiles de-coupled by Book & Claim chain-of-custody models:**
   Relevant Chapters:
   - *Chapter 7 "Collecting data"*
   - *Chapter 8 "Allocating emissions"*
   - *Chapter 11 "Reporting"*

   3.1 During the data collection process, to collect primary data, reporting companies will request the relevant suppliers or other value chain partners to provide information related to a specific activity. The suppliers or the other value chain partners should communicate whether an emission trade between the emission profiles de-coupled by

Book & Claim chain-of-custody models is used and the details about the trade. Information to communicate includes the quantity of emission traded, what is traded, what is given away, and what is received.

3.2 During the reporting process, the reporting company should disclose the information on the emission trades used by itself (if any) and the trades used by its suppliers or the other value chain partners (according to the information provided by the suppliers and the other value chain partners). Information to disclose in the report includes the quantity of the emission traded, what is traded, what is given away, and what is received.

3.3 To prevent double counting, the company who reports an emission profile, either resulting from a trade of its own or received from its suppliers or other value chain partners, should make sure the same emission profile is not counted by another entity of the same type of role in relation to the supply chain.

3.4 To substantiate a claim of the result of an exchange, both entities involved in the trade should fulfill the due diligence of ensuring they both have the right to claim the emissions they intend to exchange.

5. Please explain how the proposal aligns with the GHG Protocol decision-making criteria and hierarchy (A, B, C, D below), while providing justification/evidence where possible.

A. GHG Protocol accounting and reporting approaches shall meet the GHG Protocol accounting and reporting principles (see Annex for definitions):

- Accuracy, Completeness, Consistency, Relevance, Transparency
- Additional principles for land sector activities and CO_2 removals: Conservativeness, Permanence, and Comparability if relevant

The proposal accepts a new methodology of emission trading based on the Book & Claim chain-of-custody models that:

- Uses primary data without counter-factual baselines (accurate)
- Includes all GHG emissions generated from transport work (complete)
- Focuses on one industry to achieve in-sector decarbonization (relevant)
- Applies the same methodology to all participants and activities on the system (consistency)
- Transfers GHG emissions information between parties along the supply chain and builds in data governance and integrity (transparency)

B. GHG Protocol accounting and reporting approaches shall align with the latest climate science and global climate goals (i.e., keeping global warming below 1.5°C). To support this objective (non-exhaustive list):

- Direct emissions reported in a company's inventory should correspond to emissions to the atmosphere. Reductions in direct emissions reported in a company's inventory should correspond to reductions in emissions to the atmosphere.
- Indirect emissions reported in a company's inventory should in the aggregate correspond to emissions to the atmosphere. Reductions in indirect emissions reported

in a company's inventory should in the aggregate correspond to reductions in emissions to the atmosphere.

The proposal accepts a new methodology of emission trading based on the Book & Claim chain-of-custody models that exchanges emissions that should be counted in companies' inventories. The emissions are exchanged as they are, not relative to any baseline. Therefore, no emissions are added or lost.

No exchange between scopes is allowed. Therefore, direct emissions are exchanged with direct emissions and indirect emissions are exchanged with indirect emissions. No emission is shifted between direct and indirect.

Hence, direct emissions reported in a company's inventory correspond to emissions to the atmosphere. Indirect emissions reported in a company's inventory should in the aggregate correspond to emissions to the atmosphere. No emission reduction is used in the new methodology.

C. GHG Protocol accounting frameworks should support ambitious climate goals and actions in the private and public sector.

- Would this proposal enable organizations to pursue more effective GHG mitigation/decarbonization efforts as compared to the existing standards and guidance? If so, how?
- Would this proposal better inform decision making by reporting organizations and their stakeholders (e.g. related to climate-related financial risks and other relevant information associated with GHG emissions reporting)?

The proposed methodology enables organization to contribute to the in-sector decarbonization in the sectors where the activities within the organization's Scope 3 boundary take place. For example: Organization A is not able to decarbonize their activity due to no physical access to low carbon fuels. Organization B has physical access to low carbon fuels but is not willing to use these fuels due to the higher cost. If Organization A pays a premium to Organization B to use low carbon fuels for the same activity, Organization A would like to be able to report lower emission intensity from low carbon fuels, while Organization B should report the higher emission intensity from the fuel physical used by Organization A. This approach would incentivize organizations to pay a premium for use of low carbon fuels if the organizations are allowed to report the benefits (the low emission profiles directly caused by their fundings), but reporting these emissions is not currently allowed as the low carbon fuels are not consumed by the activity in their Scope 3 boundary.

The proposal will better inform decision making by reporting organizations and their stakeholders as it is based on actual emissions resulted from actual activities. Additional information associated with the actual activities that is relevant to decision making could be exchanged together with the emissions, for example fuel type, feedstock, origin of fuel, and geography of activities. Improved transparency will facilitate better decision making.

D. GHG Protocol accounting frameworks which meet the above criteria should be feasible. (For aspects of accounting frameworks that meet the above criteria but are difficult to implement, GHG Protocol should provide additional guidance and tools to support implementation.)

- What specific information, data or calculation methods are required to implement this proposal (e.g., in the case of scope 2, data granularity, grid data, consumption data, emission information, etc.)? Would new data/methods be needed? Are current data/methods available? How would this be implemented in practice?
- Would this proposal accommodate and be accessible to all organizations globally who seek to account for and report their GHG emissions? Are there potential challenges which would need to be further addressed to implement this proposal globally? What would be the potential solutions?

The proposed methodology depends on exchanging emissions. Before the exchange, the emissions should be measured or calculated as they are reported in scope 1,2, and 3 according to the existing guidance. The companies who report the GHG emissions are the producers and owners of the data. Hence all required data will be available to the individual emitter. No extra data beyond the control of individual emitters, like the local grid mix and residual mix for scope 2 accounting, are required.

The proposed methodology promotes the use of primary data to increase the accuracy and reliability as the methodology is based on the exchange of emissions, i.e., both parties of an exchange will give up their own emission and accept the other party's emission. The more accurate and reliable the emission data a company can produce, the easier it will be for counterparties to accept these emissions.

6. Consistent with the hierarchy provided above, are there potential drawbacks or challenges to adopting this proposal? If so, what are they?

If the information flow along the actual physical supply chain is not safeguarded, de-coupling the emissions using chain-of-custody models could lead to information loss, causing errors in reporting figures.

If not governance properly, de-coupling the emissions using chain-of-custody models will potentially provide opportunity of fraudulent double counting behavior.

7. Would the proposal improve alignment with other climate disclosure rules, programs and initiatives or lead to lack of alignment? Please describe.

No current climate disclosure rules, programs, or initiatives explicitly address the use of chain-of-custody models. Therefore, no improvement or damage to alignment is expected.

8. **Please attach or reference supporting evidence, research, analysis, or other information to support the proposal, including any active research or ongoing evaluations. If relevant, please also explain how the effectiveness of the proposal can be evaluated and tracked over time.**

A comprehensive report detailing the background and logic of this new type of Book & Claim model dedicated to the maritime industry will be published end April 2023. We will send this report to GHG-P and would like to discuss this approach in more detail.

Assessing the effectiveness of the proposal requires examinations into each category of activities with an applicable Book & Claim chain-of-custody system. For Category 4 and Category 9, one possible indicator to analyze will be the emissions resulted from alternative fuels registered and exchanged using the Book & Claim chain-of-custody system over time.

9. **If applicable, describe the process or stakeholders/groups consulted as part of developing this proposal.**

The proposed Book & Claim chain-of-custody methodology has engaged groups of fuel producers, shipowners, ship operators, cargo owners, and freight forwarders during the design phase.

10. **If applicable, provide any additional information not covered in the questions above.**

A pilot of this system will begin end 2023.

Proposal Annex

GHG Protocol Decision-Making Criteria and Hierarchy

A. First, GHG Protocol accounting and reporting approaches shall meet the GHG Protocol accounting and reporting principles:

- Accuracy, Completeness, Consistency, Relevance, Transparency
- Additional principles for land sector activities and CO_2 removals: Conservativeness, Permanence, and Comparability if relevant
- (See table below for definitions)

B. Second, GHG Protocol accounting and reporting approaches shall align with the latest climate science and global climate goals (i.e., keeping global warming below 1.5°C). To support this objective (non-exhaustive list):

- Direct emissions reported in a company's inventory should correspond to emissions to the atmosphere. Reductions in direct emissions reported in a company's inventory should correspond to reductions in emissions to the atmosphere.
- Indirect emissions reported in a company's inventory should in the aggregate correspond to emissions to the atmosphere. Reductions in indirect emissions reported in a company's inventory should in the aggregate correspond to reductions in emissions to the atmosphere.

C. Third, GHG Protocol accounting frameworks should support ambitious climate goals and actions in the private and public sector:

- Accounting framework/s would enable organizations to pursue more effective GHG mitigation/decarbonization efforts as compared to the existing standards and guidance
- Accounting framework/s would better inform decision making by reporting organizations and their stakeholders (e.g. related to climate-related financial risks and other relevant information associated with GHG emissions reporting)

D. Fourth, GHG Protocol accounting frameworks which meet the above criteria should be feasible to implement for the users of the frameworks.

- For aspects of accounting frameworks that meet the above criteria but are difficult to implement, GHG Protocol should provide additional guidance and tools to support implementation.

GHG Protocol Accounting and Reporting Principles

Principle	Definition
Accuracy	Ensure that the quantification of GHG emissions (and removals, if applicable) is systematically neither over nor under actual emissions (and removals, if applicable), and that uncertainties are reduced as far as practicable. Achieve sufficient accuracy to enable users to make decisions with reasonable assurance as to the integrity of the reported information.
Completeness	Account for and report on all GHG emissions (and removals, if applicable) from sources, sinks, and activities within the inventory boundary. Disclose and justify any specific exclusions.

Consistency	Use consistent methodologies to allow for meaningful performance tracking of emissions (and removals, if applicable) over time and between companies. Transparently document any changes to the data, inventory boundary, methods, or any other relevant factors in the time series.
Relevance	Ensure the GHG inventory appropriately reflects the GHG emissions (and removals, if applicable) of the company and serves the decision-making needs of users – both internal and external to the company.
Transparency	Address all relevant issues in a factual and coherent manner, based on a clear audit trail. Disclose any relevant assumptions and make appropriate references to the accounting and calculation methodologies and data sources used.
Conservativeness (Land Sector and Removals Guidance)	Use conservative assumptions, values, and procedures when uncertainty is high. Conservative values and assumptions are those that are more likely to overestimate GHG emissions and underestimate removals, rather than underestimate emissions and overestimate removals.
Permanence (Land Sector and Removals Guidance)	Ensure mechanisms are in place to monitor the continued storage of reported removals, account for reversals, and report emissions from associated carbon pools.
Comparability (optional) (Land Sector and Removals Guidance)	Apply common methodologies, data sources, assumptions, and reporting formats such that the reported GHG inventories from multiple companies can be compared.