
Transition Implementation Group on IFRS S1 and IFRS S2

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Topic **GHG emissions attributable to a group related to transactions between entities in the group**

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Introduction

1. We have received a submission about how an entity applies the requirements in IFRS S2 *Climate-related Disclosures* related to measuring and disclosing greenhouse gas (GHG) emissions, specifically in circumstances in which the reporting entity is a group and there are transactions between entities within the group.
2. The objective of this paper is to provide background and analysis to support discussion by the Transition Implementation Group on IFRS S1 and IFRS S2 (the TIG).
3. The TIG provides a public forum for the discussion of implementation questions related to the IFRS Sustainability Disclosure Standards and to provide information for the ISSB to determine what, if any, action will be needed to address those questions.
4. This paper:
 - (a) sets out the relevant requirements in IFRS S1 and IFRS S2;
 - (b) summarises the implementation question raised in the submission;
 - (c) outlines the staff's analysis related to the implementation question; and
 - (d) asks the members of the TIG for their views on the question raised.

Relevant requirements

5. The following paragraphs set out the main requirements in IFRS S1 and IFRS S2 and the Basis for Conclusions on IFRS S1 related to the implementation question.

6. Paragraph 8 of IFRS S1 specifies that an entity is not required to apply a particular set of accounting requirements:

8 An entity may apply IFRS Sustainability Disclosure Standards irrespective of whether the entity's related general purpose financial statements (referred to as 'financial statements') are prepared in accordance with IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP).

7. Paragraph 20 of IFRS S1 sets out the requirements related to the reporting entity:

20 An entity's sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements (see paragraph B38).

8. Paragraph B38 of IFRS S1 provides an example of a parent and its subsidiaries as a single reporting entity:

B38 Paragraph 20 requires that sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with IFRS Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's sustainability-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the sustainability-related risks and opportunities on the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries.

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9. Paragraph 29(a) of IFRS S2 sets out the requirements for disclosing Scope 1, Scope 2 and Scope 3 GHG emissions:

29 An entity shall disclose information relevant to the cross-industry metric categories of:

- (a) greenhouse gases—the entity shall:
 - (i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO₂ equivalent (see paragraphs B19–B22), classified as:
 - (1) Scope 1 greenhouse gas emissions;
 - (2) Scope 2 greenhouse gas emissions; and
 - (3) Scope 3 greenhouse gas emissions;
 - (ii) measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions (see paragraphs B23–B25);

10. Paragraph B27 of IFRS S2 sets out that an entity is required to use the equity share or control approach to measure its GHG emissions:

B27 The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) includes different measurement approaches that an entity might use when measuring its greenhouse gas emissions. In disclosing information in accordance with paragraph 29(a)(iii), the entity is required to disclose information about the measurement approach it uses. For example, when the entity discloses its greenhouse gas

emissions measured in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is required to use the equity share or control approach.

11. Paragraphs BC54 and BC55 of the Basis for Conclusions on IFRS S1 explain that joint ventures, associates, and investments are not part of the reporting entity:

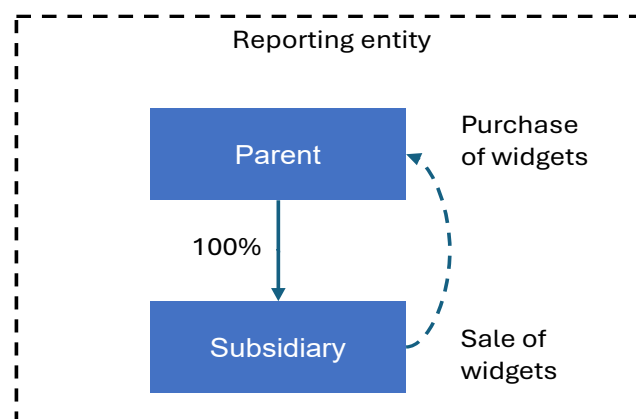
BC54 Joint ventures, associates and investments are not considered to be part of the reporting entity that is presenting consolidated financial statements, although these items are recognised in the financial statements. In the same way that financial statements recognise these investments and report aspects of the performance of associates and joint ventures, sustainability-related financial information related to those investments is relevant to users of general purpose financial reports in assessing the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

BC55 IFRS S1 does not specify how to include sustainability-related financial information about joint ventures, associates and investments. However, specific IFRS Sustainability Disclosure Standards, including IFRS S2, will provide requirements and guidance related to the disclosure of information about the sustainability-related risks and opportunities arising throughout an entity's value chain.

Implementation question received

12. The submission asks how a reporting entity that is a group measures and discloses GHG emissions attributable to transactions between entities within the group.
13. As part of explaining the rationale for the question, the submission included an example. The example poses the question in the context of the sale of a product between a subsidiary and its parent with the fact pattern:
- (a) The reporting entity consists of a parent and a wholly-owned subsidiary.
 - (b) The subsidiary manufactures widgets by purchasing raw materials and through manufacturing processes creating widgets.
 - (c) During the reporting period the subsidiary sells widgets to its parent (the transaction).
 - (d) The reporting entity prepares sustainability-related financial disclosures applying ISSB Standards.

Figure A: Example of a transaction between entities within a group



14. The example in the submission identifies the GHG emissions related to the transaction for the subsidiary and parent as:¹

Transaction	Subsidiary	Parent
Manufacture of widgets	• Scope 2 GHG emissions from the use of electricity in the manufacturing process of widgets • Scope 3 GHG emissions attributable to upstream activities (categorised as Category 1 Purchased goods and services) related to the purchase of raw materials used to produce the widgets	• n/a
Sale / Purchase of widgets	• Scope 3 GHG emissions attributable to downstream activities (categorised as Category 11 Use of sold products and Category 12 End-of-life treatment of sold products) related to the use and disposal of the widgets • Scope 1 GHG emissions from transportation of the widgets to the parent's location using the subsidiary's own vehicles	• Scope 3 GHG emissions attributable to upstream activities (categorised as Category 1 Purchased goods and services) related to the purchase of the widgets and (categorised as Category 4 Upstream transportation and distribution) related to the transportation of the widgets from the subsidiary to the parent

15. The submission asks whether GHG emissions attributable to the transaction should be included in the group's measure of GHG emissions. The submission also asks in the scenario in which an associate or joint venture—rather than a subsidiary—sells widgets to a member of the group, whether GHG emissions attributable to the transaction should be included in the group's measure of GHG emissions.

¹ To assist in understanding, Scope 3 GHG emissions have been categorised using the categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

Staff analysis

16. This section explains the staff analysis, in which the staff consider:
- (a) the requirements related to the reporting entity and the concept of a group of entities representing a single economic entity;
 - (b) the preparation of a reporting entity's consolidated financial statements to reflect a group as a single economic entity; and
 - (c) the preparation of a reporting entity's sustainability-related financial disclosures to reflect a group as a single economic entity.
17. Separately, the staff analysis considers whether GHG emissions attributable to transactions between a member of the group and an associate or joint venture are included in the reporting entity's measure of GHG emissions applying IFRS S2.

The requirements related to the reporting entity and the concept of a group of entities representing a single economic entity

18. Paragraph 20 of IFRS S1 requires the reporting entity for sustainability-related financial disclosures to be the same as that for the related financial statements. Paragraph 8 of IFRS S1 specifies that an entity is not required to apply a particular set of accounting requirements. Therefore, the reporting entity for sustainability-related financial disclosures is determined by the generally accepted accounting principles or practices (GAAP) used in preparing the related financial statements. That is, the composition of the reporting entity for an entity's sustainability-related financial disclosures depends on the composition of the reporting entity in the related financial statements. The alignment of the reporting entity is a conceptual foundation of ISSB Standards that supports the provision of connected information. ISSB Standards set out connected information requirements as a conceptual foundation, including providing information that enables users of general purpose financial reports to understand the connections between information about sustainability-related risks and opportunities and information in its related financial statements. Because of this, the

staff think that it is helpful to consider how transactions would be reflected in the consolidated financial statements in addressing the question submitted about how to reflect the GHG emissions of the group in applying ISSB Standards.

19. In the case of consolidated financial statements, generally, in GAAP, the concept of a reporting entity pertains to the representation of the group of entities as a single economic entity. For example, the following definitions of ‘consolidated financial statements’ in IFRS Accounting Standards and US GAAP² set out that consolidated financial statements are comprised of a parent and its subsidiaries as a single economic entity:

- (a) Appendix A of IFRS 10 *Consolidated Financial Statements* defines ‘consolidated financial statements’ as the ‘financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.’
- (b) FASB ASC Topic 810-10-20, Consolidation—Overall—Glossary defines ‘consolidated financial statements’ as the ‘financial statements of a consolidated group of entities that include a parent and all its subsidiaries presented as those of a single economic entity.’

20. Additionally, the International Accounting Standards Board’s (IASB) *Conceptual Framework for Financial Reporting* paragraph 3.15 states:

Consolidated financial statements provide information about the assets, liabilities, equity, income and expenses of both the parent and its subsidiaries as a single reporting entity.

² Other GAAP may also be relevant to an entity using the ISSB Standards, for the purposes of illustration the analysis refers to IFRS Accounting Standards and US GAAP.

The preparation of a reporting entity's consolidated financial statements to reflect a group as a single economic entity

21. To present information about the group as a single economic entity, the transactions between members of the group—recognised in the individual financial statements of entities within the group—are eliminated in preparing consolidated financial statements of the group.^{3, 4} For example, applying IFRS Accounting Standards, the sale of goods between a parent and its wholly-owned subsidiary would be ‘eliminated’ in the consolidated financial statements. This is generally referred to as an ‘intercompany elimination’ such that the group’s financial performance and position reflects transactions and other events from the perspective of the group as a single economic entity. From the group’s perspective, the sale of goods from one part of the entity to another does not change the group’s assets, liabilities, income or expenses. This is in contrast to the sale of goods from a member of the group to a party external to the group.
22. Both IFRS Accounting Standards and US GAAP include requirements related to the elimination of intercompany transactions in preparing consolidated financial statements:
- (a) Paragraph B86 of IFRS 10 sets out requirements for preparing consolidated financial statements which include a requirement to ‘eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full)’; and
 - (b) FASB ASC paragraph 810-10-45-1 states ‘As consolidated financial statements are based on the assumption that they represent the financial

³ The staff note that some effects that arise as a result of intercompany transactions might not be eliminated on consolidation, such as the those arising from foreign exchange exposures.

⁴ Transactions between entities within the consolidated accounting group (reporting entity) are generally referred to as intercompany transactions in GAAP. For the purposes of this paper, the staff have used this term in the same way.

position and operating results of a single economic entity, such statements shall not include gain or loss on transactions among the entities in the consolidated group.’

Illustration of intercompany elimination in reflecting the consolidated financial statements of the group as a single economic entity

23. To illustrate how the preparation of the financial statements of a reporting entity that comprises a group of entities results in the presentation of a group as a single economic entity, the staff have used the example from the question submitted, described in paragraph 13 of this paper.
24. The parent and subsidiary reflect entries in relation to the intercompany transaction in their related individual financial statements including:
- (a) The parent recognises the purchased widgets as inventory, depicted in **blue** in Figure B.
 - (b) The subsidiary recognises revenue for the sale of the widgets to the parent, derecognises the inventory from its balance sheet and recognises a corresponding amount to cost of goods sold to reflect the cost of the goods sold. The effects on revenue and cost of goods sold are depicted in **green** in Figure B.
 - (c) The subsidiary recognises an expense for the transportation cost to transport the widgets to the parent. The transport cost is depicted in **green** in Figure B.⁵

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⁵The term ‘individual’ (or entity-level) is used in the paper to describe the nature of information provided about an individual entity without combining or consolidating the information with information from other entities.

⁶ For illustrative purposes, the illustrations reflect one way this transaction might be reflected in the financial statements without referencing the application of a particular GAAP. The purpose of the example is to illustrate how the intercompany transaction would need to be eliminated to reflect the group as a single economic entity rather than illustrating the application of a particular GAAP.

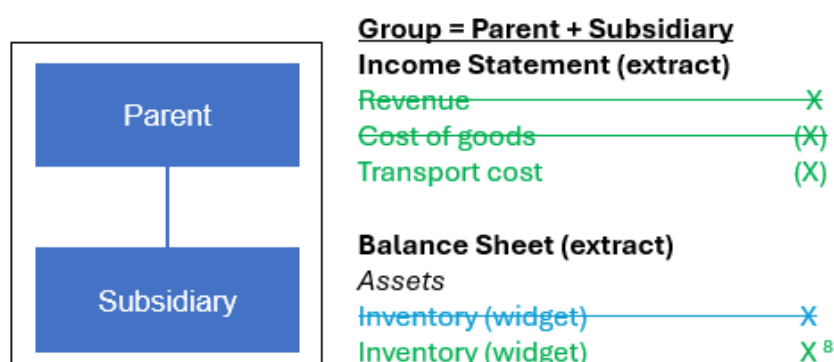
Figure B: Extracts of the financial performance and position of the parent and subsidiary related to the intercompany transaction⁷

Parent Balance Sheet (extract) Assets Inventory (widget) X	Parent Subsidiary	Subsidiary Income Statement (extract) Revenue X Cost of goods (X) Transport cost (X)
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25. In preparing the financial statements of the reporting entity as a group—that includes the parent and the subsidiary—to reflect the group as a single economic entity, the intercompany transaction is eliminated:
- (a) the inventory purchased by the parent is eliminated in the consolidated balance sheet; and
 - (b) the revenue recognised by the subsidiary for the intercompany sale, inventory derecognised by the subsidiary and the associated cost of goods sold are eliminated from the consolidated financial statements.

⁷ Figure B depicts extracts of the parent's individual income statement and balance sheet and extracts of the subsidiary's individual income statement and balance sheet, having reflected the transaction on the financial performance and financial position. As a result, the subsidiary's derecognition of inventory is depicted as a zero balance in Figure B. This is because Figure B depicts the balance sheet at a point in time and the subsidiary would not have an inventory balance after derecognising the inventory sold. The extracts do not include the consideration paid or payable by the parent to the subsidiary for the purchase of the widgets.

Figure C: Elimination of the intercompany transaction from the financial performance and position of the group⁸



26. By eliminating the intercompany transaction, the reporting entity's consolidated income statement and balance sheet reflect the financial performance and financial position of the group as a single economic entity. Some activities related to the transaction, in this example the cost to transport the widgets from the subsidiary to the parent, are not eliminated. This is the only change in the financial performance and position from the group's perspective related to the inter-company transaction reflecting that an incremental cost was incurred from a group perspective as a result of transportation.

The preparation of the reporting entity's sustainability-related financial disclosures to reflect the group as a single economic entity

27. As noted in paragraph 18 of this paper, ISSB Standards require the reporting entity be the same as that for the related financial statements. Therefore, if an entity prepares sustainability-related financial disclosures that accompany its consolidated financial statements, the information provided about sustainability-related risks and opportunities must be about sustainability-related risks and opportunities that could

⁸ Figure C depicts extracts of the group's income statement and balance sheet, having eliminated the transaction as specified in paragraph 25, including the subsidiary's derecognition of inventory. The elimination of the subsidiary's derecognition of inventory results in the recognition of inventory at the consolidated level. Therefore, this is depicted as including an ending balance for inventory on the group's balance sheet.

reasonably be expected to affect the prospects of the group (that is, the parent and its subsidiaries). Therefore, in the same way that financial statements reflect the group as a single economic entity with respect to transactions between entities within the group, this perspective is also required in the preparation of sustainability-related financial disclosures in accordance with IFRS S1.

Measuring GHG emissions of a group as a single economic entity

28. Because the concept of the reporting entity is the same in both the financial statements and sustainability-related financial disclosures, in the same way intercompany transactions are not reflected at the group level in the consolidated financial statements, GHG emissions attributable to intercompany transactions would not be reflected by the group. The identification of these transactions in preparation of the related financial statements is therefore useful in preparing the sustainability-related financial disclosures.
29. For example, a sale of a product might result in the inclusion of Scope 3 GHG emissions attributed to downstream activities in the selling entity's measure of Scope 3 GHG emissions. However, if the sale is to an entity within the same group, from the perspective of the group as a single economic entity there has not been a sale. Similarly, in this example, the Scope 3 GHG emissions would not be included in the group's measurement of Scope 3 GHG emissions attributable to sales as there is no sale from the group's perspective.
30. The staff note that an entity could measure its emissions for a group by taking a similar approach to that which is often used in the preparation of consolidated financial statements, that is calculating GHG emissions at each individual entity level and then making necessary adjustments to eliminate GHG emissions related to intercompany transactions to classify and measure the GHG emissions of the group as a single economic entity. This approach (and the associated elimination of GHG emissions related to the intercompany transaction) is illustrated in the Appendix to this paper. Alternatively, an entity could measure the GHG emissions at the group

level by identifying the emissions that are a consequence of transactions from the perspective of the group as a single economic entity. Regardless of the approach taken, an entity will need to ensure that the measurement of GHG emissions reflects only those emissions from the perspective of the group as a single economic entity when preparing the consolidated information. The choice of the particular approach for the preparation of consolidated information may depend on, for example, whether a particular entity within the group has its own individual reporting obligations or measures emissions for its own management purposes such as to set and monitor GHG emissions targets. The approach taken may also be influenced by how an entity (and the group) links its systems for the preparation of financial statements with systems and processes for reporting sustainability-related financial disclosures.

31. ISSB Standards require GHG emissions to be measured using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard).⁹ In applying the GHG Protocol Standard an entity is required to use either the equity share approach or the control approach to measure and classify the GHG emissions of the reporting entity (the GHG Protocol Corporate Standard refers to these approaches as ‘consolidation approaches’ and IFRS S2 refers to these approaches as ‘measurement approaches’). The selection of the consolidation approach (equity or control approach) affects the classification of an operation’s GHG emissions between scopes.
32. The application of the GHG Protocol Corporate Standard does not affect the representation of the group as a single economic entity, only whether GHG emissions attributable to the single economic entity are reflected as either direct or indirect emissions. This is because ISSB Standards require the provision of sustainability-related financial information by a reporting entity – which is a single economic entity (comprised either of a single entity or a group).

⁹ Unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions (see paragraphs B23–B25 of IFRS S2).

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33. In applying these considerations to the example in the question submitted, the GHG emissions of the group that is comprised of the parent and subsidiary, consistent with the related financial statements, would be limited to GHG emissions related to (1) the manufacture of the widgets and (2) the transportation of the widgets from the subsidiary's manufacturing facilities to the parent's location. The GHG emissions that would be attributable to the sale—that is downstream GHG emissions by the selling entity and upstream GHG emissions by the purchasing entity—would not be included in the entity's measure because from the group's perspective this transaction did not occur.
34. The entity would then classify and measure GHG emissions using the GHG Protocol Corporate Standard. Assuming the parent (1) adopted an operational control approach and (2) has operational control of the subsidiary, the group's GHG emissions would be limited to:
- (a) *Manufacture of widgets:*
 - (i) Scope 2 GHG emissions from the use of electricity in the manufacturing process of widgets; and
 - (ii) Scope 3 GHG emissions attributable to upstream activities categorised as Category 1 Purchased goods and services related to the purchase of raw materials.
 - (b) *Transportation of the widgets:* Scope 1 GHG emissions from transportation of the widgets to the parent's location using the subsidiary's own vehicles.
35. For illustration purposes the staff have outlined in the Appendix—using the example from the submission—the scenario in which a reporting entity measures its GHG emissions for the group by consolidating the GHG emissions of each individual entity within the group considering how an entity might eliminate GHG emissions to reflect the group's perspective.

Transactions with associates and joint ventures

36. The staff analysis focuses on transactions between entities within a group. The staff note that (in accordance with IFRS Accounting Standards) associates and joint ventures are not considered to be part of the reporting entity although they are recognised in the financial statements (as noted in paragraph BC54 of the Basis for Conclusions on IFRS S1). Thus the approach outlined in this paper is not directly applicable to transactions with associates or joint ventures. While ISSB Standards can be applied by entities using IFRS Accounting Standards and also other applicable GAAP, the staff note that the IASB is currently working on a project that includes aiming to reduce diversity in practice related to the application of the equity method for investments in associates and joint ventures applying IAS 28 *Investments in Associates and Joint Ventures*.¹⁰ Because this project is ongoing and includes consideration as to the how transactions between the investor and joint venturer and its associates and joint ventures are reflected in the equity method, the staff have not considered the question about GHG emissions attributable to transactions with associates. An entity would need to measure its GHG emissions attributable to transactions with associates and joint ventures by applying the GHG Protocol Corporate Standard.¹¹ The staff note that an entity would also need to consider the requirements in ISSB Standards, including the requirement to consider connections with the financial statements and to provide information that is relevant and faithfully represents what it purports to represent (paragraph 10 of IFRS S1).

¹⁰ Refer to the IASB project page for more information: [Equity Method](#).

¹¹ An entity is required measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions (paragraph 29(a)(ii) of IFRS S2).

Staff view

37. The staff think that because the reporting entity requirements in ISSB Standards mean that sustainability-related financial disclosures reflect a group as a single economic entity, the GHG emissions attributable to intercompany transactions that would be eliminated in the group financial statements are not included in the measurement of the group's GHG emissions. In reflecting GHG emissions from the perspective of a group of a single economic entity, GHG emissions attributed to transactions between entities within a group are essentially not relevant for the group.
38. As highlighted in the example submitted to the TIG, this does not mean that all GHG emissions *related* to intercompany transactions are excluded from the measurement of a group's GHG emissions. Particular activities related to an intercompany transaction could still represent activities from the group's perspective, such as the transportation of widgets from the subsidiary to the parent in the example submitted. An entity needs to consider the perspective of the group and only reflect GHG emissions attributable to activities which reflect this perspective.

Question for the TIG

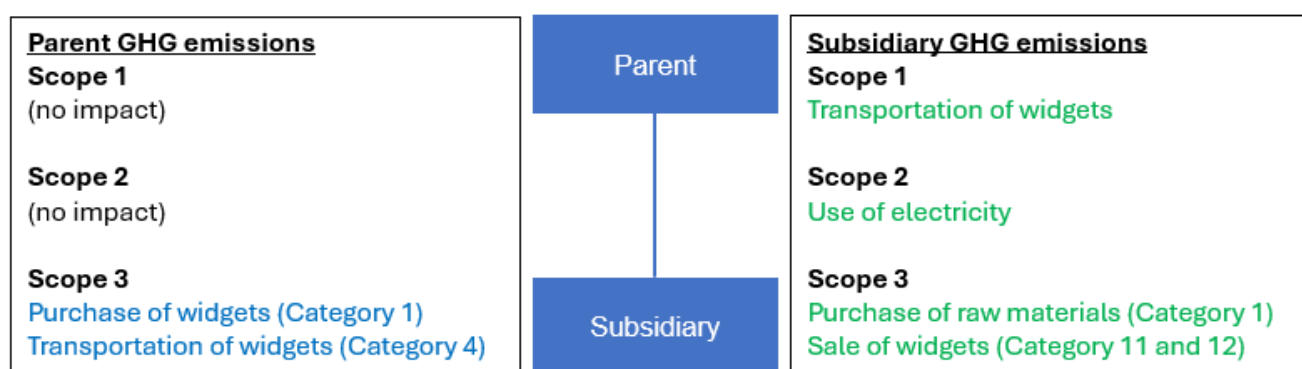
39. The staff present the following question for the TIG members.

Question for TIG members
1. What are your views on the question and analysis presented?

Appendix – Illustration of elimination of GHG emissions to reflect the group perspective

- A1. The staff have illustrated, using the example included in the question submitted, how an entity might measure GHG emissions for the group in a scenario in which the entity starts by measuring GHG emissions of individual entities within a group.
- A2. For illustration of the reporting entity concept, the example is based on the sale of a product between a subsidiary and a parent. The focus of the example at this level of granularity is not a reflection of the requirements in ISSB Standards related to the way in which an entity measures its GHG emissions. ISSB Standards require material information to be provided about an entity's Scope 1, Scope 2, and Scope 3 GHG emissions and do not require an entity to follow a particular process to measure and disclose those emissions.
- A3. Figure A1 depicts how the parent and subsidiary would each reflect GHG emissions as a consequence of the intercompany transaction described in paragraph 13 of this paper.

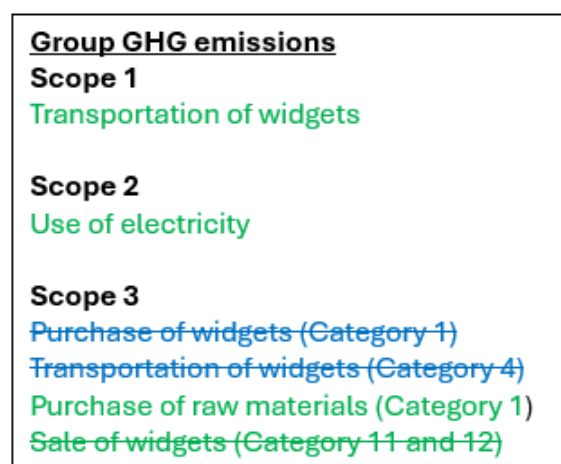
Figure A1: GHG emissions attributable to the intercompany transaction



- A4. To reflect the measurement of GHG emissions of the group as a single economic entity, GHG emissions attributable to the intercompany transaction would need to be eliminated for purposes of measurement of the group's GHG emissions. Because the sale of the widgets from the subsidiary to the parent is not an activity or transaction from the perspective of the group, GHG emissions would need to be eliminated:

- (a) Scope 3 GHG emissions included in the parent's measure of GHG emissions attributable to its purchase of the widgets would be eliminated at the consolidated level; and
- (b) Scope 3 GHG emissions included in the subsidiary's measure of GHG emissions attributable to its sale of the widgets would be eliminated at the consolidated level.
- A5. The Scope 3 GHG emissions associated with the transportation of the widgets represent Scope 1 emissions of the subsidiary. The GHG emissions categorised as Scope 1 emissions are not eliminated at the consolidated level as they represent Scope 1 emissions of the group. That is, because GHG emissions were emitted by vehicles owned by the subsidiary they also represent GHG emissions of vehicles owned by the group.
- A6. However, the Scope 3 emissions included in the parent's measurement of GHG emissions for the transportation of the widgets are eliminated from the perspective of the group because there has not been an activity that would be categorised as Category 4 Upstream transportation and distribution from the perspective of the group.

Figure A2: Elimination of GHG emissions attributable to the intercompany transaction



- A7. Having eliminated the relevant GHG emissions, IFRS S2 requires an entity to use the GHG Protocol Corporate Standard to measure its GHG emissions as explained in

paragraph 31 of this paper. An entity's choice of measurement approach (equity share or control approach) determines how an entity measures and classifies its emissions.

- A8. In this example, we have assumed that the parent (1) adopted an operational control approach and (2) has operational control of the subsidiary. Therefore, the GHG emissions of the group would be limited to the GHG emissions attributable to the manufacture of the widgets and transportation of the widgets from the subsidiary's location to the parent's location.