XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Staff guidance GHG emissions
GHG consolidation approaches

Considerations for preparers

2 Guidance series: GHG emissions

July 2025

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GHG consolidation approaches

Under the GHG Protocol and ISO 14064:2018-1 an entity can consolidate their greenhouse gas (**GHG**) emissions using either the equity share approach or the control approach. There are two types of control approaches: financial control and operational control. Any of these three approaches (equity share, financial control, or operational control) are acceptable under *Aotearoa New Zealand Climate Standards* (**NZ CS**). These consolidation approaches for climate reporting can be different to the consolidation approaches used for financial reporting purposes.

While this guidance refers to the GHG Protocol an entity is not required to use the GHG Protocol to comply with NZ CS.

Step 1: Identify your organisational boundary

The first step in measuring your GHG emissions is to identify your organisational boundary. If you are a climate reporting entity, your organisational boundary is set in legislation, requiring the preparation of climate statements in relation to the group or entity. This means an entity needs to consider its legal boundaries under the Financial Markets Conduct Act 2013 (**FMC Act**) and report GHG emissions for either the group or entity.

Step 2: Apply the chosen GHG consolidation approach to the identified organisational boundary

The second step is to apply the chosen GHG consolidation approach to the organisational boundary identified in the first step.[1]

The Appendix outlines a process that an entity could use to identify its organisational boundary for its GHG emissions disclosures.

Explaining the equity share consolidation approach

Under the equity share approach the entity accounts for GHG emissions according to its share of equity in the operation.[2]

Only 2% of companies worldwide apply this approach.[3]

Explaining the financial control consolidation approach

Under the financial control approach an entity accounts for 100% of the GHG emissions from operations over which it has financial control.[2]

An entity has financial control over the operation if the entity has the ability to direct the financial and operating policies for the operation with a view to gaining economic benefits from its activities. Operations where an entity does not have financial control would be reported in scope 3.

This consolidation approach is applied by around 23% of companies worldwide.[3]

[1] See GHG Protocol Corporate Standard Chapter 4 for guidance on applying the consolidation approach to operational boundaries
[2] See GHG Protocol Corporate Standard Chapter 3 for additional guidance
[3] Data sourced from the GHG Protocol

Explaining the operational control consolidation approach

Under the operational control approach an entity accounts for 100% of the GHG emissions from operations over which it has operational control.[2]

An entity has operational control over an operation if it, or one of its subsidiaries, has the full authority to introduce and implement operating policies at the operations. Operations where an entity does not have operational control would be reported in scope 3.

This consolidation approach is applied by around 68% of companies worldwide.[3]

NZ CS do not require an entity to use a particular consolidation approach

NZ CS only require an entity to disclose the consolidation approach used.[4]

Note that NZ CS require an entity to report GHG emissions for the same entity as the financial statements (where it has financial statements).[5] This means that an entity should first consider the legislation and the entities included in the financial statements. Then it applies the chosen GHG consolidation approach to these entities.

The Appendix outlines a process that an entity could use to identify its organisation boundary for its GHG emissions disclosures.

Consistency in consolidation approaches is not required between financial and climate reporting

An entity should apply its chosen GHG emissions consolidation approach consistently to its GHG emissions disclosures, even if it differs from its financial reporting consolidation method. For example, if an entity applies the operational control approach for climate reporting, it might account for 100% of the emissions from a joint venture; whereas in the financial statements of the entity the financial results of the joint venture might be consolidated using the equity method.

Note that NZ CS require an entity to report GHG emissions for the same entity as the financial statements (where it has financial statements).[5]

There may be a difference in GHG emissions reporting between the consolidation approaches

If the reporting entity wholly owns all its operations, its organisational boundary and reporting of GHG emissions will be the same whichever consolidation approach is used.

If it does not, then there will be a difference. Under equity share an entity accounts for GHG emissions according to its share of equity in the operation. Under either of the control approaches an entity accounts for 100% of the GHG emissions from operations over which it has control.

[4] NZ CS 1 Climate-related disclosures paragraph 24

[5] NZ CS 3 General requirements for climate-related disclosures paragraph 21

GHG emissions from operations where it does not have control are reported in scope 3.

There are differences between financial and operational control reporting when there are leased assets or complex structures

In most cases, whether an operation is 'controlled' by the entity or not is the same whether the financial control or operational criterion is used. In these cases, the GHG emissions reported would be the same under both options.

The key differences between financial and operational control GHG emissions reporting are where:

- an entity has leased assets (see GHG Protocol FAQ How do I account for emissions from a leased asset?)
- there are complex ownership or operatorship structures such as incorporated and unincorporated joint ventures and investments or operating arrangements (see GHG Protocol FAQ How do I deal with complex company structures and shared ownership?)

In these cases, the quantity of GHG emissions reported and the scope under which the GHG emissions are reported will vary depending on which control approach is applied.

Subsidiaries are included when using the operational control consolidation approach

The GHG Protocol states "an entity has operational control over an operation if the former, or one of its subsidiaries has the full authority to introduce and implement operating policies at the operation".[6]

Furthermore, the FMC Act refers to group climate statements being for 1 or more subsidiaries[7] and NZ CS requires an entity to prepare climate-related disclosures for the same entity as the financial statements.[8]

[6] GHG Protocol Corporate Standard, Chapter 3. p18
[7] FMC Act Part 7a 461ZA
[8] NZ CS 3 General requirements for climate-related disclosures paragraph 21

Appendix – Process to help clarify organisational boundary

The following process could be used by an entity when deciding which entities and business activities should be included in its GHG emissions disclosures in accordance with NZ CS. Once the organisational boundary is determined the chosen consolidation approach can be applied.

Identify organisation boundary

- FMC Act
- financial statements
- NZ CS

Apply GHG consolidation approach

- Equity share or
- Financial control or
- Operational control

Report GHG emissions

Step 1 – Identify entities and business arrangements within organisation boundary

This first step helps the entity to ascertain its organisational boundary i.e. which entities or business arrangements (e.g. joint ventures, investments) should be included.

- Consider the legal boundaries, i.e. which entities are required to be captured under legislation. What is captured as a climate reporting entity under the FMC Act, in particular section 461ZA?[9]
- Consider the entities and business arrangements that are included or referenced in the entity's financial statements. This includes consolidated and non-consolidated entities and investments.[10]
- Consider NZ CS requirements – an entity must prepare its climate-related disclosures for the same reporting entity as its financial statements.[11]

Step 2 – Apply consolidation approach to identified entities and business arrangements

Apply the chosen GHG emissions consolidation approach to the entities and business arrangements identified in Step 1.

If the equity share method is chosen then the equity share of scope 1, 2 and 3 GHG emissions for that entity or business arrangement will be reported.

If one of the control approaches is chosen then an entity would account for 100% of scope 1, 2 and 3 GHG emissions from those entities or business arrangements where it has control. This may differ from the treatment of that entity or business arrangement in the financial statements. If an entity is using the control approach and it does not have control of the entity or business arrangement, then these GHG emissions would be reported in scope 3.

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[9] Part 7a of the FMC Act (461ZA) refers to group climate statements and one or more subsidiaries. In addition, it also defines subsidiaries

[10] Note, IFRS® Accounting Standards also uses the term 'consolidation' in relation to financial statement consolidation. This is not the same as GHG emissions consolidation

[11] NZ CS 3 General requirements for climate-related disclosures paragraph 21

We welcome feedback, email us at climate@xrb.govt.nz.

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