Corporate Standard Meeting Minutes

Subgroup 2, Meeting #2

Date: 10 December 2024

Time: 08:00 – 10:00 ET / 14:00 – 16:00 CET

Location: Virtual

Attendees

Technical Working Group Members

1. Christina Abbott, KPMG
2. Debbie Crawshawe, Department for Business and Trade, UK Government
3. Mónica Oleo Domínguez, Redeia
4. Rubens Ferreira, Carbonauta Ltda
5. Kia Hong Goh, Nanyang Technological University, Singapore
6. Gijs Kamperman, KLM
7. Eric Knachel, Deloitte
8. Vincent Kong, Sun Hung Kai Properties
9. Bonar Laureto, EY Philippines
10. Claire McCarthy, We Mean Business Coalition
11. Judy Ryan, External Reporting Board, New Zealand
12. Sheila Scott, Jacobs
13. Alisa Shumm, PwC
14. Heather Vainisi, Google
15. Margaret Weidner, Impact Pathways

Guests

None present

GHG Protocol Secretariat

1. Hande Baybar
2. Iain Hunt
3. Allison Leach
4. David Rich
5. Natalia Chebaeva

Documents referenced

1. Slides for the Corporate Standard TWG Subgroup 2 meeting on 10 December 2024

Item	Topic and Summary	Outcomes
1	***Introduction and housekeeping*** The GHG Protocol Secretariat welcomed TWG members to the second meeting of Subgroup 2. The Secretariat provided a quick reminder on TWG housekeeping items introduced in previous meetings and presented the objectives and the agenda for the meeting.	No specific outcomes.
2	***Recap of November 19th meeting*** The Secretariat provided an overview of topics covered in the previous Subgroup 2 meeting on November 19th, and provided further background information to facilitate TWG discussion based on key questions received.	No specific outcomes.
3	***Further background on why to align with financial accounting*** The Secretariat presented further background on the justification and approach for aligning with financial accounting by revising the "financial control" consolidation approach.	No specific outcomes.
4	***How to achieve alignment with financial accounting*** The Secretariat presented a reframed question to facilitate the discussion on how to achieve alignment with financial accounting and provided a summary of the feedback received from the survey conducted following the Subgroup 2 meeting on November 19th Following the discussion, the Secretariat held an indicative poll of TWG members asking them to indicate their preferred option for establishing alignment with financial accounting.	An indicative poll demonstrated consensus among subgroup members to recommend companies adopting financial control approach to apply the same consolidation approach (to set GHG emissions boundaries) as their jurisdictionally mandated financial accounting standard.
5	***Wrap-up and next steps*** The Secretariat shared next steps for Subgroup 2, with the next meeting scheduled for Tuesday, January 21st, 2025 at 14:00 CET.	The Secretariat to share meeting materials. The Secretariat will organize an ad-hoc meeting to further discuss the additional considerations required to revise the current financial control approach in the Corporate Standard.

Summary of discussion and outcomes

1. Introduction and housekeeping

- The Secretariat welcomed TWG members to the second Subgroup 2 meeting. The Secretariat briefly recapped housekeeping items and reviewed the meeting objectives and the agenda for the meeting (slides 1-13).

Summary of discussion

- The Secretariat briefly recapped the housekeeping items, scope of work for revising organizational boundaries, and main topics that will guide the revision of consolidation approaches provided in the Corporate Standard.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

2. Recap of November 19th meeting

- The Secretariat provided a brief recap of key items discussed and key inputs received in the previous meeting on November 19th. The Secretariat also provided further background information to facilitate TWG discussion based on key questions received in the previous Subgroup 2 meeting (slides 14-17).

Summary of discussion

- The Secretariat summarized the key topics covered in the previous Subgroup 2 meeting on November 19th together with key inputs received from the members during the meeting.
- The Secretariat also summarized the key items for follow-up based on the relevant questions and requests received during the previous Subgroup 2 meeting. This included:
    - Why the financial control consolidation approach should be updated to ensure it remains effective and aligned with current financial accounting requirements
    - Further context on how to achieve alignment with financial accounting
    - Insights on the comparison or mapping of differences between local GAAPs (Generally Accepted Accounting Principles) vs. IFRS and/or U.S. GAAP
    - Consideration that current financial accounting standards and their consolidation requirements may be subject to further revisions in the future which translates into further implications to maintain alignment with financial accounting for greenhouse gas accounting consolidation approaches.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

3. Further background on why to align with financial accounting

Following up on discussion in the previous TWG Subgroup 2 meeting on November 19th and input provided by subgroup members, the Secretariat presented further background covering the following:

- The need to update the financial control consolidation approach (Slides 19-22)
- Reframed question presented in previous subgroup meeting to focus on how to achieve alignment with financial accounting rather than further discussing the level of alignment. Results of an asynchronous feedback survey showed unanimous support to prioritize alignment with financial accounting when revising consolidation approaches (Slide 23)

- An example comparison of local GAAP and IFRS (IFRS: A Comparison with Dutch Laws and Regulations 2024), showing that there can be differences in consolidation approaches across various financial accounting standards (Slide 24)
- Summarizing key takeaways, highlighting the need to revise the financial control consolidation approach to maintain alignment/consistency with financial accounting standards, as well as potential implementation challenges (Slide 25)

Summary of discussion

- Following up on discussion in the previous TWG Subgroup 2 meeting on November 19th, the Secretariat presented further background to facilitate discussion on how the financial consolidation approach needs to be updated to achieve alignment with financial accounting.
  - One TWG member elaborated that the financial accounting consolidation requirements are very nuanced and provided an example, stating that under U.S. GAAP, control can be established through contractual agreements and kick-off rights even if the investor owns a minority (<50%) interest in the investee.
    - Another TWG member asked if this was a common situation. The TWG member sharing the insight mentioned that control is commonly established through majority interest but contractual agreements granting control to a minority interest owner also take place and some companies may have a number of interests structured in different ways.
  - One TWG member mentioned that the primary definition of consolidation covers scope 1 and scope 2 emissions and in cases where an accounting category is not consolidated under these scopes, it ends up being included in scope 3 as part of the value chain emissions. Another TWG member expressed support suggesting that scope 3 category 15 usually acts as a catch all for investment-related items that are not consolidated in scope 1 and scope 2.
  - One TWG member suggested that there can be aspects of a company in the value chain that may not appear in financial statements but would still appear in a scope 3 inventory. Another TWG member added by stating that under IFRS S2 scope 3 is only mandatory for material categories and if certain activities/entities are not consolidated under scope 1 and scope 2, they may end up not being reported. The Secretariat mentioned that the Corporate Standard TWG Subgroup 3 is recommending and defining a scope 3 reporting requirement under the Corporate Standard.
  - The Secretariat mentioned that Scope 3 TWG has a subgroup focusing on revisions to the category 15 in the Scope 3 Standard.
  - One TWG member stated that some of the financial accounting terminology used in the Corporate Standard is outdated, mentioning that U.S. GAAP does not use the term "associates" but uses "investees" instead.
  - One TWG member asked a clarifying question from a target-setting perspective, asking what will be discussed and decided under Scope 3 TWG regarding Investments (category 15) and how it relates to this Subgroup's determination of which aspects of a business should be consolidated under scope 1 and scope 2. The Secretariat clarified that this Subgroup will define/revise organizational boundaries as it applies to scopes 1 and 2 (with implications for scope 3), adding that the Scope 3 TWG work on category 15 will be informed by this subgroup's outputs.
- The Secretariat also provided an overview of key takeaways covering the need to revise the financial control consolidation approach to maintain alignment/consistency with financial accounting standards, as well as potential implementation challenges.
  - One TWG member also highlighted the implementation challenges, noting the challenges of defining 'financial control' based on financial accounting standards, either by combining different standards or adopting one leading standard. They mentioned that this would not only be redundant but also difficult to maintain, adding that requiring companies to adopt the same consolidation model as their jurisdictionally mandated financial consolidation is the most feasible approach. Several TWG members expressed support for this comment.

- One TWG member suggested that requiring companies using financial control to adopt the same consolidation model as their financial statements may reduce comparability between inventories of different companies.
- Several TWG members commented on cases where the parent company and its consolidated entities operate in different jurisdictions, questioning the implications of requiring companies to consolidate GHG emissions according to their jurisdictionally mandated financial consolidation requirements.
  - A number of TWG members supported this, stating that companies in these circumstances are accustomed to having two sets of financial statements and preparing reports to meet the parent company's reporting obligations, adding that this can be applied to GHG emissions disclosures as well. One TWG member suggested it may be challenging for smaller companies to adapt to this approach. Another TWG member noted that this situation often applies to companies with complex business structures, adding that these companies typically have the systems in place to manage this process.
- One TWG member suggested that the current definition of financial control in the Corporate Standard should be updated by incorporating important elements used in defining control in IFRS and U.S. GAAP to provide a baseline and to leave the application requirements to local jurisdictions.
  - The Secretariat asked to clarify if the TWG member is in favor of adopting common elements of IFRS and US GAAP into a consolidation approach with more prescriptive requirements in the Corporate Standard rather than instructing companies to consolidate their emissions in alignment with their consolidated financials.
  - The TWG member clarified that the most efficient option will be instructing companies to consolidate their emissions in alignment with their consolidated financials.
  - Another TWG member disagreed with this suggestion stating partial incorporation of financial accounting requirements will have significant implementation challenges.
  - One TWG member noted the challenges to maintain alignment if/when IFRS and/or U.S. GAAP undergo further revisions.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

4. How to achieve alignment with financial accounting

- The Secretariat presented a reframed question to facilitate the discussion on how to achieve alignment with financial accounting (slide 27) and provided the summary of feedback from a follow-up survey conducted after the Subgroup 2 meeting on November 19th (slides 29-30), and opened the floor for discussion to evaluate the three options presented in the reframed question of "How can/should alignment with financial accounting be achieved?" (slides 31-33).
- Following the discussion, the Secretariat held an indicative poll asking TWG members to select their preferred option on how to establish alignment with financial accounting, (Slide 34).

Summary of discussion

- One TWG member asked if the aim of the discussion on alignment with financial accounting is to require all companies to apply the same consolidation as their jurisdictionally applicable financial accounting standard or offer it as a best practice.
  - The Secretariat opened this section by stating that the discussion on alignment with financial accounting is focused on updating "financial control" consolidation approach to align with financial accounting standards. They added that, whether optionality is maintained (e.g., if operational control also remains an option) will be a discussion for a subsequent meeting.

    - Several TWG members highlighted the interconnection between alignment with financial accounting and optionality in consolidation approaches.
    - The Secretariat noted that once the financial control approach is updated to achieve alignment with financial accounting, the subgroup will discuss optionality in consolidation approaches. The comments and feedback on optionality received to date will be incorporated into the subsequent Subgroup 2 meeting agenda.
- Following the Secretariat's presentation of analysis of the reframed question and the three options based on the GHG Protocol's decision-making criteria and hierarchy, the floor was opened to further comments from TWG members.
    - Several TWG members stated strong support for "Option C: Requiring companies to apply the same consolidation (to set GHG emissions boundaries) as their jurisdictionally mandated financial accounting standard".
    - Based on the inputs received during the discussion, the Secretariat clarified that the analysis of options presented based on the decision-making criteria will be revised to exclude language around optionality to avoid confusion.
    - One TWG suggested the color coding indicating the level of alignment with the GHG Protocol's decision-making criteria and hierarchy for Option C under "feasibility to implement" should be orange (least aligned) instead of green (most aligned). They added that it should be the same color coding as indicated for Option B - color coded as orange (not aligned).
        - The Secretariat clarified that the main reason that Option C was judged as more feasible to implement (color code: green) was that it allows companies to adopt whichever financial accounting standard they already use, whereas Option B would require every company to use a single financial accounting standard (e.g., IFRS or US GAAP), meaning that companies who do not already use that standard for their financials will have an additional burden as compared to Option C.
- Following the discussion, the Secretariat held an indicative poll to gauge the level of support for different options presented on slide 34.
    - Poll results showed consensus, with all 15 participants choosing Option C.
- Following the poll, one TWG member noted the confusion some stakeholders have in interpreting the reporting boundary requirements set in the IFRS S1 and S2 standards. They noted that IFRS S2 allows the use of one of the three consolidation approaches provided by the GHG Protocol (equity share, financial control, operational control), while also permitting the use of a different method if required by a jurisdictional authority or stock exchange. However, IFRS S1 requires the sustainability statement to align with the same as the financial statements.
    - One TWG member chimed in with an example saying that in some cases where a company adopting the operational control approach to consolidate its GHG emissions can end up consolidating a different group of entities than in its financial statements and therefore not meet the IFRS S1 requirement (stated above).
    - Another TWG member provided a regional insight stating that currently a majority of the companies preparing to disclose GHG emissions to comply with IFRS S1 and S2 adopt the operational control approach.
- One TWG member suggested implementation of Option C needs to be further discussed and clarified, questioning whether the intent is only to adopt the same definition of financial control or also covers the adoption of the same consolidation method as financial statements e.g., accounting for non-controlling interest (NCI).
- One TWG member suggested that when implementing Option C, there should be accompanying additional disclosure requirements, adding that the Corporate Standard can adopt a similar approach used in financial statements providing "basis of presentation" including some evidence about how the financial report was put together.
    - Another TWG member noted that, beyond additional/accompanying disclosure requirements to provide information on how the consolidation was made, there should also be further guidance about specific concepts in financial statements (e.g., NCI) that do not directly or easily translate into GHG accounting.
    - One TWG member added that this topic necessitates further discussion/input from financial experts in the Subgroup.

        - The Secretariat confirmed that this can be addressed via organizing an ad-hoc meeting.
- One TWG member asked if GHG Protocol is coordinating with ISO on the updates to ISO 14064-1.
    - The Secretariat stated that there is an ongoing discussion with ISO.

Outcomes (e.g. recommendations, options)

- Consensus was reached to recommend companies adopting financial control approach to set GHG emissions boundaries to apply the same consolidation approach as their jurisdictionally mandated financial accounting standard (Option C).
- The Secretariat will organize an ad-hoc meeting to further discuss the additional considerations needed to revise the current financial control text in the Corporate Standard to implement Option C.

5. Wrap-up and next steps

The Secretariat summarized next steps (slide 36), with the next meeting of Subgroup 2 scheduled for Tuesday, January 21st 2025 at 08:00 ET / 14:00 CET.

Summary of discussion

- One TWG member requested to receive the meeting materials at least one week in advance to help members prioritize reviews.
- One member suggested that the Secretariat request follow up feedback from TWG members on potential issues to consider while implementing Option C.

Outcomes (e.g. recommendations, options)

- The next Subgroup 2 meeting is scheduled for Tuesday, January 21st 2025 at 08:00 ET / 14:00 CET.
- The Secretariat to share the following materials with Subgroup 2 members: final slides, meeting minutes, and recording from December 10th meeting, and discussion paper on Corporate Standard consolidation approaches.
- The Secretariat will organize an ad-hoc meeting to further discuss the technical elements of implementing Option C (details to be confirmed).

Summary of written submissions received prior to meeting

- TWG Subgroup 2 members were asked to complete an asynchronous feedback survey before the meeting, and 14 responses were received. The topics covered in the survey included:
    - Prioritizing alignment with financial accounting
    - Insights on the comparison or mapping of differences between local GAAPs vs. IFRS and/or U.S. GAAP
- The survey results were presented for discussion at the December 10th meeting, with key outcomes summarized in the meeting slides.