GREENHOUSE GAS PROTOCOL

Corporate Standard Technical Working Group

Subgroup 2, Meeting #1

GHG Protocol Secretariat team:

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November 19th, 2024

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Welcome: Subgroup 2, Meeting #1
Organizational boundaries

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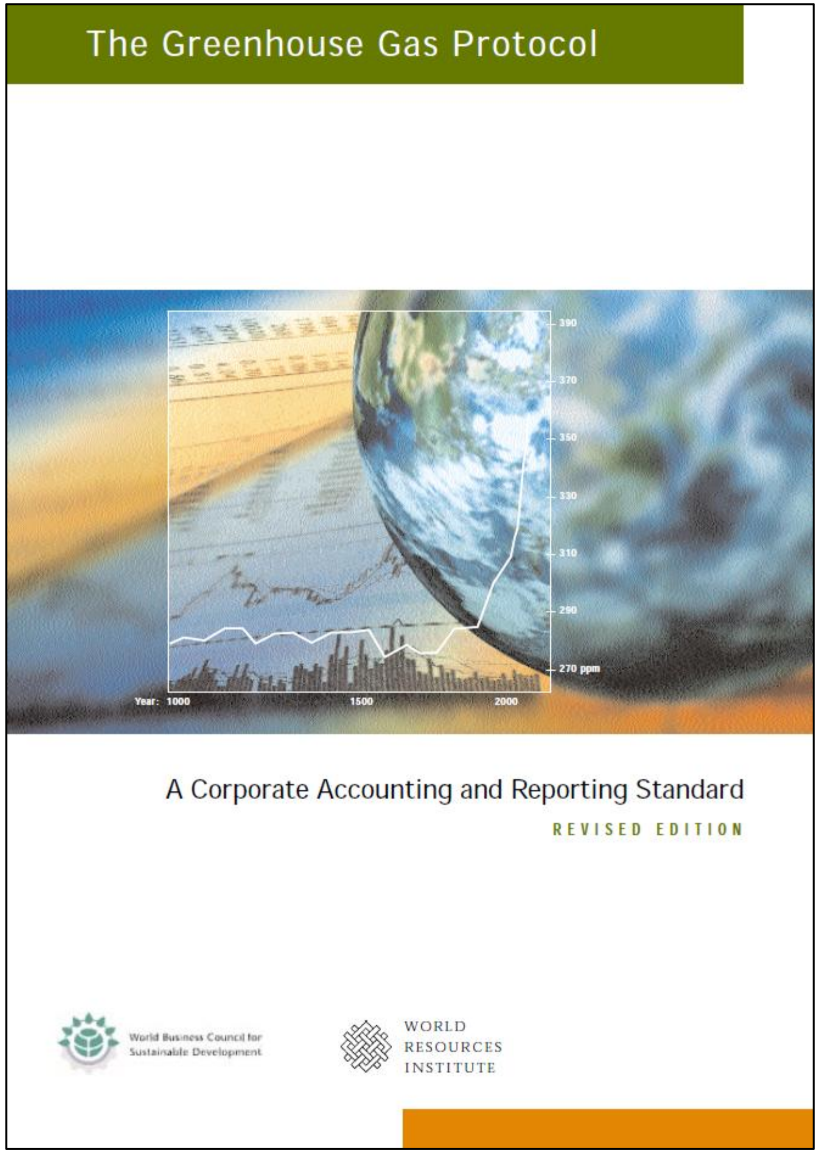

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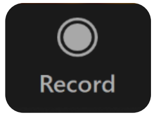
Meeting information



This meeting is **recorded**.

Please use the **Raise Hand** function to speak during the call.

You can also use the **Chat** function in the main control.

Recording, slides, and meeting minutes will be shared after the call.

Agenda

- **Introduction and housekeeping**
- **Background and context**
  - Consolidation approaches
  - External programs
  - Stakeholder feedback
- **Revisions to organizational boundaries**
  - Overview of the need for revision
  - Main questions
  - Alignment with financial accounting
  - Scope of work interconnections
- **Wrap up and next steps**

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Housekeeping: Guidelines and procedures

- We want to make **TWG meetings a safe space** – our discussions should be open, honest, challenging status quo, and 'think out of the box' in order to get to the best possible results for GHG Protocol
- Always **be respectful**, despite controversial discussions on content
- TWG members should **not disclose any confidential information** of their employers, related to products, contracts, strategy, financials, compliance, etc.
- In TWG meetings, **Chatham House Rule** applies:
  - "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed."
- **Compliance and integrity** are key to maintaining credibility of the GHG Protocol
  - Specifically, all participants need to follow the **conflict-of-interest policy**
  - **Anti-trust rules** have to be followed; please avoid any discussion of competitively sensitive topics*

* Such as pricing, discounts, resale, price maintenance or costs; bid strategies including bid rigging; group boycotts; allocation of customers or markets; output decisions; and future capacity additions or reductions

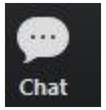
Zoom logistics and recording of meetings

Zoom Meetings

- All participants are muted upon entry
- Please turn on your video
- Please include your full name and company/organization in your Zoom display name

Raise your hand in the participants feature and unmute yourself to speak

Use the chat function to type in your questions



Meetings will be recorded and shared with all TWG members for:

- Facilitation of notetaking for Secretariat staff
- To assist TWG members who cannot attend the live meeting or otherwise want to review the discussions

Recordings will be available for a limited time after the meeting; ***access is restricted to TWG members only.***

Today's objectives

1. Take stock of the ***Corporate Standard*'s consolidation approaches** and consider developments in GHG emissions accounting and disclosure since the Standard was last updated in 2004

2. Initial discussion on the need for and potential level of **alignment with consolidation approaches used in financial accounting**

Today, we will **introduce key considerations** related to the above and **begin to collect input** from TWG – Subgroup 2 members with the intention of **working toward consensus on level of alignment with financial accounting** during our next Subgroup 2 meeting on December 10th.

Subgroup 2 member introductions

Quick <30 second introductions:

- Name
- Location
- Organization
- Current role *(and how it relates to use of the Corporate Standard)*

Name	Organization
Christina Abbott	KPMG
John Altomonte	WWF-Philippines, Ateneo School of Government, and Verne Climate Solutions
Debbie Crawshawe	Department of Business and Trade, UK Government
Mónica Oleo Domínguez	Redeia
Rubens Ferreira	Carbonauta Ltda
Kia Hong Goh	Nanyang Technological University, Singapore
Gijs Kamperman	Koninklijke Luchtvaartmaatschappij (KLM)
Eric Knachel	Deloitte
Vincent Kong	Sun Hung Kai Properties
Bonar Laureto	Ernst & Young Philippines
Claire McCarthy	We Mean Business Coalition
Judy Ryan	External Reporting Board, New Zealand
Sheila Scott	Jacobs
Alisa Shumm	PricewaterhouseCoopers
Heather Vainisi	Google
Margaret Weidner	Impact Pathways

Corporate Standard TWG: Our Shared Values

- **Respect** for everyone's background, expertise, and perspective
- Keep the **long-term goal** in mind: A revised and effective standard
- **Come ready to learn**! Be open to new ideas and listen actively
- Stay **objective**
- Maintain a **transparent** and independent process
- **Data-driven** approach and **solutions-oriented** interventions
- Work **collaboratively** with shared responsibility
- **Be prepared** for meetings

Housekeeping: summary of general feedback form responses

6 responses were received to our general feedback form – thank you to everyone who has provided input to date. Overarching themes included:

- Questions related to **TWG process**
  - To be addressed on next slide
- Feedback on the **scope of work** presented in the Standard Development Plan
  - Receipt acknowledged – will be addressed as part of Phase 2 discussions on Verification/assurance
- Feedback on **policies/programs referencing GHG Protocol - *Corporate Standard***
  - To be addressed in today's meeting
- Feedback on **shall/should/may** language
  - To be addressed in today's meeting

Please continue using the Microsoft Form for all general feedback and questions.
A form for specific feedback on *Corporate Standard* organizational boundaries will be circulated following this meeting.

Housekeeping: process-oriented questions raised via feedback form

- **Decision-making criteria: rating scale**
  - **Q**: The materials for the Scope 2 TWG describe the application of the DMC using a heat-map type of scale whereas Corporate Standard and Scope 2 use a 3-tier scale. Was the deviation intentional?
  - **A**: Deviation was not intentional. To introduce the DMC, we presented a simple 3-tier scale including green (most aligned), yellow (mixed alignment) and orange (least aligned). When applying the DMC to specific issues, we may adjust to a more granular (e.g., 5-tier) scale as needed.

- **“Back-channel” communication outside of TWG meetings**
  - **Q**: Will there be an established “back-channel” for either the whole TWG or subgroups to communicate outside of these meetings?
  - **A**: The Secretariat will *not* be providing a means for informal communication between TWG members. TWG members may choose to establish an informal communication channel (e.g., via Teams, Slack, etc.) and invite Secretariat staff. However, Secretariat staff will *not* commit to actively monitor or respond to any communications via this platform.

GHG Protocol Decision-Making Criteria

1A. Scientific integrity	1B. GHG accounting and reporting principles	2A. Support decision making that drives ambitious global climate action	2B. Support programs based on GHG Protocol and uses of GHG data	3. Feasibility to implement
Ensure scientific integrity and validity, adhere to the best applicable science and evidence … and align with the latest climate science.	Meet the GHG Protocol accounting and reporting principles of accuracy, completeness, consistency, relevance, and transparency. Additional principles should be considered where relevant: conservativeness (for GHG reductions and removals), permanence (for removals), and comparability (TBD). …	Advance the public interest by informing and supporting decision-making that drives ambitious actions by private and public sector actors to reduce GHG emissions and increase removals in line with global climate goals. …	Promote interoperability with key mandatory and voluntary climate disclosure and target setting programs … while ensuring policy neutrality. Approaches should support appropriate uses of the resulting GHG data and associated information by various audiences …	Approaches which meet the above criteria should be feasible to implement, meaning that they are accessible, adoptable, and equitable. … For aspects that are difficult to implement, GHG Protocol should aim to improve feasibility, for example, by providing guidance and tools to support implementation.

Note: This is a summary version. For further details, refer to the full decision-making criteria included in the annex to the Governance Overview, available at https://ghgprotocol.org/our-governance.

Standard setting language

GHG Protocol standards use precise language to indicate which provisions of the standard are **requirements**, which are **recommendations**, and which are **permissible or allowable options** that companies may choose to follow.

- **"Shall"** indicates what is required to be in conformance with the standard.
- **"Should"** indicates a recommendation, but not a requirement.
- **"May"** indicates an option that is permissible or allowable.

B. Organizational boundaries - Scope of work (Phase 1)

Relevant chapters: chapter 3 (Setting Organizational Boundaries) and sections in chapter 4 (Setting Operational Boundaries) on leased assets.

B.1. Revisit options for defining organizational boundaries to consider:

- Whether to **maintain the three consolidation options** currently available (operational control, financial control, equity share), **eliminate any of the three options**, **or narrow to a single required approach** to promote consistency and comparability.
- Adjusting an existing approach or introducing a new approach that better **harmonizes with financial accounting** and/or with requirements of voluntary and mandatory reporting programs.
- Specifying a **preferred consolidation approach** or **hierarchy of preferred options**.
- Developing criteria to **guide organizations in selecting the most appropriate consolidation approach** for different situations.

Our focus today is on the following item under B.1:
Better harmonization with financial accounting and/or with requirements of voluntary and mandatory reporting programs

B. Organizational boundaries – Scope of work (Phase 1)

B.2. **Updates, clarifications, and additional guidance** related to existing consolidation approaches including:

- Further clarification on defining **operational control**, addition of specific indicators to facilitate more consistent application, and **definitions for different types of assets** (e.g., leases, licenses, franchises).
- Reconsideration of **multi-party arrangements** to consider factors beyond who controls a facility.
- Updates and clarifications related to **joint ventures and minority interests**.
- Integration and revision of 2006 amendment "Categorizing GHG Emissions Associated with Leased Assets" (Appendix F).
- Additional **guidance on classification of leased assets**, including allocation of emissions between lessor and lessee, emissions from purchased heating for leased assets, and in cases of multi-tenant buildings and co-locations.

B.3. Update terminology used in chapter 3 of the *Corporate Standard* to be **more consistent with current terminology used in financial accounting** (e.g., terminology used by U.S. GAAP and IFRS).

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Corporate Standard: relevant content

Chapter 3: Setting Organizational Boundaries

Chapter 4: Setting Operational Boundaries
(limited to: leased assets)

E. Verifications/assurance - Scope of work (Phase 2)

Relevant chapters: chapter 7 (Managing Inventory Quality) and chapter 10 (Verification of GHG Emissions)

E.1. Consider introducing a **verification or assurance requirement** to the *Corporate Standard* (based on criteria such as scope coverage, level of assurance, frequency and phase-in period, and differentiation by company size or sector).

E.2. Consider whether a **verification/assurance standard or guidance document for assurers** should be developed by the GHG Protocol.

E.3. **Additional clarifications** in chapter 10 of the *Corporate Standard* including:

- Clearer distinctions between verification and assurance.
- More detailed descriptions of what different levels of assurance (e.g., limited assurance, reasonable assurance) entail and related procedures performed by assurance provider.
- Clarity regarding the concept of materiality and materiality thresholds.
- How and when historical data should be reassured when there are structural and methodological changes.

E.4. Additional **guidance related to data credibility and internal controls** to help companies prepare for assurance.

E.5. Consider **reference to verification or assurance standards** in use that have been developed since the last revision of the *Corporate Standard.*

E.6. Guidance related to **qualifications for third-party** verification or assurance **providers**.

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Setting organizational boundaries (Corporate Standard Chapter 3, p.16)

"Business operations vary in their **legal and organizational structures**; they include wholly owned operations, incorporated and non-incorporated joint ventures, subsidiaries, and others. For the **purposes of financial accounting,** they are treated according to **established rules that depend on the structure of the organization and the relationships among the parties involved**. In setting organizational boundaries, **a company selects an approach for consolidating GHG emissions** and then **consistently applies the selected approach to define those businesses and operations** that constitute the company **for the purpose of accounting and reporting GHG emissions**."

GHG Protocol Corporate Standard: current requirements

Companies *shall* account for and report their consolidated GHG data according to either the **equity share, financial control,** or **operational control approach**:

Under the **equity share approach**, a company accounts for GHG emissions according to its share of equity in the operation.

Under the two **control approaches**, a company accounts for 100% of the GHG emissions from operations over which it has control.

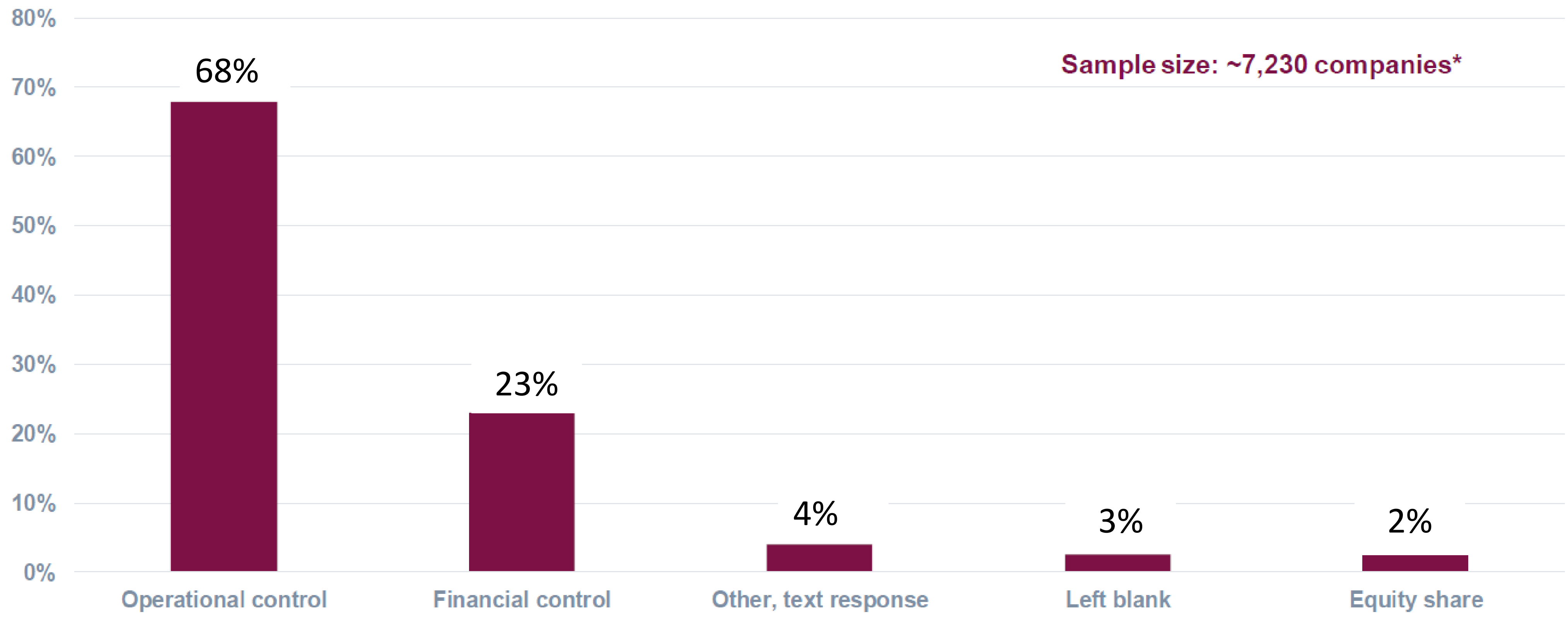
A company has **financial control** over the operation if the former has the ability to direct the financial and operating policies for the latter with a view to gaining economic benefits from its activities.

A company has **operational control** over an operation if the former or one of its subsidiaries has the full authority to introduce and implement its operating policies at the operation.

Detailed definitions are provided in the Appendix.

Current utilization of consolidation approaches – per approach

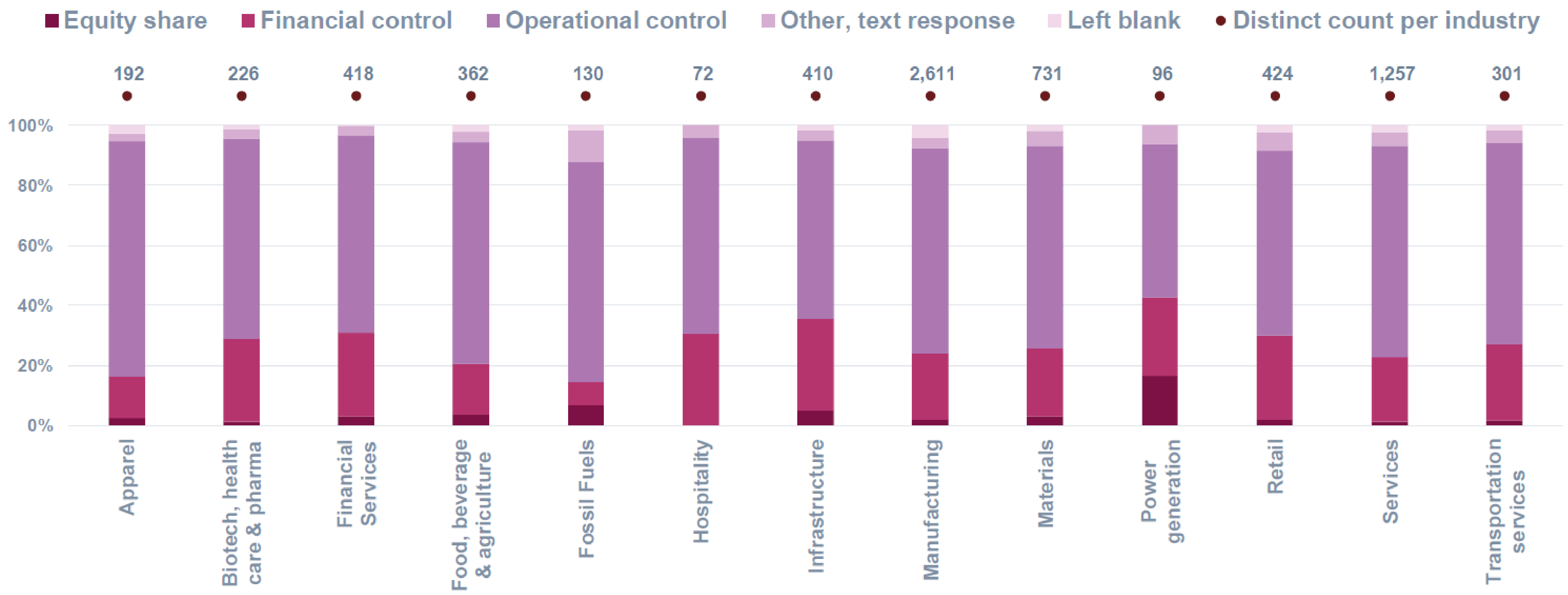
CDP 2023 Climate Change disclosures



*Includes companies that were presented with question C0.5 and submitted their response publicly. (companies responding to the minimum version of the questionnaire were not presented with this question)

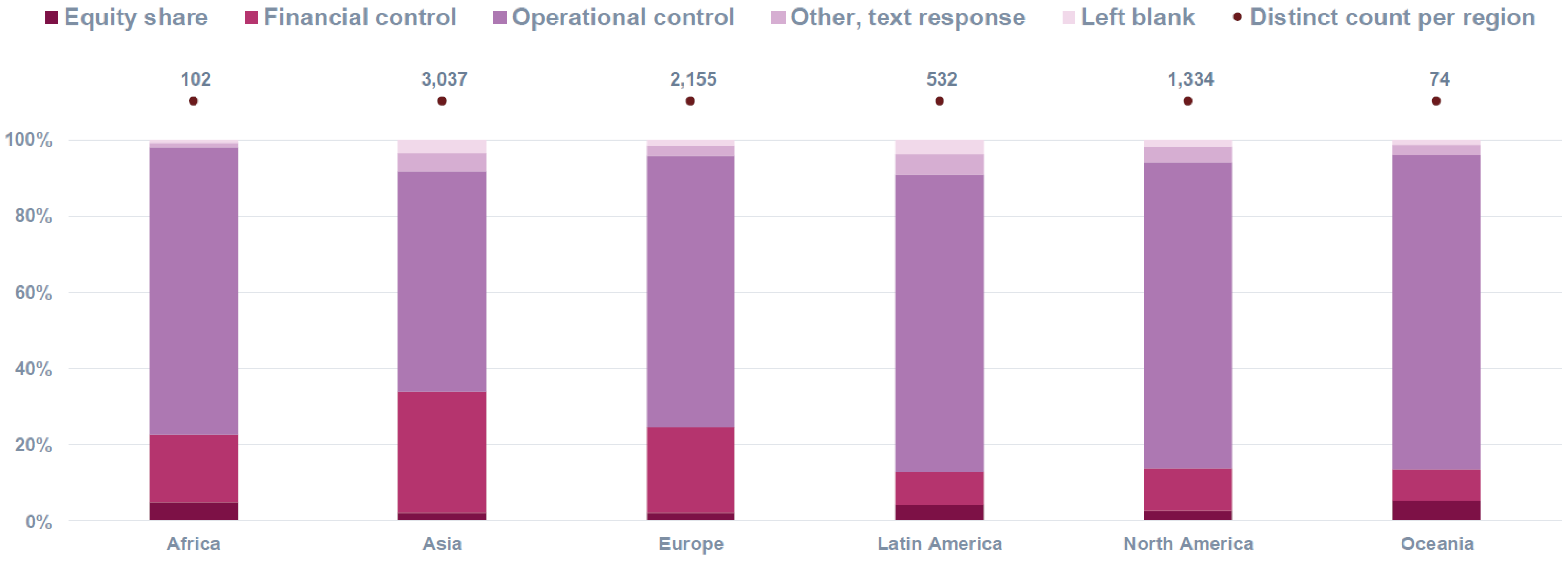
Current utilization of consolidation approaches – per industry

CDP 2023 Climate Change disclosures



Current utilization of consolidation approaches – per region

CDP 2023 Climate Change disclosures



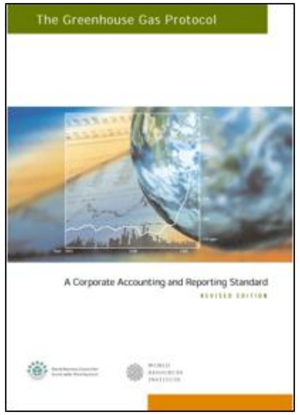
Overview of consolidation approaches – key highlights

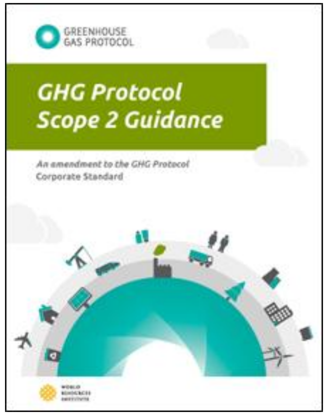
Approach	Key highlights	Use	Utilization (CDP 2023 data)
Equity share	Emissions reporting based on ownership structure, regardless of control	Provides straightforward consolidation for companies with complex organizational structure where it is challenging to establish "control" (not consistent with financial consolidation)	Least adopted approach (2%)
Financial control	Emissions reporting based on authority to implement financial and operating policies	Initially established to be most consistent with financial consolidation (now outdated and is not as consistent with financial consolidation)	Second most adopted approach (23%)
Operational control	Emissions reporting where the company has influence to direct operation policies, regardless of ownership structure	Often used to capture the GHG emissions associated with activities and facilities they directly manage (not consistent with financial consolidation)	Most adopted approach (68%)

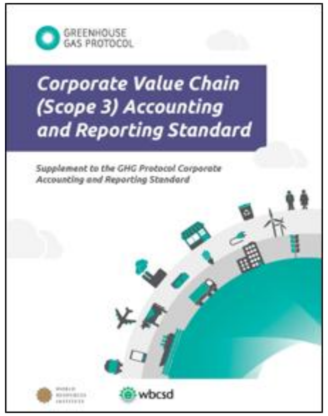
Role of consolidation approaches

- Consolidation approaches provide **the basis for how GHG inventory boundaries are established** across **full suite of Corporate Standards** and has significant impact on other standards and guidance documents (Scope 2 Guidance, Scope 3 Standard and Land Sector and Removal Standard and Guidance)

- This step determines **which operations are included** in the company's organizational boundary and **how emissions from each operation are consolidated**







Amendments/supplements to the Corporate Standard

Draft Land Sector and Removals Guidance available on GHG Protocol website with final Land Sector and Removals Standard and Guidance to be published in Q1 2025.

Example policies, programs, and standards providing requirements and guidance for setting organizational boundaries for GHG inventories

- International Financial Reporting Standard (IFRS) S2: Climate-related Disclosures
- EU CSRD - European Sustainability Reporting Standards (ESRS) E1: Climate Change
- U.S. Securities and Exchange Commission (SEC) The Enhancement and Standardization of Climate-Related Disclosures for Investors Rule
- California Corporate Climate Accountability Act (CA Senate Bills 253 and 219)
- ISO 14064-1 Organization level quantification and reporting of GHG emissions and removals (ISO 14064-1:2018)
- CDP environmental disclosure platform
- Science-Based Targets Initiative (SBTi) Corporate Net Zero Standard
- Global Reporting Initiative (GRI) Topic Standard Project for Climate Change (exposure draft)
- Partnership for Carbon Accounting Financials (PCAF) Part A – Financed Emissions 2nd Edition (2022)

If you are aware of any other policies, programs, or standards providing requirements and guidance for setting organizational boundaries, please share these in the chat.

Definitions of key concepts in mandatory requirement settings

Consolidated financial statements

present assets, liabilities, equity, income, expenses, and cash flows of a parent entity and its subsidiaries as if they were a single economic entity.

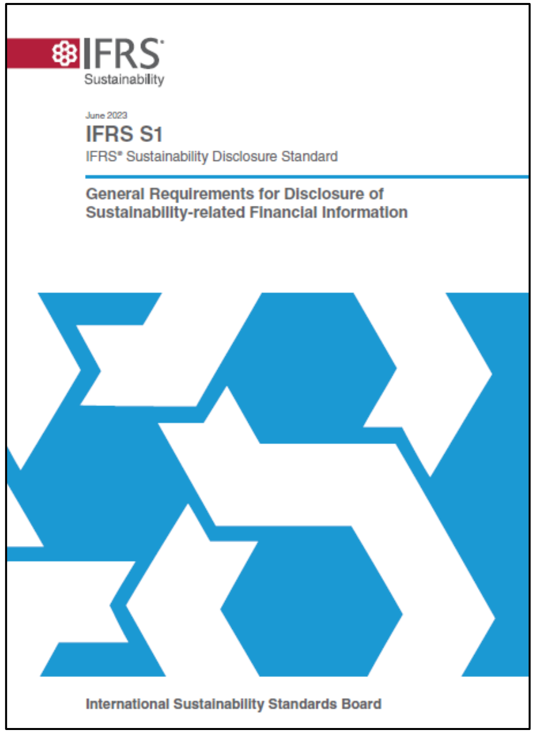
Sustainability statement (or Sustainability-related disclosures)

is a comprehensive a section within a company's annual report that provides standardized disclosures on environmental, social, and governance (ESG) factors. Sustainability statement shall cover the same reporting entity as the consolidated financial statements.

GHG emissions statement

is a section within a company's sustainability statement and covers the GHG emissions based on the required organizational boundaries. The boundaries set/required for GHG emissions statement can differ based on specific program requirements (e.g., ESRS)

Requirements and guidance on organizational boundaries from other frameworks and programs – IFRS



IFRS S1 - General disclosure requirements
including sustainability disclosure boundary

IFRS S2 - Climate-related disclosure requirements
including GHG emissions boundary

Please see this [Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024)] for more information.

Requirements and guidance on organizational boundaries from other frameworks and programs - IFRS

Program	Organizational boundary setting
IFRS IFRS S1 General Sustainability Disclosures & IFRS S2 Climate-related Disclosures	"An entity is **required to use the Greenhouse Gas Protocol**: A Corporate Accounting and Reporting Standard (2004) **unless the entity is required by a jurisdictional authority or an exchange** on which it is listed **to use a different method** for measuring its greenhouse gas emissions." *(IFRS S2, paragraph B24).* "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**." *(IFRS S2, paragraph B27).* However, IFRS S1 Paragraph 20 requires that **sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements*.** Paragraph B38 further elaborates: "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."(*IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information*)

* In addition to this requirement, IFRS S1 paragraph 29(a)(iv)(1) requires the disclosure of disaggregated Scope 1 and Scope 2 emissions for other investees that are not consolidated in the financial statements.

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

Requirements and guidance on organizational boundaries from other frameworks and programs – ESRS (EU CSRD)

European sustainability reporting standards (ESRS)

ESRS 1	General requirements
ESRS 2	General disclosures
ESRS E1	Climate change
ESRS E2	Pollution
ESRS E3	Water and marine resources
ESRS E4	Biodiversity and ecosystems
ESRS E5	Resource use and circular economy
ESRS S1	Own workforce
ESRS S2	Workers in the value chain
ESRS S3	Affected communities
ESRS S4	Consumers and end-users
ESRS G1	Business conduct

General principles & requirements
including sustainability statement boundary

Climate-related disclosure requirements
including organizational boundary for GHG emissions

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

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Draft for TWG discussion

Requirements and guidance on organizational boundaries from other frameworks and programs – ESRS (EU CSRD)

Program	Organizational boundary setting
CSRD ESRS 1 General Requirements & ESRS E1 Climate Change	"**ESRS 1**, paragraph 62 states that "The **sustainability statement shall be for the same reporting undertaking as the financial statements**". **ESRS E1**, paragraph 46 states that "When disclosing the information on GHG emissions required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (**ESRS 1** Paragraph 67) are not limited to the share of equity held. **For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity** (i.e., jointly controlled operations and assets), the undertaking shall **include the GHG emissions in accordance with the extent of the undertaking's operational control over them**". **ESRS E1**, paragraph 50 further states that "For Scope 1 and Scope 2 emissions disclosed as required by paragraphs 44 (a) and (b) the undertaking shall disaggregate the information, separately disclosing emissions from: (a) the **consolidated accounting group** (the parent and subsidiaries); and (b) **investees such as associates, joint ventures, or unconsolidated subsidiaries that are not fully consolidated in the financial statements** of the consolidated accounting group, **as well as contractual arrangements** that are joint arrangements **not structured through an entity** (i.e., jointly controlled operations and assets), for **which it has operational control**."

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

Requirements and guidance on organizational boundaries from other frameworks and programs – U.S. SEC Rule

Program	Organizational boundary setting
U.S. SEC Climate Disclosure Rule	"For example, like the rule proposal, the final rule will require a registrant to disclose the organizational boundaries used when calculating its Scope 1 emissions and/or its Scope 2 emissions. **Unlike the rule proposal**, however, which would have required a registrant to use the same scope of entities and other assets included in its consolidated financial statements when determining the organizational boundaries for its GHG emissions calculation, **the final rule provides that the registrant must disclose the method used to determine the organizational boundaries**, and **if the organizational boundaries materially differ from the scope of entities and operations included in the registrant's consolidated financial statements, the registrant must provide a brief explanation** of this difference in sufficient detail for a reasonable investor to understand. In addition, when describing its organizational boundaries, **a registrant must describe the method used to determine those boundaries**. Under this approach, a registrant will have **flexibility to use**, for example**, one of the methods for determining control under the GHG Protocol**, including the operational control approach, as recommended by some commenters, as long as it discloses the method used, and provides investors with information material to understanding the scope of entities and operations included in the GHG emissions calculation as compared to those included in its financial statements " (SEC rule, p.251-252)

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

Requirements and guidance on organizational boundaries from other frameworks and programs – California Bill

Program	Organizational boundary setting
CARB California Corporate Climate Data Accountability Act (**CA SB 253**)	Organizational boundaries are to be determined by the California Air Resources Board (CARB). (CA SB 253, Section 1(l))
Greenhouse gasses: climate corporate accountability: climate related financial risks (**CA SB 219**)	"Reports **may be consolidated at the parent company level**." (CA SB 219, Section 1(c)(2)(A)(iii)) "This section **does not require additional reporting of emissions of greenhouse gases beyond** the reporting of scope 1 emissions, scope 2 emissions, and scope 3 emissions required **pursuant to the Greenhouse Gas Protocol standards and guidance or an alternative standard**, if one is adopted after 2033." (CA B 219, Section 1(c)(6))

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

Requirements and guidance on organizational boundaries from other frameworks and programs – ISO 14064-1

Program	Organizational boundary setting
ISO 14064-1 Organizational level GHG accounting and reporting	"The organization **shall define its organizational boundaries**. The organization may comprise one or more facilities. Facility-level GHG emissions or removals may be produced from one or more GHG sources or sinks. The organization **shall consolidate its facility-level GHG emissions and removals by one of the following approaches:** **a) control**: the organization accounts for all GHG emissions and/or removals from facilities over which it has **financial or operational control**; **b) equity share**: the organization accounts for its portion of GHG emissions and/or removals from respective facilities." (ISO 14064-1:2018, Section 5.1)

Requirements and guidance on organizational boundaries from other frameworks and programs – GRI & CDP

Program	Organizational boundary setting
GRI Climate Topic Standard (Exposure draft)	"Organizations **shall report the consolidation approach** for emissions, **whether equity share, financial control, or operational control**." *(Disclosure GH-1 clause e, para. 906-907).* "The organization should report GHG emissions for the same group of entities included in its financial reporting. **If the group of entities included in its financial reporting differs from the one included in its sustainability reporting, the organization is required to specify any differences** in Disclosure 2-2 in GRI 2: General Disclosures 2021. See also section 5.1 in GRI 1: Foundation 2021." *(Guidance to GH-1-e, para. 986-996)*
CDP	"Provide **details on your chosen consolidation approach** for the calculation of environmental performance data." *(CDP 2024 Corporate Questionnaire, Question 6.1)* **Response options: financial control | operational control | equity share | other** "The rationale for the choice of consolidation approach needs to be provided including the following: **If the same consolidation approach used as in financial accounting**."

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

Requirements and guidance on organizational boundaries from other frameworks and programs – SBTi & PCAF

Program	Organizational boundary setting
SBTi Corporate Net-Zero Standard	"*C1 – Organizational boundary: Companies should submit targets **only at the parent- or group level,** not the subsidiary level. Parent companies shall include the emissions of all subsidiaries in their target submission, in accordance with the boundary criteria. In cases where both parent companies and subsidiaries submit targets, the parent company's target must also include the emissions of the subsidiary if it falls within the parent company's emissions boundary given the chosen inventory consolidation approach." "*R1 – Setting organizational boundaries: **The SBTi strongly recommends that a company's organizational boundary, as defined by the GHG Protocol Corporate Standard, is consistent with the organizational boundary used in the company's financial accounting and reporting procedures**." *(V1.2, p.35)*
PCAF Part A – Financed Emissions 2nd Edition	"For PCAF reporting, financial institutions **shall use the operational control approach or the financial control approach**; as a result, all financed emissions shall be accounted for in their scope 3 category 15 reporting." (pg.123)

Please see this [Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024)] for more information.

Summary of requirements and guidance on organizational boundaries from Mandatory frameworks and programs

Mandatory Program	Organizational boundary setting
IFRS S1 & S2	- IFRS S1 **requires alignment with financial statements** **-** IFRS S2 **allows choice** between **either equity share or control approach** as per GHG Protocol, **unless other approach is required** by jurisdictional authority or an exchange
ESRS 1 & ESRS E1 (EU CSRD)	- ESRS 1 **requires** sustainability statement for **the same reporting entity** as **financial statements** - ESRS E1 **requires**: • **consistent organizational boundary adoption** for consolidated entities **as in financial statements** • **non-consolidated entities and contractual arrangements** not structured through entity will be included based on **operational control approach**
US SEC Climate Rule	**Allows for a choice** of consolidation approaches if the organizational boundaries materially differ from the scope of entities and operations included in the registrant's consolidated financial statements, the registrant must provide a brief explanation
California Senate Bill 253 & 219	Consolidation at group level (consistent with financial statements) is **optional** **Requirement** to disclose emissions **pursuant to the GHG Protocol standards**

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

Summary of requirements and guidance on organizational boundaries from Voluntary frameworks and programs

Voluntary Program	Organizational boundary setting
ISO 14064-1	Allows for a choice of consolidation approaches
GRI	Allows for a choice of consolidation approaches (**<u>If</u>** the scope of **entities covered differs from financial statements**, **explanation is required**)
CDP	Allows for a choice of consolidation approaches *(The rationale for the choice needs to include if the same consolidation approach used as in financial accounting)*
SBTi	Allows for a choice of consolidation approaches *(strongly recommends same scope as financial statements)*
PCAF	Allows for a choice between **financial control** and **operational control** *(equity share is not allowed)*

Key takeaways – use of the *Corporate Standard* in setting organizational boundaries

- **Mandatory GHG emissions disclosures are becoming the norm** in numerous jurisdictions through programs including regulatory implementation of IFRS, ESRS, the US SEC climate disclosure rule, and legislation in the state of California.

- Most mandatory disclosure programs are **requiring the sustainability statements' scope to be the same as consolidated financial statements**.* However, options for setting organizational boundary for GHG emissions disclosure is provided for some program, posing a **challenge to align**.

- Almost all voluntary programs follow the **optionality provided by the *Corporate Standard* in setting organizational boundaries**.**

*Exception: ESRS, inclusion of non-consolidated entities or non-entity contractual agreements.
** Exception: PCAF, does not allow adoption of equity share approach.

Corporate Standard stakeholder feedback survey: key themes related to organizational boundaries

- An **overarching feedback theme** from many respondents was for **greater alignment and interoperability between GHG Protocol standards, voluntary climate reporting programs, and emerging mandatory climate disclosure regulations**
- **Maintain** current organizational boundary requirements and guidance
- **Revisit** organizational boundaries
  - **Requiring one consolidation approach** (operational control, financial control, equity share and/or a new approach aligned with financial accounting)
  - Creating a new optional consolidation approach **aligned with financial accounting**
  - **Adjusting and/or clarifying existing** consolidation approaches
  - Developing **more guidance**, such as on how to apply the consolidation approaches and interactions with the handling of leased assets

Note: Utilization of consolidation approaches among stakeholders who provided feedback showed a similar distribution with CDP 2023 data provided in slide 21.

Proposals received related to *Corporate Standard* organizational boundaries

Proposal link	Key themes
Deloitte_1	• **Revisit current optionality** and considering **more prescriptive requirements** for consolidation approaches • Update consolidation approaches to **better align with current financial accounting practices** approaches • **Updating definitions and improve guidance** for determining boundaries under current consolidation approaches, **specifically operational control**
Terrascope_1	• **Revisiting current optionality** and considering **more prescriptive requirements** for consolidation approaches
Anonymous_023	• **Updating definitions and improve guidance** for determining boundaries under current consolidation approaches, **specifically operational control**
Green Asia Network and Thankscarbon	
Canadian Union of Postal Workers	

Agenda

- **Introduction and housekeeping**
- **Background and context**
  - Consolidation approaches
  - External programs
  - Stakeholder feedback
- **Revisions to organizational boundaries**
  - Overview of the need for revision
  - Main questions
  - Alignment with financial accounting
  - Scope of work interconnections
- **Wrap up and next steps**

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Why do we need to revise organizational boundaries?

Responding to stakeholder requests for;

- Interoperability with both;
  - **mandatory** climate disclosure programs
  - **voluntary** climate disclosure and target setting programs
- Better alignment with **financial accounting**
- **Better promoting comparability** across GHG inventories
- Need to **update a 20-year-old text** (clarifications, further guidance)

Discussion: Please share any other reasons for revision to organizational boundaries in the *Corporate Standard* (use the chat or raise hand).

Process for reviewing Organizational Boundaries

Main topics that will guide us through reviewing consolidation approaches are:

Alignment with financial accounting	Optionality in consolidation approaches
Our focus will be this topic today	This would be covered in future meetings

Zoom poll

Zoom poll:

Please select the option(s) representing your expertise:

Select all that apply.

- Financial accounting and reporting
- Financial audit
- GHG accounting and reporting (company or consultant)
- Environmental compliance

Process for reviewing Organizational Boundaries

We will first consider alignment with financial accounting:

1. **To what extent** can and should a consolidation approach **align with financial accounting?**

Minimal alignment
Update only existing consolidation approaches to replace outdated terminology with minor clarifications

Better alignment
Incorporate common practices in leading financial accounting standards to the extent possible

Full alignment
Incorporate differing requirements of leading financial accounting standards **or** choose one to fully align

2. **How should alignment with financial accounting** be put in place?

Less prescriptive
- Corporate Standard provides high-level requirements (updated financial control) to achieve baseline alignment
- Require companies to include the same group of entities in their GHG inventory boundary as their consolidated financial statements

More prescriptive
Corporate Standard prescribes requirements (better/fully) aligned with financial accounting

Our focus will be #1 today

Process for reviewing Organizational Boundaries

Next, we will consider whether optionality should be maintained (#3).
If so, how (#4)? And if not, which consolidation approach should be required (#5)?

3. Should **optionality** be maintained?	**Yes** – Maintain optionality		**No** – Require a single approach	
4. **How should optionality be maintained**? *(if yes is chosen in question 3)*	**Maintain** current options	**Eliminate** any of the existing approaches	Provide a **hierarchy** of options or **specify** a preferred approach	
5. **Which consolidation approach should be required**? *(if no is chosen in question 3)*	**Equity share**	**Financial control**	**Operational control**	**New option aligned with financial accounting**

Process for reviewing Organizational Boundaries

We will first consider alignment with financial accounting:

1. **To what extent** can and should a consolidation approach **align with financial accounting?**

Minimal alignment	Better alignment	Full alignment
Updating only outdated terminology with minor clarifications	Incorporating common practices in leading financial accounting standards to the extent possible	Incorporate differing requirements of leading financial accounting standards **or** choose one to fully align

Alignment with financial accounting

Aim of consolidation in financial accounting:

- To provide a clear and comprehensive view of a **parent company and its subsidiaries as a single economic entity**.
- To allow **investors, capital providers, and regulatory bodies to see the overall financial health** of the organization, rather than analyzing fragmented pieces.
- To ensure that the **company's financial position and performance are accurately represented** by eliminating internal transactions, balances, and inconsistencies that can distort the financial picture. By presenting a **cohesive financial overview**, consolidation supports better decision-making, transparency, and compliance with regulatory requirements.

Leading financial accounting frameworks used:

- International Financial Reporting Standards (IFRS) – principles-based - Adopted in 147 jurisdictions
- U.S. Generally Accepted Accounting Principles (U.S. GAAP) – rule-based - only used in the United States

Other financial accounting standards:

Several jurisdictions use other national or regional standards (e.g., UK, China, India, Egypt)

Main challenge: Which standard to align with?

IFRS vs U.S. GAAP – highlights of differences

Key themes	IFRS	U.S. GAAP
Consolidation model	**Single consolidation model** to determine control: • power over investee • exposure to (rights to) variable returns, • ability to direct variable returns	**Two-tiered consolidation model** to determine control: • **Variable interest model**, determination of which party has power to direct financial and operating policies and obligation to absorb losses • **Voting interest model**, based on voting interest; either majority (over 50%) while non-controlling share owners do not have substantive participation rights
de facto control	Considered, so investor with **less than a majority of voting rights can still have control**	**Not** considered
Potential voting rights	Considered	Generally **not** considered
Accounting policies	Uniform accounting policies are **required**	Uniform accounting policies are **not required**

Main challenge: Which financial standard to align with?

Resources on IFRS vs. U.S. GAAP are provided in the Appendix.

IFRS vs U.S. GAAP – brief snapshot

Key theme	IFRS	U.S. GAAP	Equity share	Financial control	Operational control
Type	Financial accounting	Financial accounting	GHG accounting	GHG accounting	GHG accounting
Approach	Control-based (single model)	Control-based (two-tiered model)	Ownership-based	Control-based (financial and operating policies)	Control-based (operations)
Consolidation model *(control criteria)*	3 elements: - Power over the investee - exposure to (rights to) variable returns, - ability to direct variable returns *(100% consolidation in financial statements*)*	Variable interest model (VIE): Primary beneficiary; - power to direct activities - Obligation to absorb losses Voting interest model (VOE): - Majority voting interest (50%) - Non-controlling share owner with no substantive participating right *(100% consolidation in financial statements*)*	Share of emissions based on ownership percentage (economic substance overrides legal ownership if different) *(emissions consolidated based on equity share %)*	Ability to direct financial and operating policies with view to gain economic interest (financial control) *(100% of emissions consolidated)*	Full authority to introduce and implement its operating policies *(100% of emissions consolidated)*
Treatment of partial ownership	Only entities under control is typically fully consolidated, proportionate consolidation is rarely used	Similar to IFRS	Share of emissions based on ownership percentage	100% of emissions if financial control is in place through contractual arrangements	N/A
Non-controlling interest	Presented as a separate component in equity	Similar to IFRS	N/A	N/A	N/A
Joint arrangements	Defined as *joint operations* or *joint ventures*; Proportionate consolidation or equity method	*Only joint ventures are defined* Equity method for *joint ventures*, no proportionate consolidation for joint ventures	Proportionate consolidation based on equity share in joint venture	*Only joint ventures are defined* 100% of emissions if financial control in place Equity share of emissions if joint financial control in place	*Only joint ventures are defined* - 100% of emissions if operational control in place - 0% if operational control not in place

* Except joint arrangements and non-controlling interest.

Resources on IFRS vs. U.S. GAAP are provided in the Appendix.

Let's revisit the first question:

We will first consider alignment with financial accounting:

1. **To what extent** can and should a consolidation approach **align with financial accounting?**

Minimal alignment
Updating only outdated terminology with minor clarifications

Better alignment
Incorporating common practices in leading financial accounting standards to the extent possible

Full alignment
Incorporate differing requirements of leading financial accounting standards **or** choose one to fully align

Minimal alignment

Pros:
- Interoperability with voluntary programs

Cons:
- Inhibits interoperability with mandatory requirements
- Does not promote better comparability
- Feasible to develop and adopt

Better alignment

Pros:
- Enhanced standardization (better comparability)
- Interoperability with mandatory and voluntary programs
- Relatively feasible to develop and adopt

Cons:
- Potential barrier for entry for first time reporters
- Less feasible for voluntary users (depending on optionality)

Full alignment

Pros:
- Maximized standardization (comparability)
- High interoperability with mandatory programs

Cons:
- Challenging to develop and maintain
- Least feasible to adopt for voluntary users (depending on optionality)

Please keep in mind that the direction taken here will influence the discussion on "should optionality be maintained"

Let's revisit the first question – Zoom poll

We will first consider alignment with financial accounting:

1. **To what extent** can and should a consolidation approach **align with financial accounting?**

Minimal alignment
Updating only outdated terminology with minor clarifications

Better alignment
Incorporating common practices in leading financial accounting standards to the extent possible

Full alignment
Incorporate differing requirements of leading financial accounting standards **or** choose one to fully align

Zoom poll

- Minimal alignment
- Better alignment
- Full alignment
- Other, please explain

Discussion: Please share your comments or any other suggestions on the potential **level of alignment with financial accounting** (use the chat or raise hand).

Scope of work interconnections

B.1. **Revisit options** for defining organizational boundaries to consider:

- Alignment with financial accounting
- Revisiting optionality

B.2. **Updates, clarifications, and additional guidance** related to existing consolidation approaches

B.3. **Update terminology** used in chapter 3 of the *Corporate Standard* to be **more consistent with current terminology used in financial accounting** (e.g., terminology used by U.S. GAAP and IFRS).

By addressing the two main issues covered in B.1., we will also be addressing corresponding B.2. & B.3. items *(e.g., the need to align with financial accounting (**B.1**) will also address the terminology update to be more consistent with financial accounting standards (**B.3**))*

Agenda

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Next steps

- Next Subgroup 2 meeting scheduled for Tuesday, December 10th, 2024 at 8:00 ET / 14:00 CET / 21:00 CHN, focused on the following topics:
  - Finalize discussion on level of alignment with financial accounting
  - Initial discussion on Question 2: How should alignment with financial accounting be put in place?
- Items to be shared by GHG Protocol Secretariat:
  - Final slides, minutes, and recording from November 19th meeting
  - Discussion paper on consolidation approaches 1st part *(focus: alignment with financial accounting)*
  - Feedback survey on alignment with financial accounting

Thank you!

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Appendix

- Consolidation approach definitions (Corporate Standard Chapter 3)
- IFRS vs U.S. GAAP sources

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Consolidation approaches (Corporate Standard Chapter 3, p.17)

"For corporate reporting, **two distinct approaches** can be used to consolidate GHG emissions: the **equity share** and the **control approaches**. Companies shall account for and report their consolidated GHG data according to either the equity share or control approach as presented below. **If the reporting company wholly owns all its operations, its organizational boundary will be the same whichever approach is used***. For **companies with joint operations, the organizational boundary and the resulting emissions may differ depending on the approach used**. In both wholly owned and joint operations, **the choice of approach may change how emissions are categorized** when operational boundaries are set (see chapter 4)."

* The term "operations" is used here as a generic term to denote any kind of business activity, irrespective of its organizational, governance, or legal structures.

Equity share approach (Corporate Standard Chapter 3, p.17)

"Under the equity share approach, **a company accounts for GHG emissions from operations according to its share of equity in the operation**. The equity share **reflects economic interest**, which is the extent of **rights a company has to the risks and rewards** flowing from an operation. **Typically, the share of economic risks and rewards** in an operation **is aligned with the company's percentage ownership** of that operation, and **equity share will normally be the same as the ownership percentage**. **Where this is not the case**, the **economic substance of the relationship** the company has with the operation **always overrides the legal ownership form** to ensure that equity share reflects the percentage of economic interest. The principle of **economic substance taking precedent over legal form is consistent with international financial reporting standards**."

Control approach (Corporate Standard Chapter 3, p.17)

"Under the control approach, a **company accounts for 100 percent of the GHG emissions from operations over which it has control**. It **does not account** for GHG emissions from **operations in which it owns an interest but has no control**. Control can be defined in either financial or operational terms. When using the control approach to consolidate GHG emissions, **companies shall choose** between **either** the **operational control** or **financial control** criteria."

Financial control approach (Corporate Standard Chapter 3, p.17-18)

"The company has financial control over the operation if the former **has the ability to direct the financial and operating policies** of the latter **with a view to gaining economic benefits from its activities***. For example, financial control **usually exists** if the company has **the right to the majority of benefits of the operation**, **however these rights are conveyed**. Similarly, a company is considered to financially control an operation if **it retains the majority risks and rewards of ownership of the operation's assets**.

*Financial accounting standards use the generic term "control" for what is denoted as "financial control" in this chapter.

Financial control approach (Corporate Standard Chapter 3, p.17-18)

"Under this criterion, the **economic substance of the relationship** between the company and the operation **takes precedence over the legal ownership status**, so that the **company may have financial control over the operation even if it has less than a 50 percent interest** in that operation. In assessing the economic substance of the relationship, the impact of **potential voting rights**, including both those **held by the company and those held by other parties**, is also taken into account. **This criterion is consistent with international financial accounting standards**; therefore, a company has **financial control over an operation for GHG accounting purposes <u>if</u> the operation is considered** as a group company or subsidiary **for the purpose of financial consolidation**.

If this criterion is chosen to determine control, **emissions from joint ventures where partners have joint financial control are accounted for based on the equity share approach**."

Operational control approach (Corporate Standard Chapter 3, p.18)

"A company has **operational control over an operation if** the former or one of its subsidiaries has the **full authority to introduce and implement its operating policies** at the operation. This criterion is consistent with the current accounting and reporting practice of many companies that **report on emissions from facilities, which they operate** (i.e., for which they hold the operating license). It is expected that **except in very rare circumstances**, if the company or one of its subsidiaries **is the operator of a facility, it will have the full authority to introduce and implement its operating policies and thus has operational control**.

Under the operational control approach, a company **accounts for 100% of emissions from operations over which** it or one of its subsidiaries **has operational control**."

Organizational boundaries and scope 3 emissions (Scope 3 Standard, p.28)

"Defining the organizational boundary is a **key step in corporate GHG accounting**. This step **determines which operations are included in the company's organizational boundary** and **how emissions from each operation are consolidated** by the reporting company. As detailed in the GHG Protocol *Corporate Standard*, a company has three options for defining its organizational boundaries as shown in table 5.2."

The **selection of a consolidation approach affects which activities in the company's value chain are categorized as direct emissions** (i.e., scope 1 emissions) **and indirect emissions** (i.e., scope 2 and scope 3 emissions)."

Consolidation approach	*Description*
Equity share	Under the equity share approach, a company accounts for GHG emissions from operations according to its share of equity in the operation. The equity share reflects economic interest, which is the extent of rights a company has to the risks and rewards flowing from an operation.
Financial control	Under the financial control approach, a company accounts for 100 percent of the GHG emissions over which it has financial control. It does not account for GHG emissions from operations in which it owns an interest but does not have financial control.
Operational control	Under the operational control approach, a company accounts for 100 percent of the GHG emissions over which it has operational control. It does not account for GHG emissions from operations in which it owns an interest but does not have operational control.

Sources on IFRS vs U.S. GAAP

- U.S. GAAP versus IFRS: The basics (EY, February 2023) - chapter on Consolidation, joint venture accounting and equity method investees/associates (pages 6-9) includes an overview of the similarities of both standards as well as a comparative table providing significant differences of the two based on main topics of consolidation such as consolidation models
- IFRS and U.S. GAAP: similarities and differences (pwc, June 2023, partially updated in October 2024) - Chapter 12 (pages 12-2 – 12-24) covers the highlights of consolidation-related aspects of both standards together with key differences
- IFRS compared to U.S. GAAP (KPMG, November 2023) - Handbook section 2.5 Consolidation (pages 52-69) provides a detailed table outlining key differences between two standards
- Comparing IFRS Accounting Standards and U.S. GAAP: Bridging the Differences (Deloitte, September 2024) - Section 5.2 Consolidation (pages 54 – 57) includes a table outlining the approaches of both standards on key consolidation topics, such as scope exceptions, consolidation models, definition of "control", without making a direct comparison