Corporate Standard Meeting Minutes

Subgroup 2, Ad-Hoc Meeting

Date: 13 January 2025

Time: 08:00 – 9:30 ET / 14:00 – 15:30 CET

Location: Virtual

Attendees

Technical Working Group Members

1. Christina Abbott, KPMG
2. John Altomonte, WWF-Philippines
3. Debbie Crawshawe, Department for Business and Trade, UK Government
4. Mónica Oleo Domínguez, Redeia
5. Kia Hong Goh, Nanyang Technological University, Singapore
6. Gijs Kamperman, TenneT
7. Vincent Kong, Sun Hung Kai Properties
8. Bonar Laureto, EY Philippines
9. Claire McCarthy, We Mean Business Coalition
10. Alisa Shumm, PwC
11. Margaret Weidner, Impact Pathways

Guests

None present

GHG Protocol Secretariat

1. Hande Baybar
2. Iain Hunt
3. Allison Leach

Documents referenced

1. Slides for the Corporate Standard TWG Subgroup 2 Ad-Hoc meeting on 13 January 2025

Item	Topic and Summary	Outcomes
1	***Introduction and housekeeping*** The GHG Protocol Secretariat welcomed TWG members to the optional ad-hoc Subgroup 2 meeting. 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	***Open discussion on technical aspects of implementing Option C (aligning financial control approach in the Corporate Standard with financial accounting)*** The Secretariat proposed six high-level questions to guide an open discussion on how the financial control approach text should be revised to better align with financial accounting (i.e., implementing of recommended '*Option C*': Requiring companies that choose the financial control approach to adopt the same consolidation model for setting their organizational boundaries for reporting GHG emissions as they use in their financial statements).	No specific outcomes.
3	***Open discussion on potential overlap and/or differences between Option C and the equity share approach*** The Secretariat presented an open question to gauge opinions of the TWG members on potential overlap and or differences between the (to be) revised financial control approach (Option C) and the equity share approach to incorporate as an initial input to the future discussion on optionality in consolidation approaches.	No specific outcomes.
4	***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 to present the Ad-Hoc meeting highlights in the next Subgroup 2 meeting to gather additional input from all Subgroup 2 members prior to initiating a text revision process.

Summary of discussion and outcomes

1. Introduction and housekeeping

- The Secretariat welcomed TWG members to the optional Ad-Hoc Subgroup 2 meeting. The Secretariat briefly recapped housekeeping items and reviewed the meeting objectives and the agenda for the meeting (slides 1-8).

Summary of discussion

- The Secretariat briefly recapped the housekeeping items and introduced the meeting objectives and agenda.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

2. Open discussion on technical aspects of implementing Option C *(aligning the financial control approach in the Corporate Standard with financial accounting)*

- The Secretariat proposed the following six high-level questions to guide an open discussion on how the financial control approach text should be revised to better align with financial accounting (i.e., implementing the recommended '*Option C*': Requiring companies that choose the financial control approach to adopt the same consolidation model for setting their organizational boundaries for reporting GHG emissions as they use in their financial statements) (slides 9-18):
  1. What are potential pitfalls, loopholes, or drawbacks of Option C?
  2. What are the exceptional cases to be recognized, such as the parent company and its subsidiaries operating in different jurisdictions)?
  3. Are there any situations where certain activities, entities, or investments are not captured or consolidated in financial statements but are still relevant from a GHG accounting perspective?
  4. Are there any concepts that are relevant for financial accounting but not relevant for GHG accounting or vice versa (e.g., Non-controlling Interest)? If so, how should they be addressed?
  5. What additional reporting requirements are needed (e.g., similar to the basis of preparation in financial statements)?
  6. What additional clarifications and guidance are needed?

Summary of discussion

- The Secretariat introduced the high-level questions to help structure the discussion and invited the subject matter experts to guide the discussion.

- The following sub-bullets include the summary of inputs from Subgroup members during the open discussion of "Question 1: What are potential pitfalls, loopholes, or drawbacks of Option C?":
  - A member said that financial statements already require supporting disclosures that explain to a reader how different entities are included or excluded from financial statements. The member suggested that greenhouse gas accounting should not duplicate what is already disclosed in the financial statements, but there would still be a need to set principles-based requirements asking for additional "notes" to support a GHG inventory.
  - A member said that it is important to be realistic while evaluating potential loopholes. They said that the aim should be for GHG emissions reporting to adhere to the GHG Protocol accounting and reporting principles and fit for purpose but not necessarily incorporating an exhaustive list of topics/cases to capture all potential loopholes.

- The following sub-bullets include the summary of inputs from Subgroup members during the open discussion of "Question 2: What are the exceptional cases to be recognized, such as the parent company and its subsidiaries operating in different jurisdictions)?"
  - A member stated that the aim should be to guide the users to understand/identify situations where applying the general concept (Option C statement) may not lead to an appropriate result for GHG accounting and reporting purposes. They further stated that GHG Protocol should include examples for cases where there may be a divergence from the general reporting principles and what should a company do in these cases, but that it would not be realistic to present a complete list of exceptional cases.
  - A member said that financial accounting/reporting standards already provide sufficient guidance for cases when the parent company consolidation method differs from its subsidiary(ies). For example, a subsidiary may be required to report locally, but must also submit their inventory to their parent company using the parent company's Generally Accepted Accounting Principles (GAAP) guidelines. The same financial accounting guidance can be applied for GHG accounting for both mandatory and voluntary GHG emissions disclosures.
  - A member said that it is important to determine how minority interests and non-controlling interests are treated in GHG accounting.

- The following sub-bullets include the summary of inputs from Subgroup members during the open discussion of "Question 3: Are there any situations where certain activities, entities, or investments are not captured or consolidated in financial statements but are still relevant from a GHG accounting perspective?"
  - A member said that entities/operations/investments that are not consolidated in the financial statements can still be relevant from a GHG reporting point of view. An example is the requirements set in ESRS, which uses a layered consolidation requirement. The first level of consolidation should be the same as the financial statements, and the second add-on layer is applied to non-consolidated entities and arrangements based on operational control. The member suggested that this add-on layer may be set to include some relevant GHG emissions sources specific to certain sectors, and maybe a similar layered approach could be considered for the Corporate Standard.
  - A member stated that there can be cases where a particular entity is owned by multiple parties who operate in different jurisdictions, and therefore apply their own financial accounting principles under applicable jurisdictional GAAP guidelines. This can, for example, result in multiple parent entities either meeting or not meeting their jurisdictionally applicable control criteria, leading to either double-reporting or under-reporting of GHG emissions. However, as the aim of revising the financial control consolidation approach by implementing Option C is to align a company's GHG accounting with its financial accounting, it meets the revision purpose if a reporting company consolidates its GHG emissions in line with their own financial statements.
  - A member noted the challenge that GHG emissions accounting was developed for different purposes than current financial accounting purposes. From a financial reporting perspective, it can be sufficient to say the reporting company should disclose GHG emissions including the same list of entities that are consolidated in their financial statements. However this may not meet the needs of other use cases (such as adoption of different consolidation approaches) of the GHG Protocol, and it may lead to double-counting or omissions.
    - The Secretariat clarified that implementing option C to align with financial accounting is only applicable for users choosing the financial control consolidation approach. In the next subgroup 2 meeting to be held on January 21st, the discussion on optionality will be initiated, capturing how different consolidation approaches serve the need to meet differing reporting needs and objectives of users.
  - A member said that the temporal aspect of acquisitions and divestments needs to be better captured in revised financial control approach. For example, if a company is acquired in the last month of the year, then financial accounting would only reflect that one month. It should be clear in the Corporate Standard if this prorating applies to GHG accounting. The member further said that the accrual accounting perspective may be unclear in GHG accounting.

    - A TWG member added that similar to financial accounting, considering consolidation only for what the parent company is in control of at the end of the year can be a good starting point.
    - Another TWG member agreed with this comment and added that there are still complexities to consider such as a decision to sell a subsidiary towards the end of the year. In this case the parent company would have had control of that subsidiary most of the year, but from a financial reporting perspective, that company would not be in the financial statement consolidation.
    - A TWG member added that this is not an issue specific to financial control approach and needs to be addressed in general for GHG emissions accounting/reporting.

- The following sub-bullets include the summary of inputs from Subgroup members during the open discussion of "Question 4: Are there any concepts that are relevant for financial accounting but not relevant for GHG accounting or vice versa (e.g., Non-controlling Interest)? If so, how should they be addressed?"
  - A TWG member provided an example of financial receivables related to leased assets as a financial reporting concept not applicable to GHG emissions accounting. In this example, there are GHG emissions associated with the leased asset, which could end up in scope 1 and scope 2 of both entities. They suggested that the appropriate question to ask might be: What is the asset that an entity needs to report on and is it an emission-generating asset? The same member added that scope 3 includes activities that are outside of financial accounting. They suggested that it will be useful to clarify the corresponding boundary setting requirements for the user.
    - The Secretariat mentioned that the Scope 3 TWG, is revising requirements and guidance for how to account for emissions under Category 15 -Investments. The outcomes of that discussion will be shared with the Corporate Standard TWG to consider.
  - A TWG member stated that the recalculation of base year emissions is a concept that is relevant to GHG emissions accounting but not to financial accounting, and suggested that this should be clarified in the revised Corporate Standard text.
    - The Secretariat mentioned that Corporate Standard TWG Subgroup 1 will be looking into tracking emissions over time during the 2nd phase during this revision process and this comment will be taken into account during the corresponding Subgroup 1 discussion.
  - A TWG member stated that evaluating stocks while consolidating GHG emissions under (revised) financial control approach can be challenging.
  - Another TWG member added that accounting for private equity holdings can also needs further evaluation/clarification. They noted that an entity might hold 100% equity in many companies but may not be required to consolidate those holdings in its financial statements.
    - The Secretariat asked the TWG member to clarify this statement by providing an example. The TWG member stated that there are special dispensations in financial accounting standards designed to reflect the interest that the reporting entity holds in other companies. They suggested that when there is a group of entities with 100% holdings that are not consolidated for financial accounting purposes, this needs to be evaluated/recognized from a GHG accounting perspective. The Secretariat asked if this was somewhat captured under the equity-method investments accounting. The TWG member clarified that it is not, adding that this covers investments held at fair value.

- The following sub-bullets include the summary of inputs from Subgroup members during the open discussion of "Question 5: What additional reporting requirements are needed (e.g., similar to the basis of preparation in financial statements)?"
  - A TWG member stated that revisions to the financial control approach should aim to avoid any duplication of information already captured in financial statements. They noted, however,

there can be cases where the consolidated entities' business activity from a GHG emissions perspective may not be clear and where requiring a supporting note can enhance transparency.

    - The Secretariat mentioned that there will be a follow up survey after the next Subgroup 2 meeting to gather inputs from all members to initiate the draft text to revise financial control approach accordingly.

  - A TWG member brought up two cases:
    - (1) A reporting company choosing to switch to (revised) financial control can end up not having to account for a significant amount of emissions as a result of consolidation method change. They suggested that the requirements for reporting the transition between consolidation approaches should be clarified, including requirements for additional explanations
    - (2) Cases where a company uses the (revised) financial control approach but applies different judgments for GHG emissions consolidation compared to financial consolidation must also be addressed.

- No additional input was received as part of "Question 6: What additional clarifications and guidance are needed?" as the earlier discussion to an extent addressed this question.

- The Secretariat also opened the floor for any additional questions or comments at the end of this section. No further comments received from meeting participants.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

3. Open discussion on potential overlaps and/or differences between Option C and the equity share approach

- The Secretariat proposed the following question to hold an open discussion: What are the overlaps and/or differences between Option C and the equity share approach?. The Secretariat also provided a table of definitions of equity share (in the Corporate Standard) and equity-method investments accounting (in financial accounting standards) to provide a background to support the open discussion (slides 19-21).

Summary of discussion

- The Secretariat introduced the above-mentioned question and invited the TWG members for an open discussion.
- A TWG member mentioned that by implementing Option C (revising financial control approach to align with financial accounting), the revised approach may capture every element currently contained in equity share approach. They elaborated that under an updated financial control approach, GHG emissions of an entity will be: (a) fully consolidated if control is in place, (b) accounted for under equity method if there is influence, and (c) if neither control nor influence is in place, then the GHG emissions from the said entity will be disclosed as scope 3 emissions as investments. They added that equity share is the least adopted approach and it is recognized to be quite challenging to access the required data to account for equity based emissions.
- A TWG member stated that equity share approach is applied on a percentage basis. They noted that in financial statements, that same entity might be considered 100% consolidated. The difference between applying equity share approach and the revised financial control approach will be essentially whether the disclosed GHG emissions are reported under scope 1 and 3, or scope 3. They added that, regarding private equities, if there are changes in ownership across periods, it is important to set out clear guidelines/requirements on under what circumstances the base year emissions need to be

recalculated. They added that it would be less cumbersome for the user if a base year recalculation every time the ownership percentage changes can be avoided. They suggested a similar approach laid out by SBTi in their Private Equity Guidance can be followed: regardless of control, the full list of investments are provided, and for all of those investments, scopes 1, 2, and 3 emissions are reported.
    - The Secretariat shared the early direction that has been taken as part of Subgroup 3 discussions on recommending scope 3 emissions reporting to be required in the Corporate Standard.
- A TWG member stated that the inclusion/exclusion of minority interests need to be further discussed.
    - The Secretariat added that non-controlling interests also needs to be addressed during further evaluation.
    - Another TWG member suggested that both minority interests and non-controlling interests should be captured under an updated financial control approach to be consistent with financial accounting. They added that different from financial accounting practices, the logic of GHG accounting does not require matching balances like in financial accounting.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

4. Wrap-up and next steps

The Secretariat summarized next steps (slide 23), with the next meeting of Subgroup 2 scheduled for Tuesday, January 21st 2025 at 08:00 ET / 14:00 CET.

Summary of discussion

- N/A.

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: meeting slides, meeting minutes, and recording from January 13th Ad-Hoc meeting.
- The Secretariat to present the highlights of the January 13th Ad-Hoc Subgroup 2 meeting at the next Subgroup 2 meeting taking place on January 21st, 2025.

Summary of written submissions received prior to meeting

- TWG Subgroup 2 members were asked to review the proposed discussion questions and were optionally invited to provide feedback prior to the Ad-Hoc meeting. One TWG member submitted their comments suggesting that equity share consolidation approach has a very limited adoption rate and potentially the revised financial control approach (implementing Option C) will capture the broad value that equity share approach provides and suggested that equity share approach will become redundant.