GREENHOUSE GAS PROTOCOL

Corporate Standard Technical Working Group

Subgroup 2, Ad-Hoc Meeting

GHG Protocol Secretariat team:

Hande Baybar, Iain Hunt, Allison Leach

January 13th, 2025

WORLD RESOURCES INSTITUTE

World Business Council for Sustainable Development

Meeting information

Record — This meeting is **recorded**.

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

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

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

Agenda

• Introduction & housekeeping	5 minutes
• Open discussion on technical aspects of implementing Option C	60 minutes
• Open discussion on potential overlaps and/or differences between Option C and the equity share approach	10 minutes
• Wrap up and next steps	15 minutes

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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

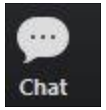
Zoom logistics and recording of meetings

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.***

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

Meeting objectives

1. Discuss the **technical aspects of revising the financial control approach** to align with financial accounting by implementing 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*

2. Conduct a preliminary discussion on **potential overlaps and differences between the revised financial control and equity share** approaches

Today, we will be discussing **technical elements of operationalizing Option C** and **evaluating the role of equity share approach** once the financial control approach is revised to align with financial accounting.

The outcomes of this discussion will be shared with the whole Subgroup in the upcoming meeting on January 21st, 2025.

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Overview

- **Discussion topic:**

  Technical aspects of implementing 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*

- **Main questions to guide the discussion**
  - **6 questions** are introduced in the next slide to guide the discussion
  - We invite the financial experts in the group to guide the discussion

Please use the chat to ask any clarifying questions

Main Questions to guide the discussion

#	Question
1	What are **potential pitfalls, loopholes, or drawbacks**?
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?

We will spend **10 minutes** on each question

Question 1

What are potential pitfalls, loopholes, or drawbacks?

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

Question 2

What are the **exceptional cases** to be recognized, such as the parent company and its subsidiaries operating in different jurisdictions)?

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

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?

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

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?

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

Question 5

What **additional reporting requirements** are needed (e.g., similar to the basis of preparation in financial statements)?

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

Question 6

What **additional clarifications and guidance** are needed?

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

Are there any other questions/topics to be covered on this topic?

Any other questions or comments on implementing Option C?

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

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Discussion topic

What are the **overlaps and/or differences between Option C and the equity share** approach?

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

Definitions: Equity share and equity method

Source	Definition
GHG Protocol Corporate Standard	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.
IFRS (IAS 28)	"The **equity method** is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income." "The Standard shall be applied by all entities that are **investors with joint control of, or significant influence over, an investee**."
US GAAP	"**Investments held in stock of entities other than subsidiaries**, namely corporate **joint ventures and other noncontrolled entities** usually are accounted for in accordance with either the recognition and measurement guidance in Subtopic 321-10 or the equity method. This Subtopic provides guidance on application of the equity method. The equity method is an appropriate means of recognizing increases or decreases measured by generally accepted accounting principles (GAAP) in the economic resources underlying the investments. Furthermore, the equity method of accounting closely meets the objectives of accrual accounting because **the investor recognizes its share of the earnings and losses of the investee in the periods in which they are reflected in the accounts of the investee**. The equity method also best enables investors in corporate joint ventures to reflect the underlying nature of their investment in those ventures." (323-10-05-4) The equity method tends to be most appropriate if an investment enables the investor to **influence** the operating or financial decisions of the investee. (323-10-05-5)

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Next steps

- Next Subgroup 2 meeting is scheduled for **Tuesday, January 21st, 2025** at 8:00 ET / 14:00 CET / 21:00 CHN, focused on the following topics:
  - Present outputs of the Ad-Hoc meeting and get inputs from the whole Subgroup to initiate the text revision process for financial control approach after the meeting
  - Discussion on optionality in consolidation approaches

- Items to be shared by GHG Protocol Secretariat:
  - Meeting slides, recording, minutes
  - Follow-up feedback survey on topics covered on January 13th Ad-Hoc meeting – *if needed*

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Thank you!

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