Corporate Standard Meeting Minutes

Subgroup 2, Meeting #3

Date: 21 January 2025

Time: 08:00 – 10:00 ET / 14:00 – 16:00 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, KLM
7. Vincent Kong, Sun Hung Kai Properties
8. Bonar Laureto, EY Philippines
9. Claire McCarthy, We Mean Business Coalition
10. Judy Ryan, External Reporting Board, New Zealand
11. Sheila Scott, Jacobs
12. Alisa Shumm, PwC
13. Heather Vainisi, Google
14. Margaret Weidner, Impact Pathways

Guests

None present

GHG Protocol Secretariat

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

Documents referenced

1. Slides for the Corporate Standard TWG Subgroup 2 meeting on 21 January 2025
2. Standard Development Plan for the Corporate Standard
3. The GHG Protocol Governance Overview

Item	Topic and Summary	Outcomes
1	***Introduction and housekeeping*** The GHG Protocol Secretariat welcomed TWG members to the third meeting of Subgroup 2. The Secretariat provided a quick reminder on TWG housekeeping items and presented the objectives and the agenda for the meeting. The Secretariat also presented the standard revision timeline recently published in the Standard Development Plan for Corporate Standard.	No specific outcomes.
2	***Recap of December 10th meeting and Ad-Hoc meeting*** The Secretariat provided an overview of topics covered in the previous Subgroup 2 meeting on December 10th and highlights from the Ad-Hoc meeting on January 13th, 2025.	No specific outcomes.
3	***Evaluating pros & cons of consolidation approaches*** The Secretariat presented further background on each of the current consolidation approaches in the Corporate Standard including the adoption of each consolidation approach (based on CDP data), requirements and guidance from external programs on GHG emissions consolidation, the current definitions, and pros and cons. The Secretariat then opened the floor for discussion followed by an indicative poll to evaluate each consolidation approach.	An indicative poll found majority support for eliminating the equity share approach. An indicative poll found consensus for maintaining the revised financial control approach. An indicative poll found majority support for maintaining (either as is or revised) the operational control approach.
4	***Optionality in consolidation approaches*** The Secretariat presented questions to facilitate the discussion on: 'Should optionality in consolidation approaches be maintained in the Corporate Standard?' Breakout group discussions considered this question by reviewing the Secretariat's analysis of the GHG Protocol decision-making criteria. Following the discussion, the Secretariat conducted indicative polls to gauge TWG members' opinions on whether optionality should be maintained, and if so how; and if not, which consolidation approach should be required.	An indicative poll found majority support for maintaining optionality in consolidation approaches in the Corporate Standard. An indicative poll found majority support for eliminating the equity share approach even if optionality in consolidation approaches is maintained. An indicative poll found that, IF a single approach were to be required, there would be majority support for requiring the revised financial control approach. Items requiring further discussion were outlined.
5	***Wrap-up and next steps*** The Secretariat shared next steps for Subgroup 2, with the next meeting scheduled for Tuesday, February 11th, 2025 at 14:00 CET.	The Secretariat to share meeting materials. The Secretariat invited volunteers to join a smaller group to initiate the revision of the text for the revised financial control approach.

Summary of discussion and outcomes

1. Introduction and housekeeping

- The Secretariat welcomed TWG members to the third Subgroup 2 meeting. The Secretariat briefly recapped housekeeping items and reviewed the meeting objectives and the agenda for the meeting (slides 1-12).
- The Secretariat also presented the standard revision timeline recently published in the Standard Development Plan for Corporate Standard.

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.
- The Secretariat presented the Corporate Standard revision timeline, which was recently approved by the ISB and published in the GHG Protocol Standard Development and Governance Repository as part of the approved Standard Development Plan for the Corporate Standard. The Secretariat welcomed questions and comments from TWG members, and once these are received from all three subgroups, they will be compiled and shared with the relevant GHG Protocol governance bodies.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

2. Recap of December 10th meeting and Ad-Hoc meeting

- The Secretariat provided a brief recap of key items discussed and key outcomes achieved in the previous meeting on December 10th (slide 14).
- The Secretariat also provided the key highlights of the discussion held during the Ad-Hoc Subgroup 2 meeting on January 13th (slide 15).

Summary of discussion

- The Secretariat summarized the key topics covered in the previous Subgroup 2 meeting on December 10th together with key outcomes of the meeting.
- The Secretariat also summarized the key highlights from the Ah-Hoc meeting discussion held on January 13th.
    - One TWG member asked about the difference between the current financial control approach and the (to be) revised financial control approach.
        - The Secretariat responded by saying that the current financial control approach does not currently align with current financial accounting standards and how companies currently consolidate their financial statements.
    - One TWG member suggested that the revised financial control approach may result in an additional reporting burden for companies operating in a different jurisdiction than their parent company, leaving them in the position to compile two sets of GHG disclosures: One in line with their local GAAP, and the other in line with the parent company's applicable GAAP. Some (especially smaller) subsidiaries already operate with limited resources to put their GHG inventories together.
        - The Secretariat responded by reflecting on the discussion held during the Ad-Hoc meeting (January 13th) by saying that companies in this situation have long adapted to issuing two sets of financial statements.

        - Another TWG member added that this is not a unique case and same applies to entities required to adopt a specific consolidation method based on their jurisdictionally applied climate disclosure requirements where their parent company may be operating in a different jurisdiction requiring the use of another consolidation approach as part of their jurisdictionally applied mandatory disclosure requirements.
        - Several TWG members confirmed the approach commonly used in financial accounting and expressed support for following the same approach in GHG accounting.
    - One TWG member asked if the GHG Protocol would allow/consider local adaptation of the revised organizational boundary setting requirements (just like IFRS) to cater to local jurisdictional requirements.
        - The Secretariat responded by saying that the GHG Protocol Standards are intended to be policy neutral.
        - One TWG member added that the proposed revision to the financial control approach would already require companies to follow the same consolidation as their jurisdictionally applied financial accounting frameworks (local GAAPs).

<u>Outcomes (e.g. recommendations, options)</u>

- No specific outcomes.

3. Evaluating pros & cons of consolidation approaches

- The Secretariat presented an overview on current consolidation approaches in the Corporate Standard, including:
    - Background: Level of adoption of each consolidation approach (based on CDP 2023 data from public disclosures), the requirements and guidance of external programs on organizational boundary setting for GHG emissions disclosures, the main drivers for selecting or changing a consolidation approach, and feedback received on reevaluating optionality in consolidation approaches via the stakeholder survey (slides 16-24)
    - The current definition, as well as the main pros and cons, of each consolidation approach (slides 25-31)
- The Secretariat opened the floor for discussion, followed by an indicative poll to gauge the opinions of the TWG members on each consolidation approach (slide 32).

<u>Summary of discussion</u>

- One TWG member asked for clarification on how exposure to climate transition risks (from an investor perspective) is more aligned to equity share and financial control approaches.
    - Another TWG member suggested that this is due to a closer alignment with the financial statements investors seek or rely on for decision-making.
- One TWG member commented that the Scope 3 TWG has a subgroup discussing whether to eliminate the equity share approach and asked for further context on their discussion.
    - The Secretariat responded that the Scope 3 TWG subgroup on investments (scope 3, category 15) is discussing whether to eliminate the equity share approach for harmonizing the requirements and guidance between the GHG Protocol Scope 3 Standard and the Partnership for Carbon Accounting Financials' (PCAF) standards.
- One TWG member suggested that many companies have set their GHG emissions reduction goals and targets using a particular consolidation approach and any revision or elimination of a consolidation approach may result in additional work for companies to apply the change.
    - The Secretariat responded that this is an important point that applies to many aspects of the changes to be made during this revision process, and all revisions are being assessed against their feasibility (See the GHG Protocol Decision-making criteria in [The GHG Protocol Governance overview, Annex A]).

- One TWG member commented that, once scope 3 emissions are required under the Corporate Standard (as recommended by the Corporate Standard TWG Subgroup 3), the discussion on which consolidation approach is appropriate would be less relevant as emissions would get reported, under scope 1 and scope 2 or, if not, under scope 3.
    - One member responded by saying that the scope under which the emissions fall (scope 1 and scope 2 vs. scope 3) could significant impact the achievability of reduction targets. They added that the optionality in consolidation approaches therefore needs to be carefully evaluated.
    - One member suggested that mandatory programs set their individual reporting requirements and they may not always take into account the reporting requirements set forward by the GHG Protocol (regarding making scope 3 reporting required in the Corporate Standard).
- One TWG member asked whether the main drivers shared on slide 22 carry equal weight or whether some should be considered more important than others. They added that mandatory climate disclosure requirements (e.g., IFRS S2) introduce specific rules for assessing climate transition risks. In some cases these mandatory disclosure requirements mandate consolidation consistent with financial statements. This could result in the financial control approach becoming the widely adopted consolidation approach and could influence the discussion on whether optionality in consolidation approaches should be maintained in the Corporate Standard.
    - Another member added that transition risks arise from a much wider perspective and in addition to the entities covered in the financial statements, it also requires the consideration of the risks associated with the value chain.
- One TWG member asked whether implementing Option C (which requires 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 jurisdictionally required financial statements) would also include the revision of the definition of 'financial control' (e.g., adopting the control criteria defined by IFRS 10).
    - One TWG member responded that, rather than defining financial control in the Corporate Standard, the main aim of recommending Option C is to allow the reporting company to apply the same definition of control as in their jurisdictionally required financial statements. Therefore, instead of providing the definition of control, the revised Corporate Standard could include examples of how (financial) control is defined in leading financial accounting frameworks such as IFRS.
- **Pros and cons of the equity share approach:**
    - One TWG member noted that the potential overlap between the revised financial control approach and the current equity share approach should be further discussed.
    - One TWG member commented that the con of "higher administrative cost" mainly stems from the need to collect data to calculate 100% of emissions in order to determine the emissions associated with their share of equity in that operation.
- **Pros and cons of the financial control approach:**
    - One member commented that the pros related to mandatory requirements do not apply to voluntary reporters who can still benefit from the option to choose a different consolidation approach that meets with their reporting objectives.
    - One TWG member asked if the con listed regarding the potential exclusion of emissions, where the company lacks financial control but has significant influence (20% to 50% ownership), represents the emissions that a company should report under scope 3, category 15 emissions.
        - The Secretariat and one TWG member responded by saying that this should be the case if the company reports scope 3, category 15 emissions.
    - Another member suggested that if the revised financial control approach allows an equity method investment to be included in scope 1 and scope 2 (versus included in scope 3), the same pros and cons outlined for the equity share approach should also apply to the revised financial control approach as well. They then mentioned that the current text on the financial control approach does not provide enough clarity to conclude whether financial control is in place in an equity method investment. They added that this could be addressed by developing a principles-based approach to support the Option C statement.

        - Another member supported this comment, expressing the need for a principles-based approach as part of the revised financial control approach.
- **Pros and cons of the operational control approach:**
    - One member asked for clarification on whether the con "requires consistent application of operational control definition" also applies to joint ventures and partnerships.
        - The Secretariat confirmed that this applies to all entities, partnerships and contractual agreements.
- **Open discussion**: The Secretariat opened the floor for discussion.
    - The Secretariat followed up on an earlier comment regarding the need to further discuss how equity method investments should be captured as part of the revised financial control approach. The Secretariat additionally shared the following comment from the Ad-Hoc Subgroup 2 meeting (January 13th, 2025): the revised financial control approach would cover GHG emissions of entities under financial control and those where the reporting entity has significant influence under scope 1 and 2, and where neither control nor significant influence is in place, the corresponding emissions could fall under scope 3, category 15.
        - Another TWG member commented that emissions captured under scope 3 receive more grace while scope 1 and scope 2 emissions are subject to more scrutiny. They pointed out that the current consolidation rules may need to be reevaluated to reflect this.
    - One TWG member commented that the primary purpose of the GHG Protocol and the Corporate Standard should be to create a framework that supports the application of major mandatory climate disclosure requirements (e.g., IFRS S2). They added that the GHG Protocol should not set the reporting requirements. They also added that trying to meet with all (differing) user needs is not achievable. They added that failing to achieve interoperability with mandatory climate disclosure programs could inhibit the GHG Protocol's role as the standard setter for accounting and reporting GHG emissions.
        - Another TWG member supported by adding that the GHG Protocol's remit should not be how or which emissions are reported.
        - The Secretariat highlighted that the Corporate Standard is a GHG accounting and reporting standard, and has a specific chapter on reporting requirements that several external programs refer to.
        - Several TWG members suggested that the rules could be set so that mandatory reporters follow the reporting requirements established by their applicable regulations if these differ from the Corporate Standard, and voluntary reporters continue using the reporting requirements set out in the Corporate Standard. They added that the revised Corporate Standard text could include further guidance on reporting requirements to meet the needs of different users. One member added that, in addition to this, there should still be flexibility provided for the regulators to set their own reporting requirements.
- **Indicative polls:** Three consecutive indicative polls were held to gauge TWG members' evaluation of each consolidation approach asking whether to maintain, revise or eliminate each consolidation approach. The Secretariat clarified that the options for the poll question evaluating the financial control approach were based on the revised version of the financial control approach.
    - Poll on equity share approach:
        - There was majority support for eliminating the equity share approach (8 of 12 TWG members), with the remainder supporting either maintaining or revising the approach.
        - There was some support for revising the equity share approach (3 of 12 TWG members).
        - There was limited support for maintaining the equity share approach as is (1 of 12 TWG members).
    - Poll on financial control approach:
        - There was consensus for maintaining the revised financial approach (11 of 12 TWG members), with one TWG member abstaining from voting.
    - Poll on operational control approach:

        - The most support was for revising the operational control approach (6 of 12 TWG members).
        - There was some support for eliminating the operational control approach (4 of 12 TWG members).
        - There was limited support for maintaining the operational control approach as is (2 of 12 TWG members).

Outcomes (e.g. recommendations, options)

- An indicative poll found majority support for eliminating the equity share approach from the Corporate Standard.
- An indicative poll found majority support for maintaining the revised financial control approach in the Corporate Standard.
- An indicative poll found majority support for maintaining the operational control approach (either as is or revised).

4. Optionality in consolidation approaches

- The Secretariat facilitated a breakout discussion on whether to maintain optionality in consolidation approaches in the Corporate Standard, reviewing the Secretariat's analysis of options based on the GHG Protocol decision-making criteria (DMC) (slides 34-37).
- Following the discussion, the Secretariat conducted indicative polls to gauge TWG members' opinions on whether optionality should be maintained. If so, how? If not, which consolidation approach should be required? (slides 38-40).

Summary of discussion

- **Breakout discussion on optionality of consolidation approaches:** The Secretariat facilitated a breakout group discussion on whether optionality in consolidation approaches should be maintained in the Corporate Standard, reviewing the Secretariat's analysis of options based on the DMC.
    - Input from TWG members in favor of maintaining optionality included the following:
        - A TWG member said that maintaining optionality for consolidation approaches will help to future-proof the Corporate Standard.
        - A TWG member said that optionality promotes feasibility in implementation by allowing companies to choose a consolidation approach most fitting to their business goals.
        - Some members expressed support for maintaining optionality while providing a hierarchy of options.
        - Some members expressed support for eliminating the equity share approach, even if optionality is maintained.
        - One TWG member commented that optionality in consolidation approaches is not the only factor affecting comparability, therefore, the DMC analysis could be revised to clarify this. Another TWG member added that comparability should be a lower priority than the current GHG accounting and reporting principles in the Corporate Standard.
        - One TWG member supported the DMC analysis on the feasibility of implementing a single approach and stated that it would be too restrictive for large companies and too burdensome for smaller companies required to change their consolidation approach.
    - Input from TWG members in favor of requiring a single consolidation approach included the following:
        - One TWG member said that requiring a single standardized approach would help eliminate confusion for stakeholders.

        - One TWG member said that a single approach would promote ease of consolidation for certain asset types (e.g., leased assets, if the revised financial control approach were required).
        - One TWG member noted that while there would be short-term challenges for companies having to change their consolidation approach, most reporting companies would adapt over time.
        - One TWG member said that requiring a single approach would help enhance comparability of GHG inventories.
    - TWG members expressed general agreement with the DMC analysis presented by the Secretariat and offered the following comments:
        - One TWG member suggested that adopting or transitioning to the revised financial control approach may not be as burdensome as stated in the DMC analysis, while another member disagreed, noting that the burden could be significant for companies with limited resources.
    - Several TWG members supported further evaluation of differentiated requirements for companies subject to mandatory reporting (i.e., require a single approach) and those voluntarily reporting (i.e., provide optionality).
- **Indicative polls on optionality in consolidation approaches:** The Secretariat conducted indicative polls on four questions related to optionality in consolidation approaches.
    - Question 1: "Should optionality in consolidation approaches be maintained in the Corporate Standard?"
        - There was majority support for maintaining optionality (8 of 12 TWG members), with the remaining 4 expressing support for requiring a single approach.
    - Question 2: "How should optionality be maintained in the Corporate Standard?"
        - There was majority support for eliminating one of the current approaches (10 of 12 TWG members). 9 of 12 TWG members suggested eliminating the equity share approach, while 2 of 12 members suggested eliminating the operational control approach. Only 2 members supported maintaining all current options.
    - Question 3: "Should there be a prioritization if the optionality is maintained in the Corporate Standard?"
        - 6 of 12 TWG members expressed support for some form of prioritization of consolidation approaches, 4 of which suggested a preferred option while 2 suggested a hierarchy of options should be provided).
        - 3 of 12 members expressed support for keeping all consolidation approach options equal, without any prioritization.
        - 2 of 12 members expressed support for introducing a layered approach, with one TWG member asking a clarifying question on what is meant by the layered approach.
            - The Secretariat explained that ESRS E1 provides an example of a layered approach, where companies are first required to include the entities consolidated in their financial statements in their GHG inventory. As an additional reporting requirement, they are also required to report their emissions from non-consolidated entities or contractual agreements if they have operational control in place.
            - Another TWG member commented that ESRS' layered approach leads to double-counting of scope 1 and scope 2 emissions between lessors and lessees, suggesting that the GHG Protocol may want to avoid this.
            - Another TWG member suggested that a layered approach does not fully align with optionality and could be repositioned in the question tree.
        - One TWG member abstained from voting.
    - Question 4: "Which consolidation approach should be required in the Corporate Standard – if the optionality is eliminated?"
        - There was majority support for requiring a revised financial control (7 of 11 TWG members), with 3 members supporting requiring operational control and 1 member abstaining.

- One TWG member pointed out that the subgroup members do not have extensive expertise on the application of the equity share approach. They added that further insight should be provided by the Secretariat to inform whether equity share should be eliminated.
    - Several TWG members suggested that the utilization of the equity share approach is very limited, highlighting the high burden associated with data collection that prevents companies from using this approach.
    - Several TWG members suggested the poll on eliminating the equity share approach could be relaunched once the revised financial control approach terms are more advanced and following further discussion on why certain standards (i.e., PCAF) do not allow the use of the equity share approach.
    - One TWG member commented that updating the financial control approach, as discussed so far, would capture what is relevant for companies from a financial perspective and equity share approach could therefore be eliminated. They also added that, for the majority of the companies, the emissions under financial and operational control would be the same.
        - The TWG member noted that financial and operational control is typically the same for SMEs (small- and medium-sized enterprises), which make up a majority of businesses worldwide.
- One TWG member suggested that further discussion on the real-world impact of revising or eliminating approaches would be useful.

Outcomes (e.g. recommendations, options)

- An indicative poll found majority support for maintaining optionality in consolidation approaches in the Corporate Standard.
- An indicative poll found majority support for eliminating the equity share approach.
- An indicative poll found that, IF a single approach were to be required, there would be majority support for requiring the revised financial control approach.
- The following items were suggested for further discussion:
    - Further insight on drivers for companies currently using the equity share approach
    - Potential overlap between the revised financial control approach (especially the equity method investment aspect) and the equity share approach focusing on potential real-world impact on which emissions end up being included or excluded.

5. Wrap-up and next steps

- The Secretariat summarized next steps (slide 42), with the next meeting of Subgroup 2 scheduled for Tuesday, February 11th, 2025 at 08:00 ET / 14:00 CET.

Summary of discussion

- The Secretariat provided an overview of the next steps including the schedule for upcoming subgroup 2 and full TWG meetings.
- The Secretariat invited subgroup members to express their interest by January 24th if they wish to join a drafting group to initiate the text revision process for the financial control approach.

Outcomes (e.g. recommendations, options)

- The next Subgroup 2 meeting is scheduled for Tuesday, February 11th, 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 January 21st meeting, and discussion paper on consolidation approaches.
- The Secretariat invited volunteers from the Subgroup to join a drafting group initiate the text revision process for the financial control approach.

Summary of written submissions received prior to meeting

- N/A