Corporate Standard Meeting Minutes

Subgroup 2, Meeting #4

Date: 11 February 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. Rubens Ferreira, Carbonauta Ltda
6. Kia Hong Goh, Nanyang Technological University, Singapore
7. Gijs Kamperman, TenneT
8. Vincent Kong, Sun Hung Kai Properties
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

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 11 February 2025

Item	Topic and Summary	Outcomes
1	***Introduction and housekeeping*** The GHG Protocol Secretariat welcomed TWG members to the fourth 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 will inform members about any changes to the Subgroup 2 meeting schedule in the upcoming period as soon as they are confirmed.
2	***Recap of January 21st meeting*** The Secretariat provided an overview of topics covered in the previous Subgroup 2 meeting on January 21st.	No specific outcomes.
3	***Revision status of current consolidation approaches*** The Secretariat provided an overview of the revision status of current consolidation approaches in the Corporate Standard and invited TWG members to comment, summarized as follows: Equity share: TWG discussions and indicative poll results to date show strong support for eliminating the equity share approach. Final evaluation will be done once the financial control approach is revised. Financial control: Text revision process has been initiated. Operational control: The Secretariat provided the scope of work for revising the operational control approach and invited TWG members to comment.	Preliminary outcomes from Subgroup 2 discussions on the revision status of current consolidation approaches to be taken to the full TWG.
4	***Optionality in consolidation approaches*** The Secretariat provided a summary of inputs provided to date by TWG members on the topic of optionality in consolidation approaches and presented the following question to facilitate further discussion on: 'Should optionality in consolidation approaches be maintained in the Corporate Standard?' TWG members provided further input via plenary discussion. Following the discussion, the Secretariat conducted indicative polls to gauge TWG members' opinions on whether and how optionality in consolidation approaches should be maintained.	An indicative poll found large majority support for maintaining optionality in consolidation approaches in the Corporate Standard. There was a split in support between keeping all consolidation approach options equal and identifying a recommended approach. A majority of TWG members opposed requiring a single consolidation approach (i.e., revised financial control approach). Preliminary outcomes from Subgroup 2 discussions on optionality in consolidation approaches to be taken to the full TWG.
5	***Wrap-up and next steps*** The Secretariat shared next steps including the schedule for upcoming full TWG and Subgroup 2 meetings, and the sharing of outcomes memos across subgroups ahead of the full TWG meeting on March 4th, 2025.	The Secretariat to share meeting materials. The Secretariat will share outcomes memos summarizing progress made so far in each subgroup to brief the full TWG. The next meeting scheduled is with the full TWG on March 4th. The next meeting of Subgroup 2 is pushed back a week and rescheduled for March 25th.

Summary of discussion and outcomes

1. Introduction and housekeeping

- The Secretariat welcomed TWG members to the fourth Subgroup 2 meeting. The Secretariat briefly recapped housekeeping items and reviewed the meeting objectives and the agenda for the meeting (slides 1-11).

Summary of discussion

- The Secretariat briefly recapped housekeeping items, the 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 an overview of the upcoming schedule for Subgroup 2 and the plan to take preliminary outputs from the subgroup to the full TWG and then to the Independent Standards Board (ISB). The Secretariat noted that shifting the dates of upcoming subgroup meetings in March is being considered (moving the March 18th meeting to March 25th). The Secretariat will inform subgroup members of any changes if and when they are confirmed.

Outcomes (e.g. recommendations, options)

- The Secretariat will inform members about any changes to the Subgroup 2 meeting schedule as soon as they are confirmed.

2. Recap of January 21st meeting

- The Secretariat provided a brief recap of items discussed and key outcomes achieved in the previous meeting on January 21st (slides 12-13).

Summary of discussion

- The Secretariat summarized the topics covered in the previous Subgroup 2 meeting on January 21st including an overview of preliminary outcomes related to the evaluation of current consolidation approaches as well as optionality in consolidation approaches.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

3. Revision status of current consolidation approaches

- The Secretariat provided an overview of the revision status of current consolidation approaches in the Corporate Standard (slides 14-23) and invited TWG members to comment.

Summary of discussion

- **Equity share approach:**
  - The Secretariat provided a status update for evaluating the equity share approach, highlighting the preliminary indicative poll result showing majority support for eliminating the approach and inputs needed for final evaluation: 1) Financial control approach text revision, and 2) Scope 3 TWG outcomes on consolidation approaches. The Secretariat then presented

a brief comparison of the equity share approach (used to consolidate GHG emissions in the Corporate Standard) and equity method investments (a financial accounting method), and invited TWG members to comment on potential overlap and differences between these two concepts.

- One TWG member suggested that these two methods are substantially different as equity share applies to all holdings regardless of control, and equity method investments only apply to holdings where control is not in place. They added that they both have a fundamentally different starting point and should not be combined.

- The Secretariat provided a summary of early outcomes from the Scope 3 TWG related to accounting for category 15, emissions associated with investments, highlighting the a preliminary recommendation to not allow financial institutions (FIs) or non-FIs that account for category 15 emissions to use the equity share consolidation approach.
  - One TWG member inquired if the reasoning behind this early outcome was due to the fact that equity method investments are captured within scope 3 category 15.
    - The Secretariat confirmed that this discussion topic was covered as part of harmonizing with Partnership for Carbon Accounting Financials (PCAF) and the focus was to avoid capturing investment-related emissions as scope 1 and scope 2 emissions.
    - Another TWG member suggested it would be inconsistent not to permit the use of the equity share approach for reporting organizations that report on scope 3 category 15 emissions and permit its use for other reporting organizations.
  - Another TWG member noted that IFRS is planning to open a consultation specifically on excluding derivatives due to the absence of an accounting method to capture them.
    - The Secretariat noted that this issue will be addressed by the Scope 3 TWG.

- **Financial control approach:**
  - The Secretariat provided an overview of the revision status for the financial control approach, highlighting that the text revision process has been initiated and the timeline for the revision will soon be shared with subgroup members. 4 subgroup members volunteered to be on the small revision group, and they will propose text edits to the financial control text of chapter 3 of the Corporate Standard to the Secretariat for consideration.
- **Operational control approach:**
  - The Secretariat shared the scope of work for revising the operational control approach and invited TWG members to initiate the discussion on the completeness of the main scope of work items, highlighting that the revisions will be discussed in the next meeting.
    - Several TWG members noted the significant need for further clarification and guidance on categorizing leased assets, highlighting the complexity of the nature of leased assets, citing use cases including IT equipment, vehicles, and lands.
    - Another TWG member suggested that the 2006 amendment "Categorizing GHG Emissions Associated with Leased Assets" (Appendix F) is outdated. They added that financial accounting/control guidelines sufficiently captures and simplifies the categorization of leased assets and rather than the GHG Protocol coming up with point in time rules, aligning with financial accounting rules will help the Corporate Standard remain futureproof to further changes to leased asset classification.
    - Another TWG member suggested discussing use patterns that involve lessees and lessors, as well as the potential outcomes of capturing emissions related to leased assets under different consolidation approaches. Several TWG members supported this suggestion.
    - One TWG member noted that the confusion around categorizing leased assets also stems from the existing scope 1 definition which pertains to 'emissions from sources an entity owns or controls'. They added that, for leased assets, the control over the

use of the asset should also be addressed/clarified. If control over the use of the asset is included in the control criteria, then a majority of the emissions from leased assets would be under scope 1, thereby reducing the emissions captured under scope 3 category 8 upstream leased assets.

- One TWG member noted that in the financial statements, these assets are reported based on the entity's right to use the asset.

Outcomes (e.g. recommendations, options)

- Preliminary outcomes from Subgroup 2 discussions on revision status of current consolidation approaches to be taken to the full TWG.

4. Optionality in consolidation approaches

- The Secretariat provided a summary of inputs provided to date by TWG members on the topic of optionality in consolidation approaches and presented the following question to facilitate further discussion on: 'Should optionality in consolidation approaches be maintained in the Corporate Standard?' (slides 24-34)
- TWG members provided further input on optionality in consolidation approaches via plenary discussion based on the GHG Protocol decision-making criteria. Following the discussion, the Secretariat conducted indicative polls to gauge TWG members' opinions on whether and, if so, how optionality in consolidation approaches should be maintained (slides 35-37).

Summary of discussion

- The Secretariat provided an overview of inputs provided to date by TWG members on optionality in consolidation approaches by: 1) reconveying the results from an indicative poll conducted in subgroup 2 Meeting #3 on the topic, and 2) providing the outcomes of a follow up survey conducted after Meeting #3.
  - The Secretariat shared a summary of outcomes from the follow up survey:
    - A large majority support (9 of 10) maintaining optionality in consolidation approaches, with no strong opposition
    - A majority support (7 of 10) eliminating equity share approach, with no strong opposition
    - A large majority support (9 of 10) revising and maintaining operational control approach
    - Unanimous support for maintaining the revised financial control approach
  - In the feedback survey, a TWG member asked whether accounting for scope 3 emissions based on data provided by suppliers using a different consolidation approach is a potential risk that the subgroup or Scope 3 TWG should be considering.
    - One TWG member responded that this should not be an issue that the TWG should be prioritizing.
    - The Secretariat provided clarification that the consistent application of the chosen consolidation approach is to enable companies to determine their direct and indirect emissions and noted that this question will be passed on to Scope 3 TWG for their consideration.
- The Secretariat presented the following question to facilitate further discussion on: 'Should optionality in consolidation approaches be maintained in the Corporate Standard?' and provided an overview of options proposed.

- One TWG member stated that the answer to this question may vary depending on the purpose of reporting(e.g., mandatory or voluntary reporting).
- The Secretariat noted that all uses of the Corporate Standard, together with their trade-offs should be considered.

- **Option 1: Maintaining optionality with all options being equal**:
  - Several TWG members referred to the con listed for option 1 (further inhibiting comparability) and asked about updates from Subgroup 1, specifically related to consideration of comparability as an objective and/or principle. One TWG member asked about the reasoning for defining comparability as an optional principle in the Land Sector and Removals Guidance (LSR) and asked about why LSR, being a part of the Corporate Suite of Standards, has different objectives.
    - The Secretariat provided an update on Subgroup 1 progress to date highlighting the objectives and principles are a key cross-cutting issue across workstreams, wherein the Secretariat is coordinating internally to make sure that objectives outlined in different documents are complimentary and do not contradict each other. The Secretariat added that subgroup 1 members are mostly opposed to adding comparability as an optional principle in the Corporate Standards and have a split opinion on whether to make comparability a required principle, but that there is majority support for including comparability among objectives.
    - One TWG member noted that comparability across different companies' inventories is not a principle that can be operationalized or achieved only by eliminating optionality in consolidation approaches.
  - One TWG member asked for clarification on what is meant by 'maximizing interoperability with external programs' and suggested that this can also be considered as a flexibility.
    - The Secretariat noted that maintaining optionality with all options being equal will enable the Corporate Standard to be interoperable with varying requirements and guidance set by external GHG disclosure and target setting programs.
  - One TWG member noted that one of the priorities during this revision process should be to achieve interoperability with IFRS S1 and S2 standards. They suggested that maintaining optionality is not preferred, highlighting that the language used in the Corporate Standard will be critical to achieve alignment or maintain interoperability with certain external programs.
    - The Secretariat reiterated that all main uses of the Standard should be taken into account.
  - One TWG member suggested that comparability can be enhanced through additional disclosure requirements including but not limited to specific intensity metrics.
- **Option 2: Maintaining optionality but provide a recommended/preferred option**:
  - One TWG member asked if providing a preferred or a recommended approach/method is applied in other areas in the Corporate Standard and added that this should not be the role of GHG Protocol. Several TWG members supported this suggestion.
    - The Secretariat noted that a recommended option would be presented as a "should" statement, which are also used in other areas in the Standard.
  - One TWG member suggested that maintaining optionality by providing a recommended approach using should and may statements may cause assurance issues (i.e., justifying the choice of consolidation approach other than recommended).
  - One TWG member asked for clarification on the main benefits of providing a recommended consolidation approach.
    - The Secretariat noted that there is high demand from stakeholders on both guidance to choose the best fitting consolidation approach and also enhancing comparability

between different organizations' inventories. Providing a recommended approach would enable meeting with stakeholder expectations.

- One TWG member noted that maintaining optionality, even by providing a recommended approach, significantly hinders comparability and requiring a single approach (i.e., revised financial control approach, aligned with the reporting company's financial accounting) would enhance comparability.
- Another TWG member responded by saying companies in the same sector can have significantly different business models and can also use different calculation methods even they apply the same consolidation approach, and that requiring a single approach does not necessarily result in comparable inventories.
- One TWG member noted that when stakeholders refer to comparability of disclosed information, they often refer to the reporting structure (e.g., level of detail provided and transparency) and not only the emissions figures. Moreover, they suggested that comparability should be a goal /role for the regulators to achieve rather than GHG Protocol. They added that, driving consistent application of approaches chosen with supporting disclosure requirements could help achieve this need while maintaining optionality to allow companies to choose the most relevant consolidation approach to their business goals..
- Another TWG member stated that regulators often aim to address public policy goals (e.g., achieve emission reduction) and that these are not necessarily consistent with transparency and information needs of other stakeholders (e.g., investors).
- One TWG member suggested that by providing guidance on how to choose the most appropriate consolidation approach, including the potential reasons why one approach may be chosen over another could give enough clarity to users without designating a recommended approach.
- Another TWG member suggested that how to operationalize optionality (all options equal or providing a recommended approach) should be discussed further.

- The Secretariat posed a follow up question to gather further input from TWG members on how a recommended option could be determined: "Could differentiated options be established for selecting a consolidation approach?". An example criterion for differentiation suggested was the distinction between voluntary and mandatory reporters.
  - One TWG member suggested that differentiation could be a challenge, especially based on criteria that can change over time (e.g., company size) and added that establishing other criteria such as those related sector or geography is also challenging to implement for international companies' operation in multiple geographies and across different sectors.

- **Option 3: Eliminate optionality and require a layered approach**:
  - The Secretariat provided an example for a layered approach based on current ESRS E1 requirement: In addition to accounting for GHG emissions from entities that are consolidated in financial statements, emissions of other non-consolidated entities and contractual arrangements, where operational control is established, should be accounted for separately. The Secretariat then invited TWG members to comment.
    - One TWG member noted that IFRS S2 also requires GHG emissions from non-consolidated entities to be disclosed separately.
  - Several TWG members voiced opposition to this option noting that requiring a layered/customized consolidation approach is both limiting and also should not be the role of GHG Protocol.
    - Another TWG member shared their concern about the intentional double-counting of scope 1 and scope 2 emissions resulting from a layered approach. They noted that

this was an intentional choice when setting ESRS E1 requirements to hold more than one party responsible for emissions, especially for leased assets. They added that this contradicts GHG Protocol's current approach to avoid double-counting within scope 1 and scope 2 emissions.

- **Option 4: Require the revised financial control approach**:
    - The Secretariat provided the main pros and cons identified for requiring a single approach, the revised financial control approach, and invited TWG members to comment.
    - One TWG member suggested that the risk of underreporting does apply to all options and not just for requiring a single consolidation approach. They also added that the con of higher cost of compliance applies more to bigger organizations with complex organizational structures. They noted that applying the revised financial control approach could be more feasible for SMEs.
        - The Secretariat clarified that underreporting risk could be higher if a single consolidation approach is required.
    - One TWG member noted that IFRS does not require the financial control approach but more dictates the reporting entity to be the same as financial statements and allows for choice among the three consolidation approaches provided in the Corporate Standard.
        - Another TWG member supported this by adding that our role as the TWG should be to primarily focus on setting the organizational boundary (i.e., which entities are to be included in the GHG inventory) and not the detailed methodology for accounting each individual element (e.g., leased assets).
- **Indicative polls**:
    - The Secretariat conducted an indicative poll to assess the level of support among subgroup 2 members for each of the four options proposed for the question Should optionality in consolidation approaches be maintained in the Corporate Standard?
        - There was large majority support for maintaining optionality in consolidation approaches (10 of 11) with no strong opposition and one member in favor of requiring the revised financial control approach.
        - Members expressed a split opinion on how to maintain optionality: 5 of 11 members supported all options to be equal while the other 5 of 11 members supported providing a recommended approach.

Outcomes (e.g. recommendations, options)

- An indicative poll found large majority support for maintaining optionality in consolidation approaches in the Corporate Standard. There was a split in opinion between keeping all consolidation approach options as equal and providing a recommended approach.
- There was very limited support for requiring a single consolidation approach (i.e., revised financial control approach) and no strong opposition to maintaining optionality.
- Preliminary outcomes from Subgroup 2 discussions on optionality in consolidation approaches to be taken to the full TWG.

5. Wrap-up and next steps

- The Secretariat shared a summary of next steps including the schedule for upcoming meetings and the sharing of outcomes memos across subgroups ahead of the full TWG meeting on March 4th (slides 38-39).

<u>Summary of discussion</u>

- One TWG member suggested using more visuals and diagrams where relevant in background information provided.
- Another TWG member asked how the four Corporate Suite of Standards fit together, specifically pointing to LSR.
    - The Secretariat noted that cross-cutting topics are discussed across workstreams during the revision process. The Secretariat added that in the final revision stage, a harmonization phase is planned to insure consistency and complementarity across the Corporate Suite of Standards where relevant.

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

- Final meeting materials including slides, minutes, and recording to be shared by the Secretariat.
- A memo summarizing preliminary outcomes from Subgroup 2 discussions will be shared first with Subgroup 2 members and then the full TWG. Outcomes memos from the other two subgroups will also be shared with the full TWG ahead of the March 4th meeting.
- The next meeting of the full Corporate Standard TWG will take place on Tuesday, March 4th, with two time slots offered: 08:00 ET / 14:00 CET / 21:00 CHN and 16:00 ET / 22:00 CET / 05:00 Wednesday, March 5th CHN.
- The next meeting of Subgroup 2 is scheduled for Tuesday, March 18th, 2025, at 08:00 ET / 14:00 CET / 21:00 CHN, but may be pushed back a week to Tuesday, March 25th at the same time.

Summary of written submissions received prior to meeting

- The Secretariat conducted an asynchronous feedback survey prior to the meeting to gauge TWG member opinions on the preliminary outcomes of Subgroup 2 Meeting #3 including evaluating each consolidation approach and optionality in consolidation approaches. 10 responses were received prior to the deadline, with results integrated into meeting materials (slide 27) and informing the framing of meeting discussions (section 4).