Corporate Standard Technical Working Group

Subgroup 2, Meeting #4

GHG Protocol Secretariat team:
Hande Baybar, Iain Hunt, Allison Leach

February 11th, 2025

* Read me *

- Slides labeled Housekeeping are reminders on TWG meeting logistics and housekeeping considerations.
- Slides labeled Pre-read are to provide relevant background information for review ahead of meetings. These slides will not be presented in detail.
- Slides labeled Discussion will be used to help facilitate discussion during the meeting.

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	10 minutes
• Recap of January 21st meeting	5 minutes
• Revision status of current consolidation approaches	35 minutes
• Next steps in evaluating optionality in consolidation approaches	50 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

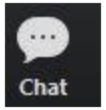
Zoom logistics and recording of meetings

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.***

Housekeeping: summary of general feedback form responses

Thank you to everyone who has provided input using the Corporate Standard general feedback form to date.

The list of submissions and the Secretariat's responses are tracked in the Shared TWG folder in the Admin sub-folder (CS TWG Feedback Form Responses), including:

- **Non-content-related (process) feedback** will be addressed at the Secretariat's discretion and will be updated periodically by the Corporate Standard Secretariat team
- **Content-related feedback** will be addressed during the TWG/subgroup meeting where the corresponding agenda is discussed

Please continue using the Microsoft Form for all general feedback and questions.
A form for providing specific feedback on today's meeting outcomes will be circulated after this meeting.

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: Further discussion on optionality in consolidation approaches

Source: Corporate Standard Development Plan, Section 5: Scope of work for the standard revision
The remaining Subgroup 2 Phase 1 scope of work is provided in the Appendix.

Today's objectives

1. Review the **revision plan for current consolidation approaches**
   - **Equity share** – initial support for eliminating will be reassessed for a final recommendation once financial control is revised
   - **Financial control** – text revision process updates
   - **Operational control** – initial discussion on revision scope and process

2. Refine options for **optionality in consolidation approaches** in the Corporate Standard

Overarching objective:
Prepare recommendations on items covered to date to provide for full TWG ahead of March 4th meeting.

Upcoming schedule (tentative)

TODAY: February 11th, 2025

SG2 M4
- Refine/confirm outputs to date on phase 1 topics (organizational boundaries)

March 4th, 2025

Full TWG M2
- Gather feedback from full TWG on SG2 outputs to date
- Review outputs from SG1 and SG2

March 18th, 2025

SG2 M5
- Revise outputs based on feedback from full TWG
- Submit outputs to ISB

April 22nd, 2025

SG2 M6
- Introduce phase 2 topics: Verification and assurance

May 13th, 2025

SG2 M7
- Revise phase 1 outputs based on ISB feedback

Outcomes memo for full TWG → Develop/review selected revised text → ISB review of phase 1 outputs

Note: *The meeting date may be shifted to* March 25th, 2025.

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Recap of January 21st meeting

- Evaluation of **consolidation approaches** – indicative polls showed **majority support** for:
  - **Eliminate the equity share** approach (to be revisited once the revised financial control approach text is advanced)
  - **Maintain the revised financial control** approach
  - **Revise and maintaining the operational control** approach

- **Initial discussion on optionality in consolidation approaches** – initial outcomes include:
  - Majority supports **maintaining optionality**
  - **IF** optionality were to be removed, majority supports **the revised financial control to be the required** consolidation approach

- Plan for **revising the financial control approach text**

Please refer to the minutes from the January 21st, 2025 meeting for more detail.

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Revision status of current consolidation approaches

Equity share

Final evaluation on potential overlap between the **equity share** approach the **equity method investment** accounting now captured under the revised financial control

Status: Pending final evaluation whether to maintain or eliminate*

Financial control *(revised)*

Financial control approach will be **revised to achieve alignment with financial accounting**

Status: Initial text revision in progress

Operational control *(revised)*

Main items for revision:

- Consolidation of different types of assets (e.g., leased assets)
- Multi-party arrangements
- How operational control is defined in different entity/arrangement types (e.g., multi-party and co-locations)
- Terminology update

Status: Text revision to be planned

* Initial support for eliminating will be reassessed for a final recommendation once financial control is revised.

Equity share approach

The following aspects will be evaluated **to finalize the Subgroup 2 recommendation on whether to maintain or eliminate** the equity share approach:

1. How will the **revision to the financial control approach** (i.e., equity method investments accounting) **overlap with the equity share** approach?
   - *A quick snapshot is provided on the next slide (final evaluation to be done when the financial control text revision is at advance stage)*

2. **Scope 3 TWG outcomes** on consolidation approaches
   - *An overview of the Scope 3 TWG Group C discussion is provided later in this section*

A snapshot of equity share approach vs. equity method investments accounting

Equity share approach
(GHG Protocol - Corporate Standard)

What:

Consolidating GHG emissions based on **share of equity (economic interest) owned** in the operation

Applied to:

- All entities/operations **regardless of control or significant influence**

Equity method investments
(Financial accounting frameworks)

What:

Accounting method for **entities/investments other than subsidiaries** based on proportionate share of income/earnings/loss

Applied to:

IFRS: For investors with **joint control of, or significant influence** over, an investee

U.S. GAAP: Investments with **significant influence** held in stock of **entities other than subsidiaries**, namely **corporate joint ventures and other noncontrolled entities**

Please share any major overlaps or differences between these methods via the chat.

Please refer to the January 13th, 2025 Subgroup 2 Ad-Hoc meeting presentation for the detailed version.

Scope 3 TWG discussion on 'Category 15: Investments'

Issue 1:
Clarify whether category 15 is applicable for both financial institutions (FIs) and non-financial institutions (non-FIs)

Early outcomes: Directional consensus on: **All FIs and non-FIs shall account for and report [significant] category 15 emissions.**

Next steps: Propose text edits and language

Relevant for our discussion

Issue 2:
Harmonization Partnership for Carbon Accounting Financials (PCAF)*

Consolidation approaches:
Whether GHG Protocol should NOT permit the **equity share approach** to align with PCAF.

Early outcomes: Directional consensus or coalescing on: **GHG Protocol <u>does not permit</u> FIs or non-FIs that account for category 15 emissions to use the <u>equity share</u> consolidation approach**

Data quality scoring for category 15:
Whether GHG Protocol should **harmonize data quality scoring with PCAF**.

Early outcomes: Preference for maintaining a separate (disaggregated) and independent data quality scores for scope 1, scope 2, and scope 3

*GHG Protocol and PCAF are already harmonized on other major topics (e.g., principles, GWPs)

Scope 3 TWG discussion on consolidation approaches

Issue 3:
Consider the inclusion/exclusion of **other investment/asset types** (including associated minimum boundaries, calculation method(s), data sources and/or quality, and other requirements and guidance).

Near-consensus recommendation to include and require disclosure of and/or by:

- Green bonds
- Treasury bonds (sovereign bonds)
- Third-party managers with discretionary control (e.g., mutual funds, pension funds)

Possibly require disclose of:

- Compensation payments made by companies towards pension plans
- Donations made by companies to endowment funds or foundations
- Insured-associated emissions
- Use of claims payments (by insured parties)
- Third-party managers with non-discretionary advisory control

Maintain optionality for:

- Derivatives
- Cash deposits
- Guarantees and credit default swaps
- Cryptocurrency

Financial control approach – text revision process update

Initial revision

A text revision team has been established

Revision scope: Revision of the financial control approach text in **Chapter 3 of the Corporate Standard**

Revision goal: Achieve **alignment with financial accounting** by requiring the reporters choosing financial control approach to apply the same consolidation method as their jurisdictionally applied GAAPs

Full Subgroup 2 revision

Following the initial text revision, a draft of the revised financial control approach will be **shared with all Subgroup 2 members** for suggestions and further revisions

Timeline to be confirmed

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."

Operational control approach - Main revision items*

- **Further clarification** on **how to define operational control**
  - **Specific indicators** to facilitate more consistent application of the criteria
  - Definitions for **different types of assets** (e.g., leases, licenses, franchises)**
  - Reconsideration of **multi-party arrangements** (e.g., factors beyond who controls a facility)
- Where applicable, **update terminology** to be more consistent with current **terminology used in financial accounting** **
  - Integration and revision of 2006 amendment "Categorizing GHG Emissions Associated with Leased Assets" (Appendix F)
- **Additional guidance** on **classification of leased assets** *(e.g., emissions from purchased heating, multi-tenant buildings and co-locations) ***

Please share any additional suggestions on the main revision items to consider during the revision process

*Based on the Standard Development Plan for the Corporate Standard, Section 5: Scope of work for the standard revision
** Items may be influenced by or connected to the revised financial control approach.

Next steps for revising operational control approach

Initial revision

The Secretariat invites **volunteers to join a team to initiate drafting** the revised operational control approach text

*A **post-meeting survey** will be shared to collect **further feedback to guide the initial revision** process*

***Please submit your interest** to join to the Corporate Standard Secretariat*

Full Subgroup 2 revision

Following the initial text revision, a draft of the revised operational control approach will be **shared with all Subgroup 2 members** for suggestions and further revisions

Timeline to be confirmed

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Revisiting optionality in consolidation approaches

Equity share	Financial control *(revised)*	Operational control *(revised)*
Final evaluation on potential overlap between the **equity share** approach the **revised financial control** approach	Financial control approach will be **revised to achieve alignment with financial accounting**	Operational control approach will be **revised to address stakeholder feedback**
Majority support for eliminating	**Majority support for maintaining as revised**	**Majority support for revising and maintaining**
Status: Pending final evaluation whether to maintain or eliminate	**Status: Initial text revision progress initiated**	**Status: Text revision to be planned following initial subgroup input**

Initial support for eliminating ***will be reassessed*** *once the financial control text is revised*

SO

We will ***focus on evaluating optionality*** *based on revised financial and operational control approaches*

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Pre-read

Draft for TWG discussion

Outcomes from meeting #3

Majority support for **"maintaining optionality"**

Meeting poll | 1 question | 12 of 14 (85%) participated

1. Should optionality in consolidation approaches be maintained in the Corporate Standard? (Single choice) *

12/12 (100%) answered

Yes - Maintain optionality (8/12) 67%

No - Require a single approach (4/12) 33%

Support for **a prioritization in optionality**

3. Should there be a prioritization if the optionality is maintained? (Single choice) *

12/12 (100%) answered

No - All options should be equal (3/12) 25%

Yes - A hierarchy of options should be provided (2/12) 17%

Yes - A preferred option should be provided (4/12) 33%

Yes - A layered approach should be adopted (2/12) 17%

Abstain (1/12) 8%

Majority support for **requiring revised financial control <u>if</u> optionality were to be removed**

1. Which consolidation approach should be the required approach in the Corporate Standard? (Single choice) *

11/11 (100%) answered

Equity share (0/11) 0%

Financial control (revised) (7/11) 64%

Operational control (3/11) 27%

Abstain (1/11) 9%

Meeting 3 follow up survey outcomes

Feedback on **maintaining optionality**

- **Stronger support** (9 of 10) maintaining optionality with **no strong opposition**
- **Main concerns**: Further inhibits comparability, risk of double-counting

→ Subgroup 1 is currently discussing whether comparability should be an objective or a principle

Feedback on **eliminating equity share**

- **Stronger support** (7 of 10) eliminating equity share approach with **no strong opposition**

→ Final discussion pending revised financial control text development

Feedback on **maintaining operational control**

- **Stronger support** (9 of 10) maintaining operational control with **no strong opposition**
- **Main task during revision:** Clear guidance and robust criteria

→ Revision scope will be finalized, and text revision process will be planned.

Additional feedback

- Majority of feedback provided was:
  - Supporting arguments
  - Topics (to be) addressed
- Is the **potential inconsistency** in Scope 3 emissions provided by suppliers, which are **consolidated using a different approach**, a risk?

Feedback on "**maintaining the revised financial control**": There was **unanimous support** for maintaining revised financial control approach

10 responses were received.

Refining the options for further discussing optionality

The following inputs have been evaluated **to refine the options to better facilitate further discussion on optionality in consolidation approaches.**

- Subgroup 2 Meeting 3 **indicative poll:**
  - Majority support for **eliminating equity share** approach
  - Majority support for **maintaining optionality** in consolidation approaches
  - Distributed outcome for **how to maintain optionality** *(e.g., equal options, preferred option)*
  - Majority support for **requiring the revised financial control** approach **if** optionality were to be removed
- Subgroup 2 **discussions to date**
- **Follow up survey** outcomes

Optionality in consolidation approaches

Question: Should optionality be maintained?

Based on TWG Subgroup 2 discussion to date, refined options for revisiting optionality of consolidation approaches in the Corporate Standard are:

1. Yes Maintain optionality with **all options equal**	2. Yes Maintain optionality and specify a **preferred approach**	3. No Require a **layered approach** (e.g., ESRS layered approach)	4. No Require **(revised) financial control** approach
Companies **shall/may** choose between: • Revised financial control • Revised operational control	Companies ***shall/should*** use (revised) financial control approach but ***may*** use (revised) operational control approach	• Entities consolidated in the financial statements *shall* be accounted for under (revised) financial control approach • Non-consolidated entities *shall* be accounted for based on (revised) operational control *(example)*	Companies ***shall*** report their GHG emissions based on (revised) financial control approach

Option 1: Maintain optionality – equal options

Question: Should optionality be maintained?

1. Yes
Maintain optionality with
all options equal

Companies ***shall/may*** choose between:

- Revised financial control
- Revised operational control

Pros & Cons

Promotes feasibility and enables users to **choose the most fitting approach** in line with their business goals

Maximized **interoperability with external programs**

However, **further inhibits comparability**; **may inhibit alignment** with programs with specific consolidation requirements (e.g., CSRD)

What do you think of this option?

Option 2: Maintain optionality – preferred option

Question: Should optionality be maintained?

2. Yes
Maintain optionality and specify a **preferred approach**

Companies ***shall/should*** use (revised) financial control approach but ***may*** use (revised) operational control approach

How?

Preferred option: Companies ***shall/should*** use the revised financial control approach but ***may*** use the revised operational control approach

Can differentiated options serve a purpose in maintaining optionality?

Example: Differentiation based on voluntary/mandatory reporters (i.e., **mandatory reporters *shall*** use the **revised financial control** approach, **voluntary reporters *may* choose between** revised financial and operational control approaches)

Are there any other differentiation criteria (e.g., company size, sector, geography etc.) **that you think could be considered?**

What do you think of this option (pros and cons)?
Should differentiated options be established for selecting a consolidation approach?
Please share your comments in the chat.

Option 3: Require a layered approach

An example: ESRS E1 *(paragraph 50)*

The undertaking shall disaggregate the information, separately disclosing Scope 1 and Scope 2 emissions from:

(a) the **consolidated accounting group** (the parent and subsidiaries) *(will be captured with the **revised financial control** approach)*

(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**

Option 3: Require a layered approach

Question: Should optionality be maintained?

3. No
Require a layered approach (e.g., ESRS' layered approach)

- Entities consolidated in the financial statements ***shall*** be accounted for under (revised) financial control approach
- Non-consolidated entities ***shall*** be accounted for based on (revised) operational control *(example)*

How?

Question: Do you think requiring a layered approach should be considered in setting organizational boundaries in the Corporate Standard?

WHY? To provide a more complete picture of GHG emissions

WHY NOT? **Significantly inhibits interoperability** and does **not provide flexibility** for program setters to set requirements in line with their objectives

What do you think of this option? Should a layered approach be considered further?

Option 4: Require the revised financial control approach

Question: Should optionality be maintained?

4. No
Require revised financial control approach

Companies ***shall*** report their GHG emissions based on (revised) financial control approach

Pros & Cons

Provides standardized approach, enhances **comparability** and **eliminates confusion** while choosing a consolidation approach

However, may **significantly inhibit interoperability** with programs providing optionality or a layered approach; **may result in underreporting** (e.g., when a company does not have financial control but has operational control over an entity/operation)

AND

Higher cost of compliance and **less feasible to implement** for companies that need to change their consolidation approach as well as for SMEs and voluntary reporters

What do you think of this option?

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.

Discussion: Optionality in consolidation approaches

Question: Should optionality be maintained?

Based on TWG Subgroup 2 discussion to date, refined options for revisiting optionality of consolidation approaches in the Corporate Standard are:

1. Yes Maintain optionality with **all options equal**	2. Yes Maintain optionality and specify a **preferred approach**	3. No Require a **layered approach** (e.g., ESRS layered approach)	4. No Require **(revised) financial control** approach
Companies **shall/may** choose between: • Revised financial control • Revised operational control	Companies ***shall/should*** use (revised) financial control approach but ***may*** use (revised) operational control approach	• Entities consolidated in the financial statements ***shall*** be accounted for under (revised) financial control approach • Non-consolidated entities ***shall*** be accounted for based on (revised) operational control *(example)*	Companies ***shall*** report their GHG emissions based on (revised) financial control approach

Discussion: What do you think of these options?

Poll: Optionality in consolidation approaches

Indicative Zoom poll

Options mutually exclusive

Question: Should optionality be maintained?

1. Yes Maintain optionality with **all options equal**	**2. Yes** Maintain optionality and specify a **preferred approach**	**3. No** Require a **layered approach** (e.g., ESRS layered approach)	**4. No** Require **(revised) financial control** approach
Companies **shall/may** choose between: • Revised financial control • Revised operational control	Companies ***shall/should*** use (revised) financial control approach but ***may*** use (revised) operational control approach	• Entities consolidated in the financial statements *shall* be accounted for under (revised) financial control approach • Non-consolidated entities *shall* be accounted for based on (revised) operational control *(example)*	Companies ***shall*** report their GHG emissions based on (revised) financial control approach

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Next steps

- **Next full TWG meeting** scheduled for **Tuesday, March 4th, 2025** with two time slots offered:
  - 8:00 ET / 14:00 CET / 21:00 CHN
  - 16:00 ET / 22:00 CET / 5:00 Wednesday, March 5th CHN
- **Next Subgroup 2 meeting** scheduled for **Tuesday, March 18th, 2025** at 8:00 ET / 14:00 CET / 21:00 CHN *(but may be rescheduled for March 25th)*
  - Meeting objective: Incorporate feedback from full TWG
  - Please contact the Secretariat by February 21st, 2025 if you volunteer to join a team to initiate drafting the revised operational control approach text
- **Items to be shared** by GHG Protocol Secretariat:
  - Final meeting slides, recording, minutes
  - Discussion paper on consolidation approaches, incorporating TWG input gathered to date
  - Draft memo to provide summary of Subgroup 2 outcomes to full TWG for review

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Thank you!

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Appendix

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B. Organizational boundaries – Scope of work contd. (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).

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.

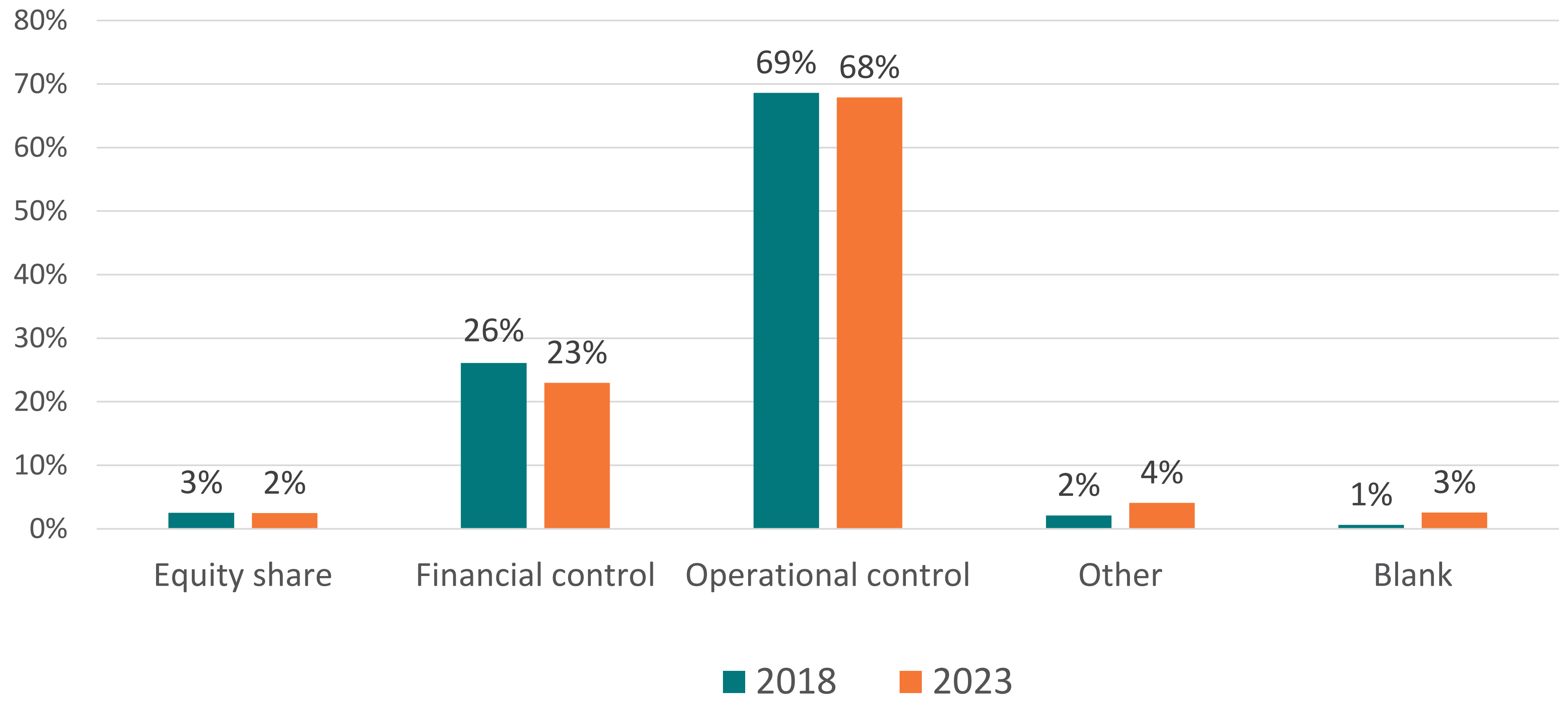
A company has **financial control** over the operation if the former has the ability to direct the financial and operating policies for the latter with a view to gaining economic benefits from its activities.

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.

POWERED BY CDP DATA

Current utilization of consolidation approaches – per approach

CDP 2023 Climate Change disclosures



Sample size*:
~2,200 companies
~7,230 companies

*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)

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** *(Option C - revised financial control approach)* **-** 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 (**If** 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)*

Main drivers for selecting/changing a consolidation approach

- Organizational **structure changes** (e.g., mergers, acquisitions, or joint ventures)
- Regulatory **compliance**, **disclosure** program requirements and key **stakeholder** requirements/pressure
- **Better alignment with consolidated financial statements** or transitioning from sustainability reporting to integrated reporting (financial control or equity share)
- **Data** availability and quality and ease of reporting especially for **first time/voluntary reporters** (operational control)
- Encompassing emissions over which the company has direct/most **influence** (operational control)
- Meeting **investors'** need to see the **exposure to climate transition risks** (equity share or financial control)
- Insight into **economic implications** of GHG emissions and/or identifying/managing risks associated with GHG emissions
- Providing a fuller picture of a companies' GHG emissions profile in **meeting different stakeholder needs** (dual reporting)
- Strategically selecting consolidation approaches to **show a favorable GHG emissions profile**

Corporate Standard stakeholder feedback survey: key themes related to optionality in consolidation approaches

- **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 on in this presentation.

For more detail, please see Section B of the Detailed Summary of Responses from Corporate Standard Stakeholder Survey.

Proposals received related to *Corporate Standard* organizational boundaries

<table>
<thead>
<tr><th>Proposal link</th><th>Key themes</th></tr>
</thead>
<tbody>
<tr><td>Deloitte_1</td><td>• Revisit current optionality and considering more prescriptive requirements for consolidation approaches
• Updating definitions and improve guidance for determining boundaries under current consolidation approaches, specifically operational control</td></tr>
<tr><td>Terrascope_1</td><td>• Revisiting current optionality and considering more prescriptive requirements for consolidation approaches</td></tr>
<tr><td>Anonymous_023</td><td rowspan="3">• Updating definitions and improve guidance for determining boundaries under current consolidation approaches, specifically operational control</td></tr>
<tr><td>Green Asia Network and Thankscarbon</td></tr>
<tr><td>Canadian Union of Postal Workers</td></tr>
</tbody>
</table>

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**."

Equity share approach

Pros	Cons

Pros

- Provides a view of emissions **proportional to ownership/economic interest**, especially for reporting companies with complex organizational structures
- Helps guide **decision-making toward sustainable investment choices**
- Reflects overall **financial exposure to emissions**
- Enables parties in a joint venture to take **shared responsibility for emissions**

Cons

- **Very limited adoption** based on CDP data
- May **not reflect the actual influence** over emissions
- **Not used** in some mandatory disclosure requirements and voluntary frameworks
- **Complexities** arise when ownership stakes change
- **Higher administrative cost** due to difficult and time-consuming nature of data collection from operations not under control
- Higher potential for **double or under counting** in multi-ownership situations
- Potential **overlap with** equity method now embedded in **revised financial control approach**

Revised financial control approach

Final text for the revised financial control approach will evolve around the following recommendation:

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**

Financial control approach (revised version)

Pros	Cons
• Expected **increase in adoption** due to growth in mandatory disclosure program requirements • Provides a **clear link between financial accountability and GHG emissions responsibility**, increasing consistency/alignment between financial & GHG information, informing investment decisions • **Required** by major **mandatory climate disclosure** programs	• **Potentially excludes emissions** from operations where the company has significant influence (20% to 50% voting rights) but lacks financial control, hence **may underrepresent overall environmental impact** • Defining financial control **can be subjective** (**assumptions, judgement**) especially in complex organizational structures

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."

Operational control approach

Pros	Cons

Pros

- **Highest adoption** for reporting (68%) & target setting
- Provides a clear link between **management accountability** and **GHG emissions responsibility**
- Emphasis on **operational influence** over rather than financial exposure to emissions
- Typically, ease of access to **good quality data**
- **Some mandatory programs** introduce this as an **add-on (secondary) consolidation approach** to be applied
- Supports **compliance** with **environmental regulations** other than climate disclosures

Cons

- **Excludes emissions** from operations where the company has significant influence (20% to 50% voting rights) but lacks operational control,
- Emissions accounting can be **disconnected from financial influence to realize investment needed** to drive emissions reduction
- **Requires consistent application of operational control definition** across companies (e.g., joint ventures or partnerships, and leased assets)
- **Some mandatory programs restrict the use** of this approach
- **Not aligned with financial statements**

Overview of key highlights on consolidation approaches

Approach	Key highlights
Equity share	• **Least adopted** approach **(2%)** • Emissions reporting **based on ownership structure**, **regardless of control**, so aligns inventory boundary with financial investments but **may not directly enable reduction** • Often/mostly preferred by companies with complex organizational structure especially in certain sectors (e.g., Fossil fuels, Power generation, Infrastructure) • **Not permitted by some mandatory disclosure programs** (CSRD) and **sectoral standards** (PCAF) • **Potential overlap** between **revised financial control** approach (equity method used in financial consolidation)
Financial control (revised)	• **Second most adopted** approach **(23%)** • **Aligns/interoperable** with **mandatory** climate disclosure requirements (CSRD, IFRS) • Increasing **connectivity and consistency between financial and GHG emissions information**
Operational control	• **Most adopted** approach for GHG emissions accounting **(68%)** and reduction target setting • Emissions reporting **based on where the company has direct operational control/responsibility** over emissions, but **not necessarily the financial authority** to realize capital investments to achieve reduction • It is **required as an add-on/secondary consolidation approach** by some mandatory programs (CSRD) • Preferred option in terms of **data availability and quality**