Greenhouse Gas Protocol

Discussion Paper
Corporate Standard
Consolidation approaches
(Chapter 3, "Setting Organizational boundaries")

WORKING DRAFT, DO NOT CITE

The objective of this discussion paper is to consolidate relevant information for consideration as part of the Greenhouse Gas Protocol Corporate Standard Technical Working Group agenda to help facilitate common background knowledge. This includes a summary of current GHG Protocol standard requirements and guidance, , an overview of requirements and guidelines from other frameworks and programs (where relevant), references to relevant research, a summary of stakeholder feedback from the Corporate Standard Stakeholder Survey, an overview of options for consideration, an analysis of these options according to the decision-making criteria specified by the GHG Protocol, and acronyms and glossary of key terms.

This discussion paper aims to facilitate the Technical Working Group discussion on Scope of Work item B.1. provided in the Corporate Standard - Standard Development Plan Section 5: Scope of work for the standard revision. It addresses key topics related to revising consolidation approaches in the *Corporate Standard* including alignment with financial accounting and optionality in consolidation approaches.

DISCLAIMER:

This document is a working document to be used as an input for a discussion within the Technical Working Group of the Corporate Standard revision process. The paper does not reflect the position of the Greenhouse Gas Protocol, nor WRI and WBCSD, nor members of the Technical Working Group. The statements are not designed to be final or complete. This working draft should not be referenced or cited.

Contents

1. Introduction 4
2. Scope of Work from Standard Development Plan 4
3. Current GHG Protocol Requirements and Guidance on Consolidation Approaches 4
3.1. Consolidation approaches defined in the Corporate Standard 4
3.2. Consolidation approaches defined in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard 6
3.3. GHG Protocol Scope 2 Guidance 9
3.4. Land Sector and Removals Guidance (Draft) 9
3.5. Standard setting language 9
4. Requirements and Guidance from Other Frameworks and Programs 10
4.1. Organizational boundaries 10
4.2. Financial consolidation 15
5. Summary of Stakeholder Feedback on organizational boundaries 18
5.1. Feedback on organizational boundaries from Corporate Standard stakeholder survey 18
5.2. Proposals received related to organizational boundaries 18
6. Analysis of Options Under Consideration According to GHG Protocol Decision-Making Criteria 18
6.1. Alignment with financial accounting 19
Overview on financial accounting 20
Current consolidation approaches in the Corporate Standard and their potential to align with financial accounting 21
Question 1: How can and should a consolidation approach in the Corporate Standard align with financial accounting? 25
Option A: Incorporate all (including differing) requirements of current financial accounting standards 26
Option B: Choose one financial accounting standard and apply its consolidation requirements 26
Option C: Require companies that choose the financial control approach to apply the same consolidation model as their financial disclosures 26
Decision-Making Criteria analysis of proposed options for aligning with financial accounting 26
6.2. Optionality in consolidation approaches 28
Evaluating current consolidation approaches in the Corporate Standard 28
Question 2: Should optionality in consolidation approaches be maintained in the Corporate Standard? 32
Option 1: Yes, maintain optionality with equal options (financial control or operational control)...32
Option 2: Yes, maintain optionality and specify a preferred/recommended approach 32

Option 3: No, remove optionality and require a layered approach (e.g., ESRS layered approach) . 33
Option 4: No, remove optionality and require the (revised) financial control approach 33
Decision-Making Criteria analysis of proposed options for optionality in consolidation approaches 34
7. Glossary of Key Terms 37
8. Appendices 38
A. Scope of work on organizational boundaries 38
B. Stakeholder feedback on GHG accounting and reporting principles from Corporate Standard Survey Summary 39

1. Introduction

This discussion paper is intended to provide background information to the Corporate Standard Technical Working Group (TWG) members considering updates to consolidation approaches defined in the Greenhouse Gas Protocol's *Corporate Standard*.

The TWG will first explore if and how a consolidation approach can align with financial accounting. The discussion will then consider whether optionality in consolidation approaches should be maintained in the Corporate Standard, if so, how it should be implemented? If not which consolidation approach should be required?

2. Scope of Work from Standard Development Plan

The Corporate Standard's Standard Development Plan, Section 5 defines a list of topics to be considered during the standards revision process. This scope of work is subject to change during the revision process. The relevant item in the scope of work for this discussion paper is:

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.

The complete of scope of work for revising organizational boundaries is provided in Appendix A.

3. Current GHG Protocol Requirements and Guidance on Consolidation Approaches

Current consolidation approaches were originally defined in the *Corporate Standard* in 2004. Subsequent standards and guidance from GHG Protocol have used the same consolidation approaches, but they have sometimes provided additional context and guidance. The following GHG Protocol standards and guidance include relevant text on consolidation approaches: The Scope 3 Standard, the Scope 2 Guidance, and the Land Sectors and Removals Guidance. The following subsections provide excerpts from these standards and guidance related to consolidation approaches.

3.1. Consolidation approaches defined in the Corporate Standard

Chapter 3 of the *Corporate Standard* on "Setting Organizational Boundaries" states that:

> *"Business operations vary in their legal and organizational structures; they include wholly owned operations, incorporated and non-incorporated joint ventures, subsidiaries, and others. For the*

purposes of financial accounting, they are treated according to established rules that depend on the structure of the organization and the relationships among the parties involved. In setting organizational boundaries, a company selects an approach for consolidating GHG emissions and then consistently applies the selected approach to define those businesses and operations that constitute the company for the purpose of accounting and reporting GHG emissions."

The *Corporate Standard* requires companies to account for their consolidated GHG data while allowing them to choose between the equity share, operational control or financial control approaches for consolidation. These three consolidation approaches are defined as follows:

- *"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."*
- *"Under **the control approaches**, a company accounts for 100% of the GHG emissions from operations which it has control. It does not account for GHG emissions from operations in which it owns an interest but has no control. Control can be defined in either financial or operational terms. When using the control approach to consolidate GHG emissions, companies shall choose between either the operational control or financial control criteria.*
    - *A company has **financial control** over the operation if the former has the ability to direct the financial and operating policies of the latter with a view to gaining economic benefits from its activities. Under this criterion, the economic substance of the relationship between the company and the operation takes precedence over the legal ownership status, so that the company may have financial control over the operation even if it has less than a 50 percent interest in that operation. In assessing the economic substance of the relationship, the impact of potential voting rights, including both those held by the company and those held by other parties, is also taken into account.*
    - *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. 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. It should be emphasized that having operational control does not mean that a company necessarily has authority to make all decisions concerning an operation."*

For further details on setting organizational boundaries, please refer to the *Corporate Standard* Chapter 3 (p. 16-23).

3.2. Consolidation approaches defined in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard

[This subsection is an excerpt from Corporate Value Chain (Scope 3) Accounting and Reporting Standard – Supplement to the GHG Protocol Corporate Accounting and Reporting Standard, published in 2013.]

Section 5.2. Organizational boundaries and scope 3 emissions

Defining the organizational boundary is a key step in corporate GHG accounting. This step determines which operations are included in the company's organizational boundary and how emissions from each operation are consolidated by the reporting company. As detailed in the GHG Protocol Corporate Standard, a company has three options for defining its organizational boundaries as shown in table 5.2.

Companies should use a consistent consolidation approach across the scope 1, scope 2, and scope 3 inventories. The selection of a consolidation approach affects which activities in the company's value chain are categorized as direct emissions (i.e., scope 1 emissions) and indirect emissions (i.e., scope 2 and scope 3 emissions). Operations or activities that are excluded from a company's scope 1 and scope 2 inventories as a result of the organizational boundary definition (e.g., leased assets, investments, and franchises) may become relevant when accounting for scope 3 emissions (see box 5.1).

Table 5.2. Consolidation approaches

Consolidation approach	***Description***
Equity share	*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.*
Financial control	*Under the financial control approach, a company accounts for 100 percent of the GHG emissions over which it has financial control. It does not account for GHG emissions from operations in which it owns an interest but does not have financial control.*
Operational control	*Under the operational control approach, a company accounts for 100 percent of the GHG emissions over which it has operational control. It does not account for GHG emissions from operations in which it owns an interest but does not have operational control.*

Scope 3 includes:

- *Emissions from activities in the value chain of the entities included in the company's organizational boundary*
- *Emissions from leased assets, investments, and franchises that are excluded from the company's organizational boundary but that the company partially or wholly owns or controls (see box 5.1)*

For example, if a company selects the equity share approach, emissions from any asset the company partially or wholly owns are included in its direct emissions (i.e., scope 1), but emissions from any asset *the company controls but does not partially or wholly own (e.g., a leased asset) are excluded from its direct emissions and should be included in its scope 3 inventory.*[1]

Similarly, if a company selects the operational control approach, emissions from any asset the company controls are included in its direct emissions (i.e., scope 1), but emissions from any asset the company wholly or partially owns but does not control (e.g., investments) are excluded from its direct emissions and should be included in its scope 3 inventory.

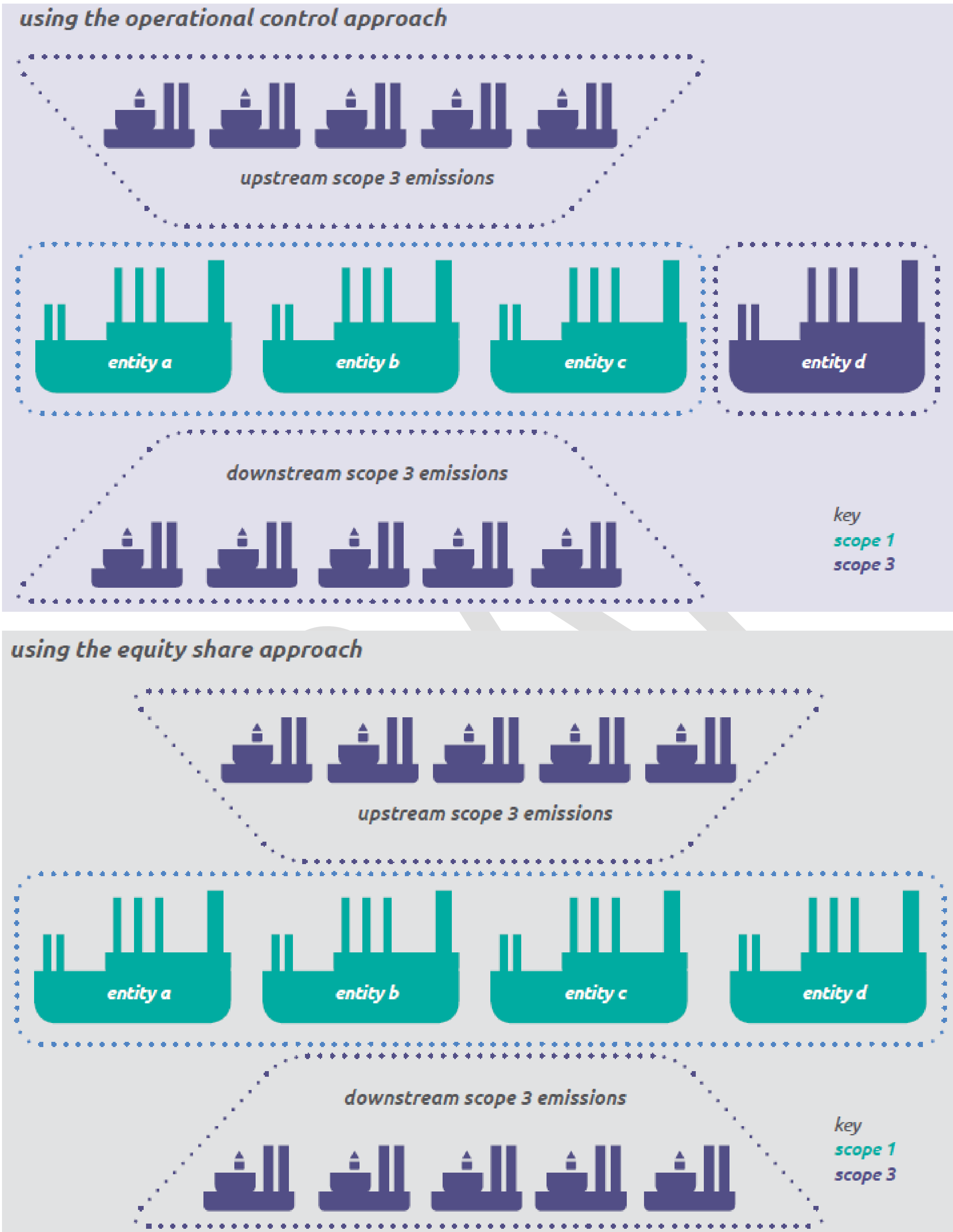
See the GHG Protocol Corporate Standard, chapter 3, "Setting Organizational Boundaries" for more information on each of the consolidation approaches.

Box 5.1. Example of how the consolidation approach affects the scope 3 inventory

A reporting company has an equity share in four entities (Entities A, B, C and D) and has operational control over three of those entities (Entities A, B, and C). The company selects the operational control approach to define its organizational boundary. Emissions from sources controlled by Entities A, B, and C are included in the company's scope 1 inventory, while emissions from sources controlled by Entity D are excluded from the reporting company's scope 1 inventory. Emissions in the value chain of Entities A, B, and C are included in the company's scope 3 inventory. Emissions from the operation of Entity D are included in the reporting company's scope 3 inventory as an investment (according to the reporting company's share of equity in Entity D). If the company instead selects the equity share approach to define its organizational boundary, the company would instead include emissions from sources controlled by Entities A, B, C, and D in its scope 1 inventory, according to its share of equity in each entity. See figure 5.1.

[1] In certain cases, assets controlled by the reporting company that are excluded from its organizational boundary may not be captured by the list of scope 3 categories. In such a case, emissions from these assets should be reported separately as an "other" scope 3 activity.

Figure 5.1. Example of how the consolidation approach affects the scope 3 inventory



3.3. GHG Protocol Scope 2 Guidance

[This subsection is an excerpt from GHG Protocol Scope 2 Guidance – An amendment to the GHG Protocol Corporate Standard, published in 2015.]

Section 5.1. Organizational boundaries

As detailed in the Corporate Standard, a company can choose one of three consolidation approaches for defining its organizational boundaries for the entire corporate inventory, including equity share, financial control, and operational control. Companies should use a consistent consolidation approach over time for their entire inventory.

3.4. Land Sector and Removals Guidance (Draft)

Please note that the Land Sector and Removals Guidance, Draft for Pilot Testing and Review Part 1, Section 5.2 covers content on setting the organizational boundary. However, the Land Sector and Removal (LSR) Standard final draft version is currently under final review. Once the final LSR Standard is published, the relevant content will be evaluated as part of the Corporate Standard Chapter 3 revision process.

3.5. Standard setting language

GHG Protocol standards use precise language to indicate which provisions of the standard are requirements, which are recommendations, and which are permissible or allowable options that companies may choose to follow.

"Shall" indicates what is required to be in conformance with the standard.

"Should" indicates a recommendation, but not a requirement.

"May" indicates an option that is permissible or allowable.

4. Requirements and Guidance from Other Frameworks and Programs

4.1. Organizational boundaries

This subsection outlines organizational boundary setting requirements and guidance of mandatory and voluntary frameworks and programs for corporate-level GHG emissions disclosures and target-setting.

Mandatory frameworks and standards include IFRS S1 and S2 issued by the International Sustainability Standards Board (ISSB, subject to jurisdictional adoption); ESRS 1 and E1 mandated by the European Union Corporate Sustainability Reporting Directive (CSRD); The Enhancement and Standardization of Climate-Related Disclosures for Investors Rule adopted by the United States Securities and Exchange Commission (U.S. SEC, termed here 'SEC Rule'); and Corporate Climate Data Accountability Act Senate Bill (CA SB 253) Greenhouse gases: climate corporate accountability: climate-related financial risk Senate Bill (CA SB 219) enacted by the California State Legislature for regulatory development by the California Air Resources Board (CARB).[2]

Voluntary frameworks and standards include International Standards Organization (ISO 14064-1), Global Reporting Initiative (GRI), CDP, Science-Based Targets Initiative (SBTi), and Partnership for Carbon Accounting Financials (PCAF).

Table 1 provides a summary of mandatory and voluntary framework requirements and guidance on organizational boundaries for GHG emissions disclosures.

Table 1: Summary of requirements and guidance of external frameworks

Framework	Mandatory or Voluntary	GHG accounting organizational boundary setting requirement/guidance
IFRS S1 & S2	Mandatory standard *(subject to jurisdictional adoption)*	**IFRS S1 requires** disclosures to cover the same group of entities as the financial statements **IFRS S2 allows choice among options**: Equity share, Financial control or Operational control <u>**unless**</u> **another approach is required** by jurisdictional authority or a stock exchange
CSRD (ESRS 1 & ESRS E1)	Mandatory requirements	**ESRS 1 requires** sustainability statements to cover the same group of entities as the 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 an entity will be included based on the **operational control approach** and reported separately

[2] Please note that SEC Rule and CSRD regulations are subject to change, the original text for both regulations were used as reference as part of this analysis.

SEC Rule	Mandatory requirements	**Allows choice among options**: Equity share, Financial control or Operational control 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
CA SB 253 & 219	Mandatory requirements	Consolidation at group level (consistent with financial statements) is **optional** Emissions to be reported pursuant to the GHG Protocol standards – no specific requirements on or mention of consolidation approaches
ISO 14064-1:2018	Voluntary standard	**Choice among options**: Equity share, Financial control or Operational control
GRI	Voluntary standard	**Choice among options**: Equity share, Financial control or Operational control *(Explanation is required if the scope of entities covered differs from the financial statements)*
CDP	Voluntary disclosure program	**Choice among options**: Equity share, Financial control, Operational control or other *(The rationale for the choice needs to include if the same consolidation approach used as in financial accounting)*
SBTi	Voluntary target-setting initiative	**Choice among options**: Equity share, Financial control or Operational control *(strongly recommends the organizational boundary to be consistent with the company's financial accounting and reporting procedures)*
PCAF	Voluntary sectoral standard *(required for CSRD disclosures)*	**Choice among options**: Financial control or Operational control ***(Equity share is not permitted)***

IFRS S1 & S2

IFRS S1 Paragraph 20 requires that sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements. Paragraph B38 further elaborates:

> *"For example, consolidated financial statements prepared in accordance with IFRS Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's sustainability-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the sustainability-related risks and opportunities on the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries."*

IFRS S2 Paragraph B24 states that:

> *"An entity is required to use the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions. If the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions, the entity is permitted to use this method rather than using the Greenhouse Gas Protocol: A Corporate*

> *Accounting and Reporting Standard (2004) for as long as the jurisdictional or exchange requirement applies to the entity."*

CSRD (ESRS 1 & E1)

CSRD requires companies to disclose sustainability information, covering environmental, social and governance topics, including GHG emissions disclosures. CSRD sets forth the ESRS to specify what information an undertaking organization shall disclose about its material impacts, risks, and opportunities in relation to sustainability matters. ESRS E1 Climate Change covers the topical disclosures and must be applied in conjunction with ESRS 1 General Requirements. These topical disclosures are subject to a "Double materiality" assessment, reflecting impact materiality and/or financial materiality (ESRS 1). If a company determines that the climate change topic is material, then they are required report GHG emissions.

ESRS 1, paragraph 62 states that "The sustainability statement shall be for the same reporting undertaking as the financial statements". ESRS E1, paragraph 46 further states the following:

> *"When disclosing the information on GHG emissions required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (ESRS 1 Paragraph 67) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions in accordance with the extent of the undertaking's operational control over them."*

ESRS E1, paragraph 50 states that:

> *"For Scope 1 and Scope 2 emissions disclosed as required by paragraphs 44 (a) and (b) the undertaking shall disaggregate the information, separately disclosing emissions from:*
>
> *(a) the consolidated accounting group (the parent and subsidiaries); and*
>
> *(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."*

SEC Rule

SEC Rule states that:

> *"For example, like the rule proposal, the final rule will require a registrant to disclose the organizational boundaries used when calculating its Scope 1 emissions and/or its Scope 2 emissions. Unlike the rule proposal, however, which would have required a registrant to use the same scope of entities and other assets included in its consolidated financial statements when determining the organizational boundaries for its GHG emissions calculation, the final rule provides that the registrant must disclose the method used to determine the organizational*

> *boundaries, and 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 of this difference in sufficient detail for a reasonable investor to understand. In addition, when describing its organizational boundaries, a registrant must describe the method used to determine those boundaries. Under this approach, a registrant will have flexibility to use, for example, one of the methods for determining control under the GHG Protocol, including the operational control approach, as recommended by some commenters, as long as it discloses the method used, and provides investors with information material to understanding the scope of entities and operations included in the GHG emissions calculation as compared to those included in its financial statements. We have made this change to address widely shared concerns about the compliance burden and associated costs of the more prescriptive aspects of the rule proposal."* (pg. 251-252)

CA SB 219

CA SB 219 Greenhouse gases: climate corporate accountability: climate-related financial risk, Section 1(c)(2)(A)(iii) states that:

> *"Reports may be consolidated at the parent company level."*

Section 1(c)(6)) is as follows:

> *"This section does not require additional reporting of emissions of greenhouse gases beyond the reporting of scope 1 emissions, scope 2 emissions, and scope 3 emissions required pursuant to the Greenhouse Gas Protocol standards and guidance or an alternative standard, if one is adopted after 2033."*

This indirectly allows user to choose one of the consolidation approaches in the Corporate Standard.

International Standards Organization (ISO)

ISO 14064-1:2018 *Specification with guidance at the organization level for quantification and reporting greenhouse gas emissions and removals* section 5.1 Organizational boundaries:

> *"The organization shall define its organizational boundaries.*
>
> *The organization may comprise one or more facilities. Facility-level GHG emissions or removals may be produced from one or more GHG sources or sinks. The organization shall consolidate its facility-level GHG emissions and removals by one of the following approaches:*
>
> *a) control: the organization accounts for all GHG emissions and/or removals from facilities over which it has financial or operational control;*
>
> *b) equity share: the organization accounts for its portion of GHG emissions and/or removals from respective facilities.*
>
> *The consolidation approach shall be consistent with the intended use of the GHG inventory."*

GRI

GRI Climate Change Exposure draft Disclosure GH-1 Scope 1 and GHG emissions disclosure requirements provide the following options under Article e; *"report the consolidation approach for emissions, whether equity share, financial control, or operational control."* referencing the *Corporate Standard*.

Guidance to GH-1-e states that:

> *"The organization should select a consistent approach for consolidating gross Scope 1 GHG emissions, choosing from the equity share, financial control, or operational control methods outlined in the GHG Protocol Corporate Standard. The approach should be consistent throughout the GHG inventory.*
>
> *The organization should explain the reason for choosing the consolidation approach. The organization should report GHG emissions for the same group of entities included in its financial reporting. If the group of entities included in its financial reporting differs from the one included in its sustainability reporting, the organization is required to specify any differences in Disclosure 2-2 in GRI 2: General Disclosures 2021. See also section 5.1 in GRI 1: Foundation 2021.*
>
> *If there are any changes in the organizational boundaries, the organization should report these changes."*
>
> *The same disclosure requirements and guidance are also included in Disclosure GH-2 Scope 2 GHG emissions in Article e and Guidance to GH-2-e respectively. Guidance to GH-3-e also states that "When reporting gross Scope 3 GHG emissions, the organization should ensure consistency with the consolidation approach selected under Scope 1 and 2."*

CDP

2024 Climate Change Questionnaire, Question 6.1 on consolidation approaches is as follows: *"Provide details on your chosen consolidation approach for the calculation of environmental performance data."* Response options are financial control, operational control, equity share, and other. The rationale for the choice of consolidation approach needs to be provided including the following:

- If the same consolidation approach as used in financial accounting.
- If a different consolidation approach is used for consolidating different types of environmental data, explain the rationale for this difference. For example, if a different consolidation approach for GHG emissions accounting and for water accounting, explanation as to why is requested.
- If 'Other' is chosen, the organization is asked to specify and provide the rationale for the chosen consolidation approach.

SBTi

SBTi Corporate Net-Zero Standard V1.2 states the following General Criteria (marked by a letter "C" preceding a number) and recommendation (marked by the letter "R" preceding a number) for organizational boundary while setting the target boundary:

- *"*C1 – Organizational boundary: Companies should submit targets only at the parent- or group level, not the subsidiary level. Parent companies shall include the emissions of all subsidiaries in their target submission, in accordance with the boundary criteria. In cases where both parent companies and subsidiaries submit targets, the parent company's target must also include the emissions of the subsidiary if it falls within the parent company's emissions boundary given the chosen inventory consolidation approach."*
- *"*R1 – Setting organizational boundaries: The SBTi strongly recommends that a company's organizational boundary, as defined by the GHG Protocol Corporate Standard, is consistent with the organizational boundary used in the company's financial accounting and reporting procedures. Companies should use the same organizational boundary year-on-year. If a company's organizational boundary changes, they should refer to C27 of this standard."* (pg. 35)

PCAF

PCAF [Part A – Financed Emissions 2nd Edition (2022)] states that:

> *"For PCAF reporting, financial institutions shall use the operational control approach or the financial control approach; as a result, all financed emissions shall be accounted for in their scope 3 category 15 reporting."* (pg.123)

Section 4.2 states that;

> *"For consistency in reporting across organizations and reporting periods, this Financed Emissions Standard requires financial institutions to measure and report their GHG emissions using either the operational or financial control approach. As explained in Box 4[3], this means that emissions from financial institutions' loans and investments (without operational or financial control will be reported under their scope 3 category 15 (investments) emissions, as defined by the GHG Protocol Value Chain (Scope 3) Accounting and Reporting Standard."*

4.2. Financial consolidation

This subsection provides a high-level overview of widely adopted financial accounting frameworks and their adopted consolidation models.

The need for consistent accounting practices led to the establishment of standard-setting bodies, such as the Financial Accounting Standards Board (FASB) in the U.S. and the International Accounting Standards Committee (IASC), later replaced by the International Accounting Standards Board (IASB). Over the years, these bodies have worked on to provide a structured and widely accepted framework for defining organizational boundaries. Companies already apply these financial consolidation principles for financial reporting, and aligning GHG emissions reporting with these principles facilitates integration between financial and GHG emissions information.

Two of the most widely used financial accounting standards in the world are International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (U.S. GAAP). Table 2 provides a high level overview of these two standards, and they are further detailed below.

[3] Please refer to page 38 of the PCAF Part A – Financed Emissions 2nd Edition (2022) for Box 4 content.

Table 2: Overview of leading financial accounting frameworks

Framework/ Standard	Mandatory or Voluntary	Overview
IFRS	Mandatory *(subject to jurisdictional adoption)*	Global accounting standards issued by the International Accounting Standards Board (IASB) and are widely adopted outside the U.S. by 147 jurisdictions to facilitate global consistency in financial reporting.
U.S. GAAP	Mandatory *(in the U.S.)*	Primarily used in the U.S., GAAP encompasses standards, principles, and procedures developed by the Financial Accounting Standards Board (FASB) to ensure consistency and comparability in financial reporting.

Over the last few decades, financial accounting standards and frameworks have evolved significantly to enhance transparency, consistency, and global comparability. The adoption of IFRS by many jurisdictions has streamlined financial reporting across borders, while updates to frameworks like the U.S. GAAP have strengthened disclosure requirements.

In addition to IFRS and U.S. GAAP, many countries/regions have their own national/regional GAAP, which are tailored to their regulatory, tax, and legal environments. Examples include the Japan GAAP, UK GAAP, and Chinese Accounting Standards. These standards are typically region-specific and may vary significantly in terms of principles and requirements.

IFRS

IFRS, currently required by 147 jurisdictions, while 161 jurisdictions have made a commitment to adopt, for all or most domestic publicly accountable entities (IFRS - Who uses IFRS Accounting Standards?), emphasizes a control-based approach to consolidation, defined by an entity's ability to direct an investee's activities, earn variable returns, and affect those returns through control. This principle enables entities to consolidate based on substantive power rather than formal ownership structures.

The IFRS consolidation approach, governed primarily by IFRS 10 – Consolidated Financial Statements (also further guidelines provided in IFRS 11 and IFRS 16), establishes principles for presenting financial statements of a group of entities as if they were a single economic entity. The core of this approach is the control concept, which requires a parent entity to consolidate all entities it controls.

Control exists when the parent has:

- power over the investee,
- exposure to variable returns from its involvement with the investee, and
- the ability to use its power to affect those returns.

The consolidation process involves combining the financial statements of the parent and its subsidiaries by adding together their assets, liabilities, equity, income, and expenses. Intercompany transactions, balances, and unrealized gains or losses are eliminated to prevent double counting. Non-controlling interests (NCI) in subsidiaries are presented separately within equity and net income to reflect ownership by parties other than the parent. IFRS emphasizes transparency and consistency in consolidation, ensuring that users of the financial statements gain a clear and accurate view of the financial position and performance of the group.

U.S. GAAP

U.S. GAAP applies to all public companies in the United States. Accounting Standards Codification 810 (ASC 810, also ASC 842) provides guidance on entities subject to consolidation as well as on how to consolidate. Paragraph 810-10-10-1 discusses the objectives of consolidation as follows:

> *"Under this Subtopic (810-10-10-05), there are two primary models for determining whether consolidation is appropriate:*
>
> *a. The voting interest entity model*
>
> *b. The variable interest entity (VIE) model.*
>
> *Additional analysis also is required for consolidation of entities controlled by contract, which is applicable to entities that are not VIEs in this Subtopic. Under the voting interest entity model, for legal entities other than limited partnerships, the usual condition for a controlling financial interest is ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity (see paragraph 810-10-15-8). For limited partnerships, the usual condition for a controlling financial interest is ownership by one limited partner, directly or indirectly, of more than 50 percent of the limited partnership's kick-out rights through voting interests (see paragraph 810-10-15-8A). If noncontrolling shareholders or limited partners have substantive participating rights, then the majority shareholder or limited partner with a majority of kick-out rights through voting interests does not have a controlling financial interest. Under the VIE model, a controlling financial interest is assessed differently than under the voting interest entity model. This difference in assessment is required because a controlling financial interest may be achieved other than by ownership of shares or voting interests. A controlling financial interest in the VIE model requires both of the following:*
>
> *a. The power to direct the activities that most significantly impact the VIE's economic performance*
> *b. The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.*
>
> *A reporting entity with a controlling financial interest in a VIE is referred to as the primary beneficiary (see paragraph* 810-10-25-38A*). The reporting entity could be, but is not limited to being, an equity investor, some other capital provider such as a debt holder, or a party with another contractual arrangement such as a guarantor. This model applies to all types of legal entities within the scope of the Variable Interest Entities Subsections of this Subtopic that meet the definition of a VIE (see paragraph* 810-10-15-14*).*
>
> *To determine which accounting model applies and which reporting entity, if any, must consolidate a particular legal entity, after a reporting entity determines that it has a variable interest, it must determine whether the legal entity is a VIE or a voting interest entity (see paragraph 810-10-15-14), unless a scope exception applies (see paragraph 810-10-15-12)."*

5. Summary of Stakeholder Feedback on organizational boundaries

5.1. Feedback on organizational boundaries from Corporate Standard stakeholder survey

Section B of the Detailed Summary of Responses from Corporate Standard Stakeholder Survey (Survey Summary) summarizes stakeholder feedback received related to organizational boundaries. Common themes referenced include maintaining current organizational boundary requirements and guidance in the *Corporate Standard*, revisiting organizational boundaries, and aligning a consolidation approach with financial accounting. The full text from the Survey Summary related to organizational boundaries is provided in Appendix B.

5.2. Proposals received related to organizational boundaries

The GHG Protocol Secretariat received five stakeholder proposals related to organizational boundaries, summarized in Table 3.

Table 3: Proposals related to organizational boundaries provided in the Corporate Standard

Proposal	Organizational boundaries-related topics raised
Corporate Standard_Proposal_Deloitte_1	• Revisit current optionality and considering more prescriptive requirements for consolidation approaches • Update consolidation approaches to better align with current financial accounting practices approaches • Updating definitions and improve guidance for determining boundaries under current consolidation approaches, specifically operational control
Terrascope_1	• Revisiting current optionality and considering more prescriptive requirements for consolidation approaches
Anonymous_023	• Updating definitions and improve guidance for determining boundaries under current consolidation approaches, specifically operational control
Corporate Standard-Scope 2-Scope 3_Proposal_Green Asia Network and Thankscarbon	• Updating definitions and improve guidance for determining boundaries under current consolidation approaches, specifically operational control
Corporate Standard-Scope 3-General_Proposal_Canadian Union of Postal Workers	• Updating definitions and improve guidance for determining boundaries under current consolidation approaches, specifically operational control

6. Analysis of Options Under Consideration According to GHG Protocol Decision-Making Criteria

Based on stakeholder feedback and additional research, two overarching discussion topics have been identified for revising consolidation approaches (Scope of work item B.1.):

1. **Alignment with financial accounting** – Question 1: How can and should a consolidation approach align with financial accounting? (Table 4)
2. **Optionality in consolidation approaches** – Question 2: Should optionality in consolidation approaches be maintained in the *Corporate Standard*? If so, how? And if not, which consolidation approach should be required? (Table 5)

These topics will be covered by questions which are proposed below for considering potential revisions to the Corporate Standard consolidation approaches. Each question is associated with multiple options, which are assessed using the GHG Protocol decision-making criteria and hierarchy considering pros and cons. The degree to which an option is aligned with each criterion is qualitatively assessed and identified through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Criteria are marked 'N/A' if not applicable for a given topic. The details on GHG Protocol Decision-making criteria and hierarchy together with guidance for analysis using this criteria and hierarchy is provided in GHG Protocol Governance Overview, Annex A.

Table 4: Proposed question and options for considering alignment of a consolidation approach with financial accounting

Question	Options
1. How can and should a consolidation approach in the *Corporate Standard* **align with financial accounting**?	A. **Incorporate all** (including differing) **requirements** of current financial accounting standards B. **Choose one financial accounting standard** and apply its consolidation requirements C. **Require companies** that choose the financial control approach **to apply the same consolidation model** as their financial disclosures

Table 5: Proposed question and options for considering optionality in consolidation approaches

Question	Options
2. Should **optionality in consolidation approaches** be maintained in the *Corporate Standard*?	1. Yes. Maintain optionality with **equal options** 2. Yes. Maintain optionality and **specify a preferred/recommended approach** 3. No. Require a **layered approach** (e.g., ESRS layered approach) 4. No. Require the **(revised) financial control** approach

Questions and the associated options have been refined based on initial TWG discussions and are analyzed below in more detail.

Please note that this section is compiled to facilitate TWG discussions only, and it may not reflect all possible options.

6.1. Alignment with financial accounting

This subsection outlines background on consolidation models in financial accounting, early discussions shaping the question and options for considering how a consolidation approach in the Corporate

Standard can align with financial accounting, and analysis of proposed options as per the GHG Protocol Decision-Making Criteria.

Overview on financial accounting

Financial accounting frameworks are developed to provide a foundation to ensure accuracy, consistency, and comparability of financial information. Consolidation models used in financial accounting determine how organizations define and include subsidiaries or related entities in their financial statements. Understanding the evolution and primary characteristics of major financial accounting frameworks, focusing on their rules and principles on consolidation will help us determine how a consolidation approach in the *Corporate Standard* can align with financial accounting, helping organizations better align their financial and GHG emissions disclosure practices.

Despite efforts to align, the two most widely adopted financial accounting frameworks IFRS and U.S. GAAP remain distinct. IFRS is principles-based, emphasizing judgment, while U.S. GAAP follows a more rules-based, approach relying on detailed guidance. These differences extend to consolidation approaches. The following resources provide an overview on key differences between IFRS and U.S. GAAP:

- U.S. GAAP versus IFRS: The basics (EY, February 2023) - chapter on Consolidation, joint venture accounting and equity method investees/associates (pages 6-9) includes an overview of the similarities of both standards as well as a comparative table providing significant differences of the two based on main topics of consolidation such as consolidation models
- IFRS and U.S. GAAP: similarities and differences (pwc, June 2023, partially updated in October 2024) - Chapter 12 (pages 12-2 – 12-24) covers the highlights of consolidation-related aspects of both standards together with key differences
- IFRS compared to U.S. GAAP (KPMG, November 2023) - Handbook section 2.5 Consolidation (pages 52-69) provides a detailed table outlining key differences between two standards
- Comparing IFRS Accounting Standards and U.S. GAAP: Bridging the Differences (Deloitte, September 2024) - Section 5.2 Consolidation (pages 54 – 57) includes a table outlining the approaches of both standards on key consolidation topics, such as scope exceptions, consolidation models, definition of “control”, without making a direct comparison

Other financial accounting frameworks such as national Generally Accepted Accounting Principles (GAAPs) in jurisdictions outside the United States often differ significantly from U.S. GAAP in their consolidation requirements. While U.S. GAAP focuses on the Variable Interest Entity (VIE) model and voting interest approach, other national GAAPs frequently base their consolidation criteria on control principles aligned more closely with IFRS, though with notable regional variations.

Over the past 20 years, financial accounting standards have evolved significantly to address the complexities of modern organizational structures and will continue to do so. The current consolidation approaches in the *Corporate Standard*, especially the equity share and financial control approaches, were designed to be consistent with financial accounting terminology and practices. However, in light of the significant evolution of financial accounting standards, these consolidation approaches need to be revised to reflect the current financial accounting practices.

Current consolidation approaches in the Corporate Standard and their potential to align with financial accounting

Equity Share Approach

The equity share approach is somewhat aligned with how equity method investments are treated under IFRS and U.S. GAAP, where entities with significant influence but not control are accounted for by recognizing a share of net income or loss. However, financial accounting standards generally do not require proportional recognition of assets or liabilities, nor do they apply this method to controlled entities.

The equity share approach has very limited alignment with leading financial accounting standards, as it does not fully capture the criteria for control that determine consolidation. Financial accounting standards consolidate based on control (not merely ownership percentage). Therefore, the equity share approach only partially aligns with financial reporting and is best suited for entities with non-controlling stakes.

Financial Control Approach

The financial control approach was initially designed to be consistent with international financial accounting standards and, therefore, most closely resembles the consolidation models used in financial accounting standards (e.g., IFRS, U.S. GAAP) as it is based on control. Therefore, it has the highest potential for alignment with both IFRS and U.S. GAAP because it is based on a concept of control similar to that used in financial consolidation standards. This approach generally allows organizations to report GHG emissions from entities they control financially, similar to how they consolidate such entities in their financial statements.

Operational Control Approach

The operational control approach does not align closely with financial accounting consolidation, as operational control alone does not generally determine consolidation under IFRS or U.S. GAAP. Financial reporting standards emphasize control over financial and operating policies (financial control), not just operational oversight. This approach may result in including entities in GHG inventories that would not be consolidated in financial statements, particularly where operational control is exerted without ownership or financial control.

The operational control approach has limited alignment with IFRS and U.S. GAAP, as it does not follow the same control criteria. While it is currently used for specific GHG reporting objectives, it would require substantial reconciliation to align with financial consolidation boundaries.

Table 6 provides an overview of how key themes are applied in leading financial accounting standards (IFRS and U.S. GAAP) and each of the three consolidation approaches in the Corporate Standard.

Table 6: Overview of key themes for consolidation in leading financial accounting frameworks and the Corporate Standard

Key theme	IFRS	U.S. GAAP	Equity share	Financial control	Operational control
Type	Financial accounting	Financial accounting	GHG accounting	GHG accounting	GHG Accounting
Approach	Control-based (single model)	Control-based (two-tiered model)	Ownership-based	Control-based (Financial and operational)	Control-based (operations)
Consolidation model *(control criteria)*	3 elements: - Power over the investee - exposure to (rights to) variable returns, - ability to direct variable returns *(100% consolidation in financial statements*)*	Variable interest model (VIE): Primary beneficiary; - Power to direct activities - Obligation to absorb losses Voting interest model (VOE): - Majority voting interest (50%) - Non-controlling share owner with no substantive participating right *(100% consolidation in financial statements*)*	Share of emissions based on ownership percentage (economic substance overrides legal ownership if different) *(emissions consolidated based on equity share %)*	Ability to direct financial and operating policies with view to gain economic interest (financial control) *(100% of emissions consolidated)*	Full authority to introduce and implement its operating policies *(100% of emissions consolidated)*
Treatment of partial ownership	Only entities under control are typically fully consolidated, proportional consolidation is used in rare cases	Similar to IFRS	Share of emissions based on ownership percentage	100% of emissions if financial control is in place through contractual agreements	N/A
Non-controlling interest	Presented as a separate component in equity	Similar to IFRS	N/A	N/A	N/A
Joint arrangements	Defined as *joint operations* or *joint ventures*;	Only *joint ventures* are defined Equity method for *joint ventures*, no proportionate	Proportionate consolidation based on equity share	Only *joint ventures* are defined 100% of emissions if	*Only joint ventures* are defined

	Proportionate consolidation or equity method	consolidation for joint ventures	in joint venture	financial control in place Equity share of emissions if joint financial control in place	100% of emissions if operational control in place 0% if operational control not in place

*Except from joint arrangements and non-controlling interest.

Based on this overview, among the three approaches, the financial control approach has the strongest potential for alignment with financial accounting consolidation frameworks. Although the financial control approach was designed to be consistent with financial accounting standards, the significant evolution of financial accounting frameworks over the past two decades means it is now out of date. Table 7 provides a high-level overview of the differences between how financial control is defined in the Corporate Standard and how it is currently defined in IFRS and U.S. GAAP.

Table 7: Definition of financial control in the Corporate Standard and leading financial accounting frameworks

	GHG Protocol ("Financial" control approach)	IFRS (control)	U.S. GAAP (control)
Control criteria	• Ability to direct the financial and operating policies • Rights to the majority of the benefits • Retaining majority of risks and rewards Financial control can be in place even when owning minority (<50%) interest	• Power* over investee • Exposure to (rights to) variable returns • Ability to direct variable returns Financial control can be in place even when owning minority (<50%) interest	• Variable interest model, only consolidated if the reporting entity is the primary beneficiary** • Voting interest model, based on voting interest; either majority (over 50%) while non-controlling share owners do not have substantive participation rights Financial control typically cannot be in place when owning minority (<50%) interest but may exist through contractual agreements

*Power: Existing rights that give the current ability to direct the relevant activities (IFRS 10 – Appendix A). For the purpose of IFRS 10, relevant activities are activities of the investee that significantly affect the investee's returns.
**Primary beneficiary: An entity that consolidates a variable interest entity (VIE) (FASB Master Glossary, paragraphs 810-10-25-38 through 25-38J)

In addition to the difference between how control is defined, there are terminology updates to key accounting categories currently addressed in the Corporate Standard. Table 8 provides an overview of how terminology and consolidation practices for key accounting categories are applied in leading financial accounting standards.

Table 8: Equity share, financial control, IFRS and U.S. GAAP approaches to consolidation as an addition to Table 1 of the Corporate Standard

ACCOUNTING CATEGORY	FINANCIAL ACCOUNTING DEFINITION	BASED ON EQUITY SHARE	BASED ON FINANCIAL CONTROL	IFRS	U.S. GAAP
Group companies / subsidiaries	The parent company has the ability to direct the financial and operating policies of the company with a view to gaining economic benefits from its activities. Normally, this category also includes incorporated and non-incorporated joint ventures and partnerships over which the parent company has financial control. Group companies/subsidiaries are fully consolidated, which implies that 100 percent of the subsidiary's income, expenses, assets, and liabilities are taken into the parent company's profit and loss account and balance sheet, respectively. Where the parent's interest does not equal 100 percent, the consolidated profit and loss account and balance sheet shows a deduction for the profits and net assets belonging to minority owners.	Equity share of GHG emissions	100% of GHG emissions	Full consolidation if control exists (IFRS 10), with adjustments for non-controlling interests.	Full consolidation if control exists (ASC 810), including Variable Interest Entities (VIEs) where the parent is the primary beneficiary. Non-controlling interests are accounted for if the parent does not own 100%.
Associated / affiliated companies	The parent company has significant influence over the operating and financial policies of the company, but does not have financial control. Normally, this category also includes incorporated and non-incorporated joint ventures and partnerships over which the parent company has significant influence, but not financial control. Financial accounting applies the equity share method to associated/affiliated companies, which recognizes the parent company's share of the associate's profits and net assets.	Equity share of GHG emissions	0% of GHG emissions	Updated terminology: Associates. Equity method applied (IAS 28) for investments with significant influence but no control.	Updated terminology: Associate/Investee. Equity method applied (ASC 323) for investments with significant influence but no control.
Non-incorporated joint ventures / partnerships / operations where partners have joint financial control	Joint ventures/partnerships/operations are proportionally consolidated, i.e., each partner accounts for their proportionate interest of the joint venture's income, expenses, assets, and liabilities.	Equity share of GHG emissions	Equity share of GHG emissions	"Non-incorporated joint ventures" terminology is no longer used. However, Proportionate consolidation not permitted; equity method is used (IFRS 11).	"Non-incorporated joint ventures" terminology is no longer used. However, Proportionate consolidation not permitted; equity method (ASC 323).
Fixed asset investments	The parent company has neither significant influence nor financial control. This category also includes incorporated and non- incorporated joint ventures and partnerships over which the parent company has	0%	0%	Not consolidated but recorded as Investments at fair value or amortized cost (IFRS 9).	Not consolidated but treated as financial instruments at fair value or cost (ASC 320 and ASC 321).

	neither significant influence nor financial control. Financial accounting applies the cost/dividend method to fixed asset investments. This implies that only dividends received are recognized as income and the investment is carried at cost.				
Franchises	Franchises are separate legal entities. In most cases, the franchiser will not have equity rights or control over the franchise. Therefore, franchises should not be included in consolidation of GHG emissions data. However, if the franchiser does have equity rights or operational/financial control, then the same rules for consolidation under the equity or control approaches apply.	Equity share of GHG emissions *(conditional)*	100% of GHG emissions *(conditional)*	Full consolidation if control exists (IFRS 10). Equity method is used if control does not exist, but significant influence is in place. If neither is in place only interest is accounted as contractual agreement.	Consolidated if control exists (ASC 810) and the franchisor is the primary beneficiary.

Based on the above overview, early conceptual TWG discussions focused on whether a consolidation approach in the *Corporate Standard* should align with financial accounting, and if so, how. The following key concepts were evaluated: Potential level of alignment (ranging from limited to full alignment) with financial accounting and the level of prescriptiveness (less or more prescriptive) to be adopted.

- **Level of alignment:** Early considerations focused on to what extend alignment with financial accounting should be prioritized. Potential levels of alignment were considered, ranging from a limited alignment with terminology updates only to fully aligning with financial consolidation practices. Recognizing the varying and at times contradictory rules adopted by leading and other financial accounting and consolidation methods, aligning with all financial accounting standards is not achievable.
- **Level of prescriptiveness**: If there is support for alignment with financial accounting, the challenge is then how to align with the differing financial consolidation methods adopted by current financial accounting frameworks. These frameworks were further evaluated based on the potential level of prescriptiveness to establish alignment in the *Corporate Standard*. These considerations included whether to be less prescriptive in how financial control is defined in the *Corporate Standard,* or more prescriptive.

These considerations guided the framing of proposed options under the following key question.

Question 1: How can and should a consolidation approach in the Corporate Standard align with financial accounting?

This question considers how a consolidation approach in the Corporate Standard align with financial accounting. The three proposed options are:

How can/should **alignment with financial accounting be achieved?**	A. Incorporate **all (inc. differing) requirements** of current financial accounting standards	**B. Choose one financial accounting standard** and apply its consolidation requirements	**C.** Require **companies choosing financial control to apply same consolidation** as their financial disclosures

These options are described below and are then assessed according to the GHG Protocol decision-making criteria in Table 9.

Option A: Incorporate all (including differing) requirements of current financial accounting standards

This option would adopt multiple pathways to define financial control (referred to as "control" in financial accounting) based on differing consolidation requirements of leading and local financial accounting frameworks. This could effectively result in multiple types of financial control – one for each of the financial accounting standards.

Option B: Choose one financial accounting standard and apply its consolidation requirements

This option would choose one financial accounting framework (e.g., IFRS) and adopt the consolidation model of that framework.

Option C: Require companies that choose the financial control approach to apply the same consolidation model as their financial disclosures

This option suggests not defining specific the criteria for establishing financial control in the *Corporate Standard*. Instead, it would requires companies choosing the financial control approach (due to its closest alignment with financial accounting frameworks) to adopt the same consolidation model as they do in their financial statements.

Decision-Making Criteria analysis of proposed options for aligning with financial accounting

Table 9: Decision-making criteria analysis for proposed options on alignment with financial accounting (Question 1)

Criteria	<u>Option A</u> Incorporate all requirements of current financial accounting standards	<u>Option B</u> Choose one financial accounting standard and apply its consolidation requirements	<u>Option C</u> Require companies that choose the financial control approach to apply the same consolidation model as their financial disclosures
Scientific integrity	N/A	N/A	N/A
GHG Protocol accounting and reporting principles	Pros: • Strongly promotes ***Completeness***, ***Consistency***,	Pros: • Strongly promotes ***Completeness***, ***Consistency***,	Pros: • Strongly promotes ***Completeness***, ***Consistency***,

	Relevance and ***Transparency*** Cons: N/A	***Relevance*** and ***Transparency*** (only for the chosen financial standard) Cons: • (Significantly) inhibits ***Consistency, Completeness, Relevance*** (for reporters following another financial accounting standard)	***Relevance*** and ***Transparency*** (for all reporters) Cons: N/A
Support decision-making that drives ambitious global climate action	Pros: • Enables informed decision-making and allows action Cons: • May inhibit decision-making if the financial accounting standards are further revised to create inconsistency	Pros: • Enables informed decision-making and drives informed climate action only for companies already using the chosen standard for financial consolidation Cons: • May (significantly) inhibit informed decision-making for users of other standards; May inhibit decision-making if the chosen standard is further revised	Pros: • Strongly supports informed decision-making for all reporters using financial control (especially mandatory reporters) Cons: • N/A
Support programs based on GHG Protocol and uses of GHG data	Pros: • Maintains interoperability with programs based on GHG Protocol Cons: • May inhibit decision-making and increase inconsistency if/when the financial accounting standards (standards) are further revised (same situation as now)	Pros: • Only aligned with the chosen standard • Enhances comparability across inventories (<u>only</u> for the chosen financial standard) Cons: • Misaligned with other standards; • Potentially inhibits interoperability with programs requiring financial consolidation based on other standards	Pros: • Aligned and/or interoperable with all programs/standards; • Facilitates integration of GHG and financial data Cons: • May inhibit comparability across inventories using different financial accounting standards

Feasibility to implement	Pros: • Relatively easier to adopt by reporters already using "financial control" or with advanced financial reporting procedures in place Cons: • Significantly resource intensive to develop (beyond the scope of work planned for this revision) • Significantly challenging to maintain alignment • Significantly challenging to implement for other users (than in pros)	Pros: • Relatively easier to adopt only by reporters already using "financial control" based on the chosen financial standard Cons: • Significantly challenging to implement for other users having to change their consolidation approach, especially for users of different financial standards • Challenging to maintain alignment	Pros: • Easier to develop and maintain alignment • Feasible to implement for (especially mandatory) reporters using "financial control" Cons: • N/A

TWG Subgroup 2 discussion update: Based on the discussions to date, there was unanimous support to implement Option C to achieve alignment with financial accounting by requiring the companies that choose the financial control approach to adopt the same consolidation model as their financial statements. Accordingly, discussions on optionality in consolidation approaches was introduced incorporating this preliminary outcome.

6.2. Optionality in consolidation approaches

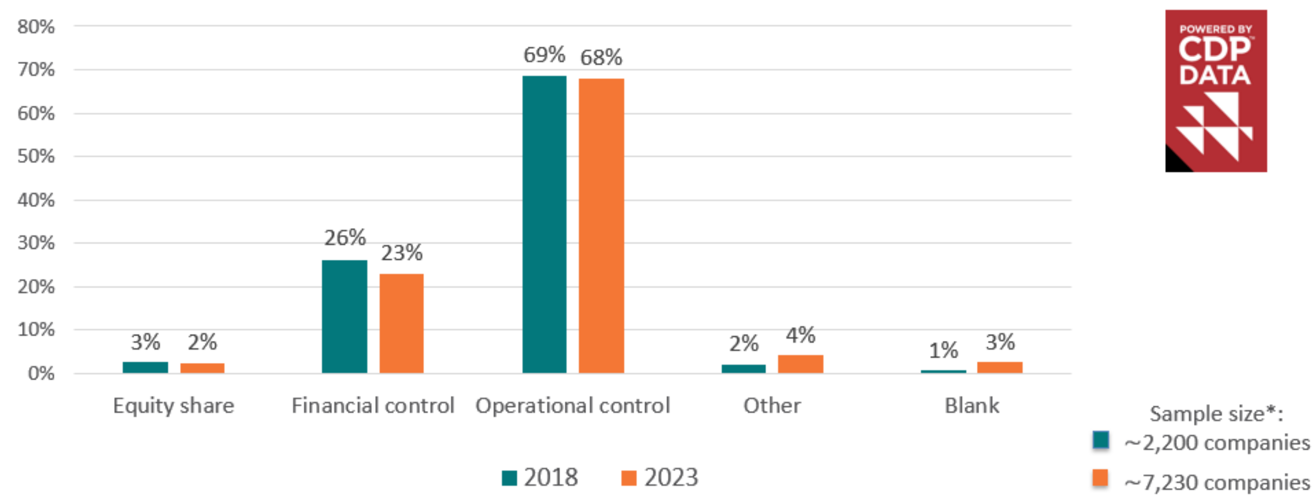
This subsection starts with an evaluation of current consolidation approaches provided in the Corporate Standard. It then provides an overview of early TWG discussions shaping the question on optionality in consolidation approaches. Finally, it presents the analysis of options for considering optionality in consolidation approaches in the *Corporate Standard* as per the GHG Protocol Decision-Making Criteria.

Evaluating current consolidation approaches in the Corporate Standard

Based on the requirements and guidance on setting organizational boundaries provided in the Corporate Standard (Chapter 3, Section 3.1 of this document), each of the three current consolidation approaches (equity share, financial control and operational control) are evaluated based on their current level of adoption, how they are addressed in external programs, and their key pros and cons.

The level of adoption of each of the three consolidation approaches is important to consider to inform any changes (Figure 1). The operational control has the widest adoption of the three approaches (68% of companies with public CDP disclosures in 2023), followed by financial control (23% in 2023). The equity share approach had by far the lowest adoption rate, at just 2% in 2023. The remainder of companies either selected "other" (4%) or left the field blank (3%). Additionally, the rates of adoption have remained relatively steady over time, with only minimal changes observed between 2018 and 2023.

Figure 1: Adoption rates of current consolidation approaches in 2018 and 2023 (CDP)



**Sample includes companies that were presented with question C0.5 and submitted their response publicly for given years.*

Equity Share Approach

The equity share approach assigns greenhouse gas emissions based on a company's share of equity. The following language is currently used to describe the equity share approach in the Corporate Standard:

> *"Under the equity share approach, a company accounts for GHG emissions 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."*

Table 10 provides an overview of the main pros and cons of the equity share approach.

Table 10: Main pros and cons of the equity share approach

Pros of the equity share approach	Cons of the equity share approach
• Provides a view of emissions **proportional to ownership/economic interest**, offers ease of consolidation especially for reporting companies with complex organizational structures where control is hard to establish • 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**	• **Very limited adoption** based on CDP data • May not reflect the actual **influence** over emissions • **Not allowed in some mandatory disclosure requirements** and voluntary frameworks (e.g., PCAF) • **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 investments (to be implemented via the revised financial control approach)

Financial Control Approach

The financial control approach is one of two control approaches for consolidation approaches, the other being operational control. The financial control approach assigns greenhouse gas emissions based on financial control with a view of gaining economic interest from related activities. The following language is currently used to describe financial control in the Corporate Standard:

> *"The company has financial control over the operation if the former has the ability to direct the financial and operating policies of the latter with a view to gaining economic benefits from its activities.*
>
> *If this criterion is chosen to determine control, emissions from joint ventures where partners have joint financial control are accounted for based on the equity share approach."*

The preliminary outcome in question 1 (alignment with financial accounting) was to implement Option C to align a consolidation approach with financial accounting (Section 6.1). The following evaluation of the financial control approach therefore assumes the financial control approach is revised such that companies that choose the financial control approach shall adopt the same consolidation model as their financial statements.

Table 11 provides an overview of the main pros and cons of the (revised) financial control approach.

Table 11: Main pros and cons of the (revised) financial control approach

Pros of the (revised) financial control approach	Cons of the (revised) financial control approach
• Expected **increase in adoption** due to growth in mandatory disclosure program requirements • Provides a **clear link between financial accountability and GHG emissions responsibility**, establishing integration between financial & GHG information, informing investment decisions • **Required** by major **mandatory climate disclosure** programs	• **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

The operational control approach assigns greenhouse gas emissions based on whether the company directs the operations of an asset, regardless of financial control or legal ownership. The following language is currently used to describe operational control in the Corporate Standard:

> *"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.*
>
> *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"*

Table 12 provides an overview of the main pros and cons of the operational control approach.

Table 12: Main pros and cons of the operational control approach

Pros of the operational control approach	Cons of the operational control approach
• **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 consolidation approach** to be applied for non-consolidated entities and arrangements • Supports **compliance** with **environmental regulations** other than climate disclosures	• **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 • **Defining operational control** can be **subjective** and **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**

TWG Subgroup 2 discussion update: Based on the discussions to date, the preliminary outcomes on evaluating the current consolidation approaches in the Corporate Standard are as follows:

-Majority of the subgroup members support eliminating the equity share approach

-Unanimous support for maintaining the revised financial control approach (by implementing Option C, Section 6.1)

-Majority support for maintaining the operational control approach once it is revised to address the relevant scope of work items

These considerations guided the framing of proposed options under the following key question on optionality in consolidation approaches. The options are framed such that they assume the financial control approach is revised and that the operational control approach is maintained and revised. Please note that the preliminary evaluation on eliminating the equity share approach will be finalized once the financial control approach text revision is completed.

Question 2: Should optionality in consolidation approaches be maintained in the Corporate Standard?

This question considers whether optionality in consolidation approaches should be maintained in the Corporate Standard, and if so, how. The four proposed options 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

These options are described below and are then assessed according to the GHG Protocol decision-making criteria in Table 13.

Option 1: Yes, maintain optionality with equal options (financial control or operational control)

This option would maintain optionality for setting organizational boundaries in the Corporate Standard by keeping both the revised financial control approach and the revised operational control approach options for reporting organizations to choose from.

As a policy neutral standard setter with the aim to support broad adoption of GHG Protocol standards, including in voluntary and regulatory settings, and by considering the different users of the Corporate Standards, providing options for consolidation approaches in setting organizational boundaries enables the Corporate Standard to serve different objectives of users of the Standard.

Example text: Companies *shall* either use the [revised] financial control or the [revised] operational control approaches.

Option 2: Yes, maintain optionality and specify a preferred/recommended approach

This option considers maintaining optionality for setting organizational boundaries in the Corporate Standard. The difference from Option 1 is that this option identifies a preferred or a recommended (*should* statement) approach for companies to adopt while setting their organizational boundaries.

This option could support enhanced comparability across different organizations' GHG inventories by suggesting a more standardized approach to setting organizational boundaries, while maintaining the flexibility for users to choose another option if it meets with their reporting requirements better.

Example text:

- Companies *should* use the [revised] financial control approach, but *may* use the [revised] operational control approach.
- Companies *shall* use the [revised] financial control approach. If implementing the financial control approach is not possible, companies *may* use the [revised] operational control approach.

Option 3: No, remove optionality and require a layered approach (e.g., ESRS layered approach)

This option would remove optionality in consolidation approaches and introduce a required layered application of multiple consolidation approaches. It would apply one consolidation approach (e.g., revised financial control approach) for certain aspects of the organization and complement it with another consolidation approach (e.g., revised operational control approach) to include other aspects of the organization not covered by the initial consolidation approach. This option is designed to evaluate whether applying different consolidation approaches in layers can provide a more comprehensive GHG emissions profile.

The primary driver behind this proposed option is to avoid potential under-reporting of GHG emissions. Additionally, it aims to adopt a similar method for setting organizational boundaries as required by one of the leading mandatory climate disclosure frameworks, the ESRS E1.

Example text: Companies *shall* account for entities consolidated in the reporting company's financial statements using the [revised] financial control approach. Companies *shall* account for non-consolidated entities separately using the [revised] operational control approach.

Option 4: No, remove optionality and require the (revised) financial control approach

This option would require all companies to apply the revised financial control approach.

The financial control approach was identified as the single required approach because rapidly evolving mandatory climate disclosure requirements primarily mandate a consolidation approach that covers the same group of entities as the financial statements. This requirement aligns with what the revised financial control approach will capture.

The main driver of requiring a single consolidation approach in the *Corporate Standard* is standardization. This option would eliminate the need for the reporter to evaluate which consolidation approach they should choose based on their reporting objectives. This would also avoid potential double-counting between scope 1 and 2 emissions across companies as all reporting entities would use the same approach.

Requiring a single consolidation approach could improve comparability across different GHG inventories. However, it should be noted that adopting the same consolidation approach by itself does not make different entities' GHG emissions inventories fully comparable.

Example text:

- Companies *shall* account for their emissions using the [revised] financial control approach.

Decision-Making Criteria analysis of proposed options for optionality in consolidation approaches

Table 13: Preliminary decision-making criteria analysis for proposed options for considering optionality in consolidation approaches (Question 2)

Criteria	Option 1 YES - Maintain optionality with equal options (financial control or operational control)	Option 2 YES - Maintain optionality and specify a preferred/recommended approach	Option 3 NO – Remove optionality and require a layered approach	Option 4 NO – Remove optionality and require the revised financial control approach
Scientific integrity	N/A	N/A	N/A	N/A
GHG Protocol accounting and reporting principles	Pros: • Supports ***Relevance*** by enabling the reporter to choose the approach that best aligns with their reporting objectives • Supports ***Consistency*** Cons: • May inhibit ***Relevance*** and ***Completeness*** as it can lead to strategic reporting choices that minimize reported emissions	Pros: • Serves ***Relevance*** and ***Completeness*** by maintaining some form of optionality Cons: • May inhibit ***Consistency*** as it requires users to change their current consolidation approach (depending on how the approach is formulated)	Pros: • Promotes ***Completeness*** and potentially enhances ***Relevance*** by enabling a more holistic GHG accounting Cons: • Inhibits ***Consistency*** as it requires all users to change their current consolidation approach to a newly defined approach • May inhibit ***Relevance*** (depending on the reporting objective of the user)	Pros: • Supports ***Relevance*** for reporters with the objective to integrate financial and emissions data Cons: • Inhibits ***Consistency*** for users having to change their current consolidation approach or adjust their consolidation approach based on the revised version of the financial control approach • May inhibit ***Relevance*** if the required approach does not align with reporting objectives of the user
Support decision-making that drives ambitious global climate action	Pros: • Enables users to choose the most relevant approach to best demonstrate progress over time towards meeting climate goals	Pros: • Potential for a more standardized approach, enabling comparative decision-making especially for external stakeholders	Pros: • Provides a standardized approach • Enables comparative decision-making especially for external stakeholders	Pros: • Provides a standardized approach • Facilitating better comparison and informs decision-making

	• Supports informed decision-making in line with differing reporting objectives of the reporters Cons: • May inhibit decision-making for stakeholders requesting integration of financial and GHG emissions information (if operational control is used) • Increased risk of double -counting of scope 1 and 2 emissions across companies	Cons: • Can (significantly) inhibit informed decision-making if the recommended option does not align with business/reporting goals of the user (depending on how the approach is formulated)	Cons: • Can (significantly) inhibit informed decision-making if the required layered option does not align with reporting objectives of the user	especially for external stakeholders • Eliminates risk of double-counting between scope 1 and 2 emissions across companies Cons: • Can (significantly) inhibit informed decision-making if the recommended option does not align with reporting objectives of the user
Support programs based on GHG Protocol and uses of GHG data	Pros: • Maintains interoperability with programs based on GHG Protocol including programs currently requiring a single consolidation approach • Flexibility to serve different objectives of both reporters and GHG program developers Cons: • Results in less comparable GHG data across different companies if different approach is used	Pros: • Maintains interoperability with programs based on GHG Protocol • Potentially provides more comparable GHG data (if the recommended approach is consistently used by reporters) Cons: • Potentially reduced interoperability/alignment with mandatory programs requiring a single approach (depending on how the approach is formulated)	Pros: • Promotes provision of a fuller GHG emissions profile • May enhance alignment with programs requiring the same layered approach (e.g., CSRD) Cons: • May (significantly) inhibit interoperability with programs currently providing optionality and/or requiring a single consolidation approach	Pros: • Supports the integration of financial and GHG emissions information • Alignment with major mandatory programs and interoperability with programs based on GHG Protocol • Enables streamlined reporting of GHG emissions, enhancing comparability of GHG data across different companies Cons: • Inhibits interoperability with programs currently providing flexibility and/or

		• Less flexibility to serve different objectives of reporters and GHG program developers (depending on how the approach is formulated)		a layered approach for consolidation (e.g., CSRD)
Feasibility to implement	Pros: • Avoids creating additional barrier for entry for new/voluntary users & SMEs • Makes adoption more accessible overall Cons: N/A	Pros: • Maintains feasibility for users already adopting the preferred/recommended option • Promotes flexibility for users by maintaining optionality in some form Cons: • May inhibit feasibility to implement (depending on how the approach is formulated) • May create additional barrier for entry for new/voluntary users & SMEs if the recommended approach is less feasible to comply (depending on how the approach is formulated)	Pros: • Provides standardization and avoids any confusion when selecting a consolidation approach Cons: • Higher cost of compliance for existing SMEs and voluntary users, and other users having to change their consolidation approach • Potentially further inhibits feasibility to implement by providing a complex (layered) consolidation approach for all users, especially voluntary reporters	Pros: • Provides standardization and avoids step of deciding which consolidation approach to use Cons: • Higher cost of adoption for existing SMEs and voluntary users, and other users having to change their consolidation approach • Creates higher barrier for entry for new users (SME & voluntary reporters)

7. Glossary of Key Terms

This section includes the glossary for key terms used in this discussion paper to ensure common understanding of key GHG accounting terminology. Sources for listed definitions are also provided.

Terminology	Source	Definition
Consolidation	GHG Protocol *Corporate Standard*	Combination of GHG emissions data from separate operations that form part of one company or group of companies.
Control	GHG Protocol *Corporate Standard*	The ability of a company to direct the policies of another operation. More specifically, it is defined as either *operational control* (the organization or one of its subsidiaries has the full authority to introduce and implement its operating policies at the operation) or *financial control* (the organization has the ability to direct the financial and operating policies of the operation with a view to gaining economic benefits from its activities).
Double counting	GHG Protocol *Corporate Standard*	Two or more reporting companies take ownership of the same emissions or reductions.
Equity share	GHG Protocol *Corporate Standard*	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.
Inventory	GHG Protocol *Corporate Standard*	A quantified list of an organization's GHG emissions and sources.
Inventory boundary	GHG Protocol *Corporate Standard*	An imaginary line that encompasses the direct and indirect emissions that are included in the inventory. It results from the chosen organizational and operational boundaries.
Operation	GHG Protocol *Corporate Standard*	A generic term used to denote any kind of business, irrespective of its organizational, governance, or legal structures. An operation can be a facility, subsidiary, affiliated company or other form of joint venture.
Organizational boundaries	GHG Protocol *Corporate Standard*	The boundaries that determine the operations owned or controlled by the reporting company, depending on the consolidation approach taken (equity or control approach)

8. Appendices

A. Scope of work on organizational boundaries

Relevant chapters in the Corporate Standard: 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.

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).

B. Stakeholder feedback on GHG accounting and reporting principles from Corporate Standard Survey Summary

Based on the results of the Corporate Standard Stakeholder Survey, the majority of respondents whose organizations have a GHG inventory indicated that their organization utilizes the operational control approach (82%) to define organizational boundaries, followed by financial control approach (14%) and equity share approach (4%). As mentioned, these survey results should not be interpreted as being representative of all companies that report GHG emissions. The following sub-sections provide a detailed summary of the stakeholder feedback and proposals received.

1. Feedback in support of maintaining current organizational boundary requirements and guidance

There was a relatively even split among survey respondents who were in favor revisiting current organizational boundary requirements and guidance in the Corporate Standard versus maintaining the current approach.

Respondents in support of maintaining current organizational boundary requirements often cited the need to maintain flexibility and to enable interoperability for voluntary and regulatory reporting usage. Some respondents also noted the added burden resulting from organizational boundary changes, noting that the adoption of a required approach and/or adjustment to existing approaches would potentially result in added time and resources for reconfiguration.

2. Overview of feedback for revisiting organizational boundaries

Feedback in favor of revisiting current organizational boundary requirements and guidance was varied and included suggestions such as:

- 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

2.1. Feedback proposing to require one consolidation approach

Many respondents suggested an adjustment in the requirements from having three consolidation approaches to requiring a single consolidation approach. Among these respondents, feedback was mixed on which consolidation approach to require. Different respondents proposed requiring the operational control approach, the financial control approach, the equity share approach, or a new approach aligned with financial accounting.

Some respondents suggested that organizational boundaries are the first point of fracture among businesses influencing comparability. Some noted that the use of different approaches threatens the alignment in reporting with peers, as well as creates barriers to comparing the environmental performance of companies for various stakeholder groups (e.g., investors, procurement managers, employees, customers, management, etc.) looking to evaluate and reward strong climate action. Some respondents suggested that requiring one consolidation approach, at least at a sector level, would gain consistency in reporting and support wider aggregation possibilities. Further, some argued the current optionality allows for double counting across scopes 1 and 2.

Requiring the operational control approach: Respondents in favor of requiring the operational control approach often suggested that it was the approach most commonly used by organizations (noted both by organizations and by consultants on behalf of their clients). Thus, these respondents often suggested that requiring the operational control approach would minimize the burden on organizations needing to shift consolidation approaches back to a base year. Some respondents also noted that many entities have set climate goals and targets using operational control boundaries under the GHG Protocol, rather than financial control, equity share or consolidated financial statement boundaries.

Requiring the financial control and/or equity share approach: Respondents in favor of requiring the financial control and/or equity share approaches often suggested this as a way to more closely align with consolidation methods established by financial accounting frameworks. Some respondents, however, suggested further changes needed to fully align with financial accounting frameworks (discussed in further detail below). Some also suggested that requiring financial control and/or equity share approaches would streamline reporting, provide clearer definitions of scopes and coverage, and could limit double counting of scopes 1 and 2 between different organizations. Further, some respondents suggested that financial control and/or equity share approaches better reflect reality for certain organizations (e.g., financial institutions, large multinational organizations with ownership stakes in many other organizations).

Requiring a new approach aligned with financial accounting: Some respondents suggested requiring a single consolidation approach aligned with financial accounting (described further in section B.5). These respondents commonly noted that most of the mandatory reporting initiatives (e.g., SEC Proposed Climate Rule, CSRD, ISSB), in some manner, require that the organizational boundary consolidation approach for greenhouse gas emissions reporting be consistent with the that used in financial accounting. This feedback for alignment with the financial statements is consistent with the responses from survey respondents that suggest overall alignment between financial reporting and sustainability reporting, where possible, would provide more useful and actionable information. As such, some survey respondents recommended that the GHG Protocol eliminate the current options available for the determination of organizational boundaries, coalescing around a model consistent with financial reporting for consistent application and enhanced comparability.

2.2. Feedback proposing the creation of a new consolidation approach option aligned with financial accounting

Some respondents suggested that consolidation approaches should be updated to better align with financial accounting. To achieve this, some recommended developing a new consolidation approach (described below), with some among these advocating for this to be a single required approach. Other respondents provided feedback on updating the existing approaches for improved alignment (outlined further in B.6).

Some respondents suggested creating a new optional consolidation approach aligned with financial accounting for consolidation and leased assets. The processes of consolidation under financial accounting demand that all entities follow a strict set of accounting rules. All public companies in the United States must report financials according to the standards set forth by U.S. GAAP. For international reporting, companies must also work within the procedures set forth by IFRS. Both U.S. GAAP (ASC 810 and ASC 842) and IFRS (IFRS 10, IFRS 11 and IFRS 16) have distinct guidelines for entities reporting consolidated financial statements with subsidiaries (e.g., declaring minority interests, eliminating intragroup transactions and balances, preparing financial statements the same way for parent and subsidiary companies, etc.) and accounting treatment for leases.

Some respondents noted the increasing demand from stakeholders for comparability across entities with the expectation for this to continue as GHG reporting becomes mandatory in various jurisdictions. However, respondents also highlighted that GHG reporting is not prevalent in all jurisdictions and may remain voluntary in many jurisdictions for an extended period of time. The flexibility and optionality currently provided may ease application for preparers and encourage voluntary reporting. These respondents argued that optionality may also provide standard setters and regulators the flexibility to mandate approaches or options that best reflect the needs of their jurisdiction. Therefore, some suggested that the GHG Protocol should carefully consider input from stakeholders to understand the trade-offs between the benefits of increased comparability and the costs of reduced optionality and work with financial reporting standard setters and regulators to establish a balanced approach to the determination of organizational boundaries.

Some respondents noted that the determination of which entities should be included in a company's consolidated financial statements is based on a significant volume of generally accepted accounting principles that have developed over decades of standard setting. These respondents also noted that investors understand the concept of consolidated financial statements and rely on the knowledge that the primary information reported in the statements is prepared on the same basis, for the same group of entities. Therefore, they suggested that the general alignment of regulatory reporting requirements with the financial reporting guidance is reflective of the current direction of sustainability reporting. Additional benefits of alignment suggested by these respondents included:

- Ability to leverage the years of effort devoted to developing the current financial accounting consolidation models, allowing the Corporate Standard to focus on other pressing emissions reporting issues
- Ability to analyze GHG emissions data in the context of information from financial reporting (i.e., GHG intensity calculation using financial reporting metrics) which is currently required in some voluntary and regulatory reporting programs
- Ability to leverage existing ERP/consolidation/accounting systems, controls and entity hierarchy to gather activity data more efficiently and at a lower cost

2.3. Feedback proposing to adjust existing consolidation approaches

Adjusting control approaches: Some respondents suggested the Corporate Standard should clarify what is meant by operational control and add specific indicators to enable consistent application of this concept in practice. Some respondents recommended that the indicators of operational control should enable consistent application for complex ownership structures, veto rights, and general or limited partners. Some respondents recommended that the Corporate Standard add definitions of operational control for different types of assets (e.g., leases, licenses, franchises). Some respondents suggested the GHG Protocol consider if entities should disclose their judgments related to determining their organizational boundary in order to provide more transparency.

Some respondents recommended developing enhanced standards and guidance with sufficient flexibility to address the range of control situations. For example, some of these respondents suggested reconsidering guidance on multi-party arrangements – moving beyond a singular factor such as the party that operates the facility – so that the resulting reporting better reflects the party with the ability to influence decisions impacting emissions over time.

Some respondents also highlighted the diversity in practice when entities use the financial control method to set organizational boundaries. For example, in a leased asset scenario where the landlord owns the building and leases space to tenants, the landlord has financial control over the building, but the tenants may have financial control over the daily operations and utilities. Therefore, they suggested that more guidance is needed to improve consistency of the approach to determination of financial control in such cases and the treatment of utilities for both the lessor and lessees.

Lastly, some respondents suggested adjusting the definition of control to align with the party responsible for paying utility invoices, arguing this would create a driver for establishing energy efficiency and reducing GHG emissions.

Adjusting control and equity share approaches to align with financial reporting: It was noted by many respondents that the terminology used in the Corporate Standard was outdated compared to terminology used for financial accounting under IFRS and U.S. GAAP. Some respondents suggested aligning or mapping to terminology used in financial accounting, to the extent possible, to help drive consistent and comparable reporting. Common examples provided included:

- U.S. GAAP uses terminology for consolidation of joint venture models such as Variable Interest Entities (VIEs) under Financial Accounting Standards Board's 810. Under U.S. GAAP, an entity first assesses whether a joint venture is a VIE to apply the consolidation model in ASC 810.
- Nuances under U.S. GAAP for a jointly controlled entity and whether it primarily conducts its operations through a legal entity.
- Under IFRS 11, a joint arrangement consists of an arrangement in which two or more parties have joint control (decisions about relevant activities require the unanimous consent of the parties that collectively control the arrangement).
- IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. A joint venture requires the use of a separate legal entity and the parties have rights to the net assets of the arrangement.

Some respondents suggested updating the text in Chapter 3 of the Corporate Standard to more clearly reflect financial statement accounting terminology, such as equity method investments and joint ventures. These respondents noted the text and related tables currently use the terms, "associated companies", "non-incorporated joint venture", "incorporated joint venture", and "wholly owned and joint operations"; these terms do not exist within U.S. GAAP or IFRS accounting standards.

These respondents noted that while U.S. GAAP and IFRS are not always fully aligned across some of the relevant concepts, to the extent that the Corporate Standard refers to concepts that are used in these widely applied accounting frameworks, the Corporate Standard should use the same terminology and in the same manner as they are used in accounting frameworks in order to facilitate consistent application, avoid confusion and improve connectivity of reporting on financial and non-financial aspects of performance.

Some respondents also recommend including a more detailed and consistent definition of financial control to be used throughout the Corporate Standard to facilitate more consistent outcomes in application. These respondents often suggested revisiting the definition of financial control, noting inconsistencies within the standard and references different accounting concepts (control, risks and rewards, substance) oftentimes leading to different conclusions on whether financial control exists.

Expanding current consolidation approaches: Additionally, some respondents suggested adjusting approaches to be more inclusive. These respondents suggested updating consolidation approaches to also consider where else the business "appears" in the public domain. For example, some referenced how a brand may license or have joint ventures that would not be within boundaries of equity share/control approaches alone, but a customer or end customer would not understand the boundaries when they see the company's name on a product or service.

Allowing for a transition period: Lastly, in the event that the existing approaches are adjusted, respondents recommended that the Corporate Standard consider allowing for one year of "clean-up", or transition period, especially now where there will be support from forthcoming mandatory reporting legislation, which most often requires some level of verification or assurance. During this period, respondents suggested that organizations restate their historical amounts reported and their targets, while citing the Corporate Standard update process.

3. Feedback requesting additional guidance

Many respondents suggested providing more guidance, including:

- Guidance related to leased asset classification. Some respondents suggested providing additional guidance, case studies and/or examples related to complex lease structures, ownership structures, and/or unique acquisitions/divestitures
- Guidance on how to evaluate different approaches when determining a consolidation approach for an organization's inventory
- Providing updated examples including:
    - For specific sectors such as financial institutions, real estate investment trusts (REITs), vehicle rental companies, cellular network providers, IT software providers, utilities, oil and gas, mining
    - For specific use-cases such as investment funds, private equity, real estate owners, property managers, utilities with complex structures (e.g., generation, transmission, distribution, and customer end-use all within one company), long term power purchase agreements (with a variety of financing situations), transmission and distribution line losses (with various ownership models), electric storage (with various configurations), electric vehicles, electric vehicle charging (e.g., at home, at work, in a charging network), rental vehicles, arrangements for company vehicles (e.g., company provided fuel coupons), shared data centers, business travel for the national branch of an international organization, owned landfill sites with contractually sold methane, purchased steam or compressed air.