GREENHOUSE GAS PROTOCOL

Corporate Standard Technical Working Group

Subgroup 2, Meeting #5

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

March 25th, 2025

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World Business Council for Sustainable Development

Meeting information

This meeting is **recorded**.

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

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

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

Agenda

Introduction and housekeeping	15 minutes
Evaluating full TWG outcomes on alignment with financial accounting	30 minutes
Evaluating full TWG outcomes on optionality in consolidation approaches	60 minutes
Wrap-up and next steps	15 minutes

GREENHOUSE GAS PROTOCOL

Agenda

Introduction and housekeeping	**15 minutes**
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Wrap-up and next steps	15 minutes

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Housekeeping: Guidelines and procedures

- We want to make **TWG meetings a safe space** – our discussions should be open, honest, challenging status quo, and 'think out of the box' in order to get to the best possible results for GHG Protocol
- Always **be respectful**, despite controversial discussions on content
- TWG members should **not disclose any confidential information** of their employers, related to products, contracts, strategy, financials, compliance, etc.
- In TWG meetings, **Chatham House Rule** applies:
  - "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed."
- **Compliance and integrity** are key to maintaining credibility of the GHG Protocol
  - Specifically, all participants need to follow the **conflict-of-interest policy**
  - **Anti-trust rules** have to be followed; please avoid any discussion of competitively sensitive topics*

* Such as pricing, discounts, resale, price maintenance or costs; bid strategies including bid rigging; group boycotts; allocation of customers or markets; output decisions; and future capacity additions or reductions

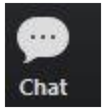
Zoom logistics and recording of meetings

Zoom Meetings

- All participants are muted upon entry
- Please turn on your video
- Please include your full name and company/organization in your Zoom display name

Raise your hand in the participants feature and unmute yourself to speak

Use the chat function to type in your questions



Meetings will be recorded and shared with all TWG members for:

- Facilitation of notetaking for Secretariat staff
- To assist TWG members who cannot attend the live meeting or otherwise want to review the discussions

Recordings will be available for a limited time after the meeting; ***access is restricted to TWG members only.***

Housekeeping: Summary of general feedback form responses

23 responses have been received through our general feedback form – thank you!

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

The list of submissions and Secretariat responses are tracked in the Shared **TWG Shared Folder** in the Admin sub-folder

Please continue using the **Microsoft Form** for all feedback and questions

GHG Protocol Decision-Making Criteria

1A. Scientific integrity	1B. GHG accounting and reporting principles	2A. Support decision making that drives ambitious global climate action	2B. Support programs based on GHG Protocol and uses of GHG data	3. Feasibility to implement
Ensure scientific integrity and validity, adhere to the best applicable science and evidence … and align with the latest climate science.	Meet the GHG Protocol accounting and reporting principles of **accuracy**, **completeness**, **consistency**, **relevance**, and **transparency**. Additional principles should be considered where relevant: conservativeness (for GHG reductions and removals), permanence (for removals), and comparability (TBD). …	Advance the public interest by informing and supporting decision making that drives ambitious actions by private and public sector actors to reduce GHG emissions and increase removals in line with global climate goals. …	Promote interoperability with key mandatory and voluntary climate disclosure and target setting programs … while ensuring policy neutrality. Approaches should support appropriate uses of the resulting GHG data and associated information by various audiences …	Approaches which meet the above criteria should be feasible to implement, meaning that they are accessible, adoptable, and equitable. … For aspects that are difficult to implement, GHG Protocol should aim to improve feasibility, for example, by providing guidance and tools to support implementation.

Note: This is a summary version. For further details, refer to the full decision-making criteria included in the annex to the Governance Overview, available at https://ghgprotocol.org/our-governance.

Welcoming new TWG members

Quick <30 second introductions:

- Name
- Location
- Organization
- Current role *(and how it relates to use of the Corporate Standard)*

Subgroup 2

- **Anna Grochowska**, EFRAG
- **Andy Law**, Hong Kong Institute of Certified Public Accountants
- **Trinity Makava Ncube**, Trinity Consultants
- **Barbara Porco**, Fordham University

Upcoming Schedule

TODAY

February 11th, 2025

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

March 4th, 2025

Full TWG M2
- Gather feedback from full TWG on SG2 outputs to date
- Review outputs from SG1 and SG3

March 25th, 2025

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

April 22nd, 2025

SG2 M6
- Operational control approach revision
- Discussion on revisions related to leased assets

April 28th, 2025

ISB Meeting
- Present phase 1 outcomes supported by full TWG

May 2025 (date TBC)

SG2 M7
- Revise phase 1 outputs based on ISB feedback

Today's objectives

1. **Review outcomes from full TWG** meeting on phase 1 preliminary outcomes
2. **Wrap up discussion on how to maintain optionality** in consolidation approaches, considering input from full TWG

Today, we will finalize the discussion on how to maintain optionality in consolidation approaches. Consensus outcomes from the full TWG will be presented to the ISB in April.

Progress to date

Alignment with financial accounting

- *Unanimous support* for **revising the financial control approach**

Require companies that choose financial control to adopt the same consolidation model as their financial disclosures

Evaluation of consolidation approaches

- *Majority support* for **eliminating the equity share approach** *(initial)*
- *Unanimous support* for revising and **maintaining the financial control approach**
- *Majority support* for revising and maintaining the **operational control approach** (next on agenda)

Optionality in consolidation approaches

- *Majority support* for **maintaining optionality** in consolidation approaches

Next step: Finalize recommendation on **how to maintain optionality**

B. Organizational boundaries - Scope of work (Phase 1)

Relevant chapters: chapter 3 (Setting Organizational Boundaries) and sections in chapter 4 (Setting Operational Boundaries) on leased assets.

B.1. Revisit options for defining organizational boundaries to consider:

- Whether to **maintain the three consolidation options** currently available (operational control, financial control, equity share), **eliminate any of the three options**, **or narrow to a single required approach** to promote consistency and comparability.
- Adjusting an existing approach or introducing a new approach that better **harmonizes with financial accounting** and/or with requirements of voluntary and mandatory reporting programs.
- Specifying a **preferred consolidation approach** or **hierarchy of preferred options**.
- Developing criteria to **guide organizations in selecting the most appropriate consolidation approach** for different situations.

Our continued focus today: How to maintain optionality in consolidation approaches

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

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Evaluating full TWG outcomes on alignment with financial accounting	**30 minutes**
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Overview of process to finalize preliminary outcomes

- The preliminary outcomes on revising organizational boundaries are presented covering **alignment with financial accounting** and **optionality in consolidation approaches,** including:

Subgroup 2 Indicative poll results ▷ Full TWG indicative poll results ▷ Full TWG Feedback survey outcomes ▷ Subgroup 2 discussion

Today

The outcomes will be presented to the ISB on April 28th

Process for reviewing Organizational Boundaries

Main topics that guide the review of consolidation approaches are:

Alignment with financial accounting

Preliminary Subgroup 2 outcome

Consensus on **revising financial control approach** to align with financial accounting

Optionality in consolidation approaches (ongoing)

Alignment with financial accounting: Consensus on Option C

Revising financial control approach

How can/should **alignment with financial accounting be achieved?**

A. Incorporate **all (inc. differing) requirements** of current financial accounting standards

Multiple paths to define control based on differing consolidation requirements of **leading & local financial standards**

B. Choose one financial accounting standard and apply its consolidation requirements

Adopt the **consolidation model of the chosen financial accounting framework** (i.e., IFRS)

C. Require **companies choosing financial control to apply same consolidation** as their financial disclosures

Do not define control criteria but require the **users choosing financial control approach to adopt the same consolidation** model used in their **financial disclosures**

→ Unanimous support (Subgroup 2)

* The options have been reframed based on Meeting 1 TWG input

Poll results to date: Alignment with financial accounting

Subgroup 2 indicative poll

1. How can and should alignment with financial accounting be achieved? (Single choice) *

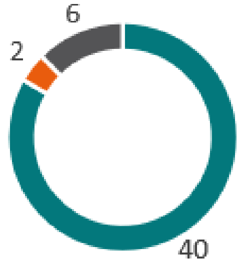
13/13 (100%) answered

Option A - Incorporate all, including differing, requirements of all financial accounting standards	(0/13) 0%
Option B - Choose one financial accounting standard and apply its consolidation requirements	(0/13) 0%
Option C - Require companies to apply the same consolidation as their jurisdictionally applicable financial accounting standard	(13/13) 100%
Abstain	(0/13) 0%

Subgroup 2 Meeting #2

Full TWG indicative poll

The financial control approach should be revised to align the consolidation of GHG accounting with the reporting company's financial disclosures



48 responses

■ Support ■ Oppose ■ Abstain

! Majority support for Option C

Full TWG Meeting #2

Full TWG feedback survey outcomes

33 responses

Feedback survey questions:

4. TWG members indicated **majority support** for **revising the financial control consolidation approach** in the Corporate Standard to **align with financial accounting**. This outcome will be implemented by requiring companies that choose the financial control approach to adopt the same consolidation model used in their financial disclosures. Please indicate below if you support this outcome.
   - Yes, I am comfortable with this outcome
   - No, I have strong opposition to this outcome
   - Abstain
5. (If "no" selected above): Please provide a **justification** for your strong opposition to revising the financial control approach to align with financial accounting and **an alternative proposal** using the GHG Protocol decision-making criteria.

Feedback survey outcome:

Unanimous support for **revising the financial control approach** to align with financial accounting

Update on the financial control approach text revision – Update status

Draft language update status

- Drafted **suggested language** for financial control model using blank sheet approach
- Developing **examples** illustrating IFRS and U.S. GAAP application of approach
- Developing **disclosure requirements** to facilitate application and understanding

Questions to consider

- When the results of applying a GAAP result in **consolidated results** (e.g., joint operations under IFRS), should the related emissions be presented in scope 1 and 2?
- When the results of applying a GAAP results in an **equity method investment**, should emissions of equity method investees be presented in Scope 3?

Parking lot items (general description)

- **Exceptional cases beyond scope** – how to handle **investment entities** (using investment company accounting)
- Questions raised that may fall to **another TWG** – handling recalculations and structural changes (e.g., acquisitions) to the reporting entity
- Addressing presentation of **other accounting specific items** (multi-party/collaborative arrangements, undivided interests, others)

Please see Appendix (slides 42-43) for an overview of current state of consolidation approaches.

Update on the financial control approach text revision – Application of Control

Control is generally understood to mean a company doesn't need another partner or entity to agree with a decision to order to implement. There is a spectrum of considerations and the tipping point to have control may vary between GAAPs.

Control	Significant influence	Investor 0 or little influence	Joint control
IFRS, U.S. GAAP	IFRS, U.S. GAAP	IFRS, U.S. GAAP	IFRS
Wholly-owned subsidiaries, legal structures where the control evaluation tips the balance to the company Consolidation. Represented in each FS line item.	**'Significant influence' is less than having control, accounted for as a single line item, labeled as other associates and joint ventures** Equity method investment (single line item)	**Investment in a company, mutual fund** Cost method, fair value, (single line item)	**Contractually agreed sharing of control (i.e., requires unanimous consent for decisions about relevant activities)** Joint operation – recognizes its share of assets, liabilities, etc. in each FS line item Joint venture – equity method (Clarifying change from current CS proposed or in parking lot)

Please see Appendix (slides 42-43) for an overview of current state of consolidation approaches.

Update on the financial control approach text revision – Overview

Previous definition	Proposed definition	Comments
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. For example, financial control usually exists if the company has **the right to the majority of benefits of the operation**, however these rights are conveyed. Similarly, a company is considered to financially control an operation if it **retains the majority risks and rewards** of ownership of the operation's assets.	The financial control approach requires a company to include the GHG emissions for the **same scope of entities and operations** included in its own consolidated financial statements. (1) This organizational boundary is **determined by the financial accounting and reporting standards applied** in the company's financial reporting (2). This **organizational boundary would include wholly-owned subsidiaries** and **operations**, **investees which are not be wholly-owned but whose assets**, liabilities, costs and revenues **are consolidated in the financial statements** due to the application of accounting standards. (3)	• New approach is **GAAP agnostic** • **Removes implicit indication** that GHG Protocol has a separate analysis for determining financial control • Examples will not be written as 'standard'. Existing tables and visuals will be either removed or significantly revised. • Revisions will make clear that **equity method investees should not be eely consolidated into direct emissions** *(as is written on page 18 and 19 of the Corporate Standard).* When GAAP results in an equity method investment, the emissions would fall under Scope 3. • Would **maintain recognition of emissions related to an entity's recognition of its share of assets, liabilities and transactions in its consolidation** when it is used in the GAAP financial statements (e.g., joint operations under IFRS) because the activity is within distinct line items of balance sheet.

Please see Appendix (slides 42-43) for an overview of current state of consolidation approaches.

Please share questions and comments via the chat

Agenda

Introduction and housekeeping	15 minutes
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Process for reviewing Organizational Boundaries

Main topics that guide the review of consolidation approaches are:

Alignment with financial accounting

Optionality in consolidation approaches (ongoing)

Preliminary Subgroup 2 direction

Majority support for **maintaining optionality**
Today we will focus on "How to maintain optionality"

Status update on current consolidation approaches

Equity share	Financial control *(revised)*	Operational control *(revised)*
Equity share approach will be **eliminated** based on initial evaluation	Financial control approach will be **revised to achieve alignment with financial accounting**	Operational control approach will be **revised to address stakeholder feedback** *(agenda item for next meeting)*
Status: Pending final evaluation whether to maintain or eliminate	**Status: Text revision in progress**	**Status: Text revision to be planned**

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

*Focus for **evaluating optionality** has been based on maintaining revised financial and operational control approaches only*

Poll results to date: Evaluating equity share approach

Subgroup 2 indicative poll

1. How do you evaluate EQUITY SHARE consolidation approach? (Single choice) *

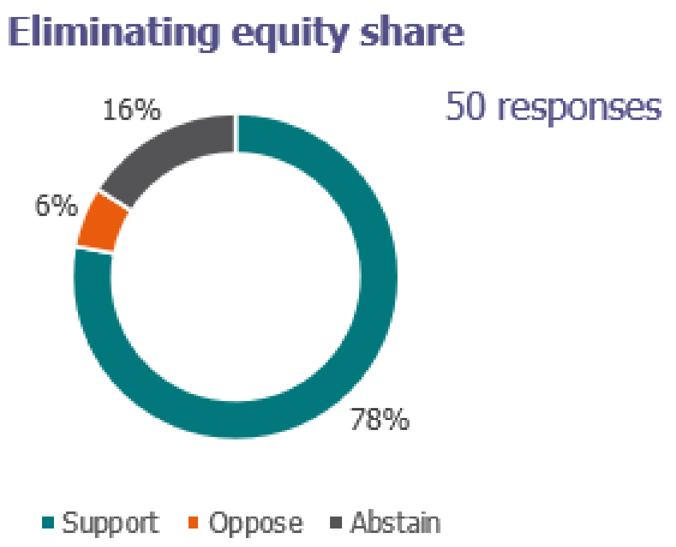
12/12 (100%) answered

Maintain as is	(1/12) 8%
Revise and maintain	(3/12) 25%
Eliminate	(8/12) 67%
Abstain	(0/12) 0%

Subgroup 2 Meeting #3

- Meeting #3 follow up **survey outcome**: **Similar level of support** (7 of 10) for eliminating equity share approach with **no strong opposition**

Full TWG indicative poll



Full TWG Meeting #2

! *Majority support* for eliminating equity share

Full TWG feedback survey outcomes

Feedback survey questions:

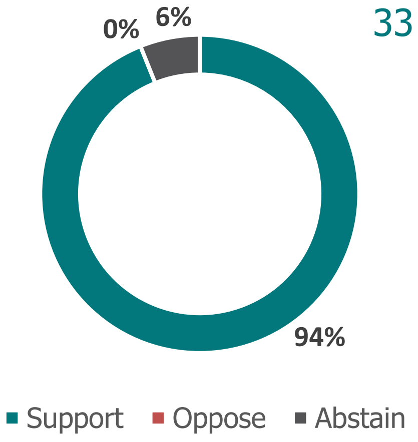
7. TWG members indicated **initial majority support** for **eliminating the equity share consolidation approach** in the Corporate Standard. Please indicate if you support this outcome.

- Yes, I am comfortable with this outcome
- No, I have strong opposition to this outcome
- Abstain

8. (If "no" selected above): Please provide a **justification** for your strong opposition to eliminating the equity share consolidation approach and **an alternative proposal** using the GHG Protocol decision-making criteria.

Eliminating equity share

33 responses



! Higher *majority support* for eliminating equity share with *no opposition*

Please note that this is an <u>initial recommendation</u> and will be finalized once the financial control approach revision is at a more advanced stage.

Discussion: Please share any questions and comments

Optionality in consolidation approaches

Question: Should optionality be maintained?

Yes		No	
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 E1 layered approach)	**4. No** Require **(revised) financial control** approach

Companies shall/may choose between:

- Revised financial control
- Revised operational control

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

Subgroup 2 outcomes:

→ *Majority support* for **maintaining optionality**

→ *Split opinions* on **how to maintain** optionality

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Draft for TWG discussion

Poll results to date: Optionality in consolidation approaches

Subgroup 2 indicative poll

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

11/11 (100%) answered

Initial poll question

Yes - maintain optionality with all options equal	(5/11) 45%
Yes - maintain optionality and specify a preferred approach	(5/11) 45%
No - require a layered approach (e.g., ESRS E1)	(0/11) 0%
No - require a single approach	(1/11) 9%
Abstain	(0/11) 0%

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

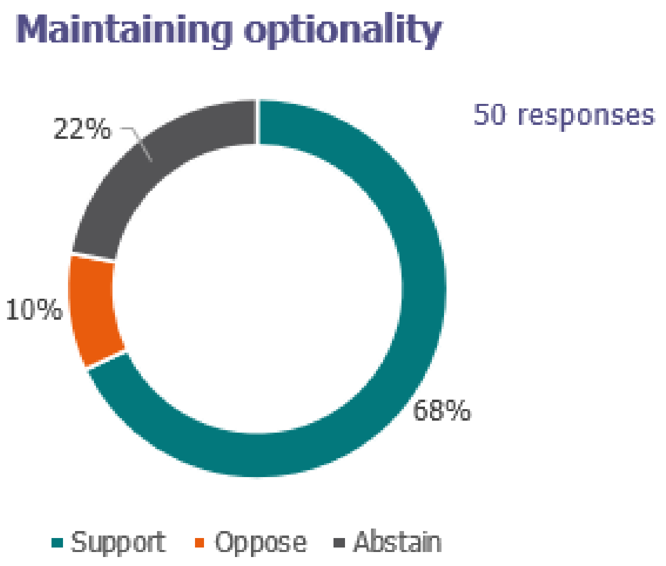
10/10 (100%) answered

Follow up poll question

Yes - maintain optionality with all options equal	(5/10) 50%
Yes - maintain optionality and specify a preferred approach	(5/10) 50%
Abstain	(0/10) 0%

Subgroup 2 Meeting #4

Full TWG indicative poll



Full TWG Meeting #2

! *Majority support for maintaining optionality*

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Full TWG feedback survey outcomes - I

Feedback survey questions:

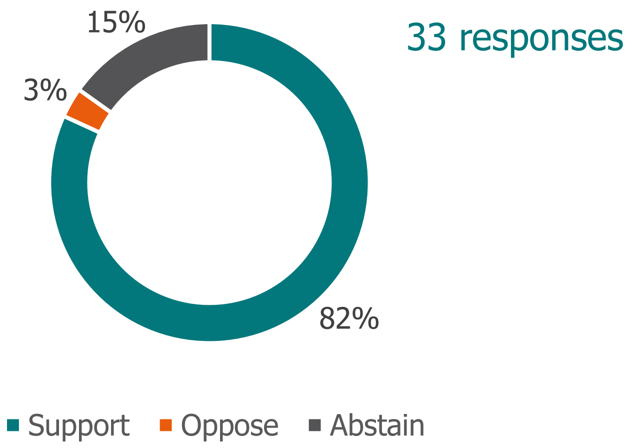
9. TWG members indicated **majority support** for **maintaining optionality** in consolidation approaches in the Corporate Standard. Please indicate if you support this outcome.
   - Yes, I am comfortable with this outcome
   - No, I have strong opposition to this outcome
   - Abstain

10. (If "no" selected above): Please provide a **justification** for your strong opposition to maintain optionality in consolidation approaches and an **alternative proposal** using the GHG Protocol decision-making criteria.

TWG member comment stating strong opposition:

- Optionality is misused by companies to understate their GHG emissions

Maintaining optionality



Higher *majority support* for maintaining optionality

Discussion: Please share any questions and comments

Full TWG feedback survey outcomes - II

Feedback survey questions:

11. Please indicate **how** do you suggest **optionality in consolidation approaches should be maintained** in the Corporate Standard.

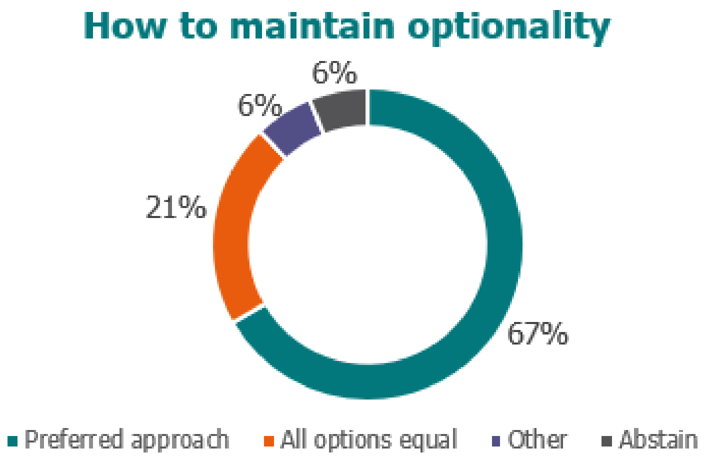
- Maintain optionality with all options equal for companies to choose from
- Maintain optionality by specifying a recommended/preferred consolidation approach
- Other
- Abstain

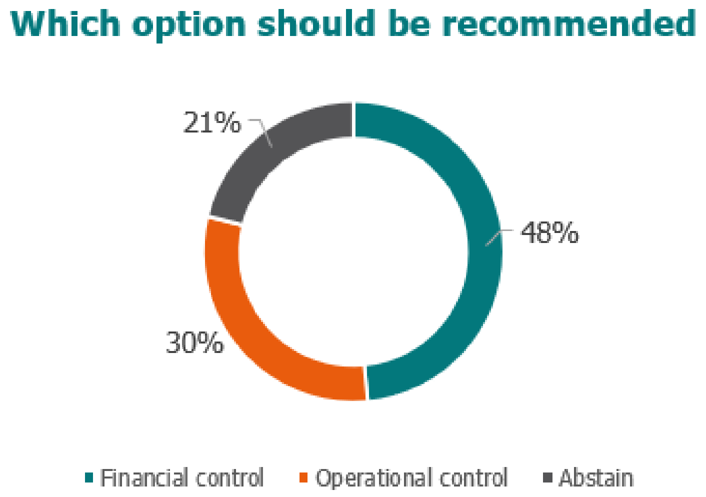
12. (If "other" selected above): Please specify your **alternative suggestion** on how to maintain optionality in consolidation approaches.

13. IF there is support for **specifying a recommended/preferred consolidation approach**, please indicate which consolidation approach you think should be the recommended/preferred consolidation approach.

- Revised financial control approach
- Revised operational control approach
- Abstain

33 responses





Discussion: Please share any questions and comments

How should optionality in consolidation approaches be maintained?

Option 2 has been reframed to better facilitate the discussion

Option 1: Yes
Maintain optionality with **all options equal**

Option 2: Yes
Maintain optionality while specifying a **preferred/recommended approach**

Option 2A.
Preferred approach **recommended** to all reporters with "should" statement

Option 2B.
Preferred approach **required** for some reporters with "shall" *statement*

Option 1

High-level statement:

"Companies may choose between:

- Financial control
- Operational control"

Option 2A

High-level statement example:

"Companies ***should*** use the financial control approach but ***may*** use the operational control approach"

Why?

Maintain optionality for the user to choose the approach that best aligns with their needs

Option 2B

High-level statement example:

"Specified companies ***shall*** use the financial control approach. Other companies ***should*** use the financial control approach but ***may*** use the operational control approach"

Why?

Encourage standardization and promote comparability between companies

Key question: **What differentiation criteria should be applied to determine who shall use the preferred approach** (e.g., mandatory reporters, SMEs)?

Potential general statement to accompany the text regardless of the option chosen:

"Companies shall disclose and justify why they chose the approach."
"Unless a different method is required by applicable authorities"

Please note that all options are based on the revised versions of the financial and operational control approaches.

Discussion: How should optionality be maintained?

Criteria	OPTION 1: All options equal	OPTION 2A: Preferred approach recommended to all reporters with "should" statement	OPTION 2B: Preferred approach required for some reporters with "shall statement"
Scientific integrity	N/A	N/A	N/A
GHG accounting and reporting principles	Pros: Supports *relevance, completeness and consistency* Cons: May inhibit *relevance* and *completeness if* optionality is used strategically to minimize reported emissions	Pros: Serves *relevance, consistency* and *completeness* by maintaining some form of optionality Cons: May inhibit *relevance* and *completeness if* optionality is used strategically to minimize reported emissions	Pros: Serves *relevance* and *completeness* by maintaining some form of optionality Cons: Temporarily inhibits *consistency for* users having to change their current consolidation approach
Support decision-making that drives ambitious global climate action	Pros: Enables **users to choose** the approach that best demonstrates progress over time; Supports informed decision-making in line with differing reporting objectives Cons: 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	Pros: **Potential** for a **more standardized** approach, **promoting comparative decision-making** while still maintaining the option to choose a different approach Cons: Inhibit decision-making for **stakeholders requesting consolidation based on another approach**; **Risk of double-counting** of scope 1 and 2 emissions across companies	Pros: **Enables** a **more standardized** approach for select group of users, **enhancing comparative decision-making** especially for external stakeholders Cons: Can (significantly) **inhibit informed decision-making if the recommended option does not align** with business goals 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 external programs; Potentially provides more comparable GHG data (if the recommended approach is consistently used); continues to provide **flexibility** to program developers Cons: **Not enabling enough to enhance comparability** across different companies	Pros: Helps deliver **more comparable GHG data for select group of users**; May also encourage other reporters to adopt the same approach Cons: Potentially **reduced interoperability** with mandatory programs requiring a single approach (if a different approach is preferred); Potentially **less flexibility** to serve different objectives of reporters and GHG program developers
Feasibility to implement	Pros: Companies can continue using the approach that best aligns with their reporting objectives and governance structures; 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 recommended option; Promotes feasibility for users by maintaining optionality in some form Cons: N/A	Pros: Maintains feasibility for users already **adopting the preferred option**; Continues to provide **flexibility for other users** Cons: **Inhibits feasibility** to implement for users that need to change their approach; creates **additional barrier** for entry for new/voluntary users ***if*** the recommended approach is less feasible to comply

Poll questions

Indicative poll

1. Do you support **maintaining optionality** in consolidation approaches **while specifying a preferred/recommended option**?
   – Yes, I support
   – No, I have strong opposition
   – Abstain

2. How do you think **a preferred/recommended approach** should be **implemented?**
   – Option 2A – should statement
   – Option 2B – shall statement for select reporters
   – Abstain

3. Do you support specifying **the revised financial control** as the **preferred/recommended approach?**
   – Yes, I support
   – No, I have strong opposition
   – Abstain

Agenda

Introduction and housekeeping	10 minutes
Recap of February 11th meeting	5 minutes
Evaluating full TWG outcomes on alignment with financial accounting	30 minutes
Evaluating full TWG outcomes on optionality in consolidation approaches	60 minutes
Wrap-up and next steps	**15 minutes**

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Upcoming Schedule

TODAY: March 25th, 2025

February 11th, 2025

SG2 M4

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

March 4th, 2025

Full TWG M2

- Gather feedback from full TWG on SG2 outputs to date
- Review outputs from SG1 and SG3

March 25th, 2025

SG2 M5

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

April 22nd, 2025

SG2 M6

- Operational control approach revision
- Discussion on revisions related to leased assets

May 2025 (date TBC)

SG2 M7

- Revise phase 1 outputs based on ISB feedback

April 28th, 2025

ISB Meeting

- Present phase 1 outcomes supported by full TWG

Next steps

Items to be shared by GHG Protocol Secretariat	TWG member action items	Next subgroup meeting date
• Final slides, minutes, and recording from this meeting • Feedback survey (Follow up before ISB review and pre-questions on operational control revision process) • Revised schedule of meetings for remainder of calendar year	• **Respond to feedback survey** (deadline TBC)	• Tuesday, April 22nd (08:00-10:00 EDT, 14:00-16:00 CEST, 20:00-22:00 CHN) • Focus on operational control approach revision and categorization of leased assets

Phase 1 outcomes supported by full TWG to be presented to ISB on April 28th.

Thank you!

Hande Baybar, baybar@wbcsd.org

Iain Hunt, iain.hunt@wri.org

Allison (Alley) Leach, allison.leach@wri.org

Change log

This slide documents any changes between the draft version shared with TWG members on February 28th, 2025, and the final version presented on March 25th, 2025.

Slide #	Change	Details
20	Revised	Minor wording change
21	Revised	Minor wording change
22	Revised	Minor wording change
27	Revised	Feedback survey outcome chart has been updated
30	Revised	Feedback survey outcome chart has been updated

Appendix

GREENHOUSE GAS PROTOCOL

B. Organizational boundaries – Scope of work (Phase 1)

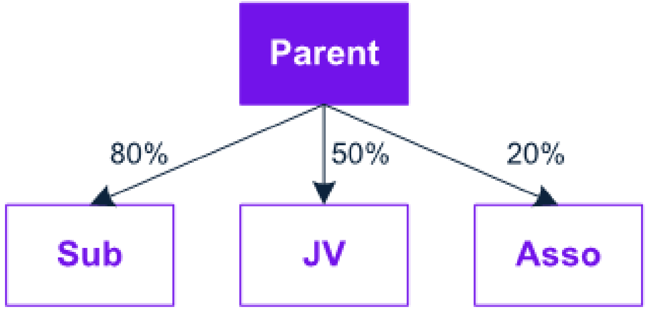
B.2. **Updates, clarifications, and additional guidance** related to existing consolidation approaches including:

- Further clarification on defining **operational control**, addition of specific indicators to facilitate more consistent application, and **definitions for different types of assets** (e.g., leases, licenses, franchises).
- Reconsideration of **multi-party arrangements** to consider factors beyond who controls a facility.
- Updates and clarifications related to **joint ventures and minority interests**.
- Integration and revision of 2006 amendment "Categorizing GHG Emissions Associated with Leased Assets" (Appendix F).
- Additional **guidance on classification of leased assets**, including allocation of emissions between lessor and lessee, emissions from purchased heating for leased assets, and in cases of multi-tenant buildings and co-locations.

B.3. Update terminology used in chapter 3 of the *Corporate Standard* to be **more consistent with current terminology used in financial accounting** (e.g., terminology used by U.S. GAAP and IFRS).

Organizational boundaries – current state

Parent has the following ownership interests in Subsidiary, Joint Venture (assume joint control) and Associate (or equity method investee).



These investees are classified as follows in the financial statements.

	Sub	JV	Asso
Ownership interest	80%	50%	20%
Financial statement classification	Subsidiary	Joint venture (joint control)	Associate (equity method)
Operational control?	Yes	No	Yes

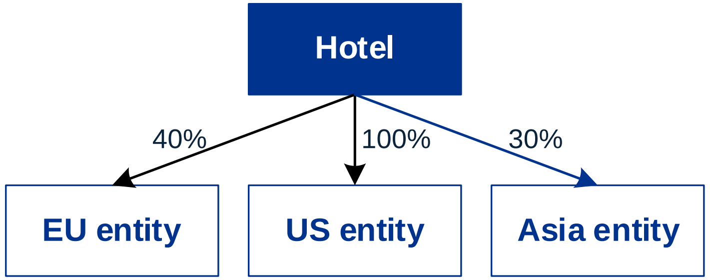
Parent accounts for GHG emissions from each investee differently depending on the chosen organizational boundary approach.

Approach	Sub	JV	Asso
Equity share	80%	50%	20%
Financial control	100%	50%	0%**
Operational control	100%	0%**	100%

**Where it is 0% - the emissions from such relationship would be categorized in Scope 3 using the equity share percentage

Organizational boundary – Financial control vs. equity share

Hotel has the following ownership interest in three investees:

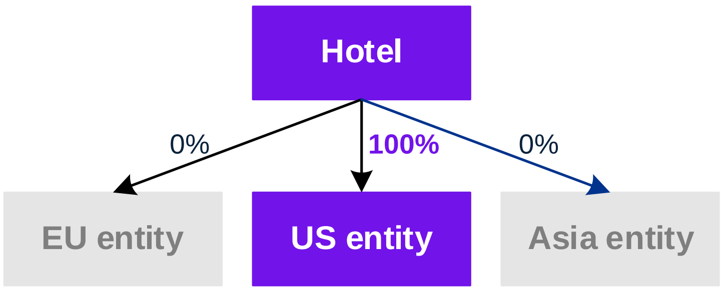


Facts:

- Assume Hotel has operational control of EU and Asia entities, but not financial control
- Neither is wholly-owned and other relevant facts do not give financial control to Hotel under US GAAP (equity-method investees)

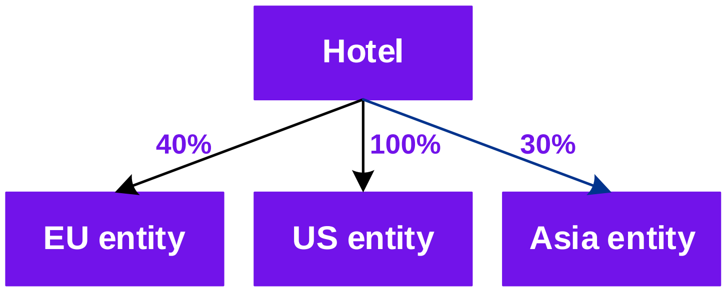
Hotel determines its organizational boundary:

Financial control approach



Organizational boundary

Equity share approach



Organizational boundary

GHG Protocol Corporate Standard: current requirements

Companies *shall* account for and report their consolidated GHG data according to either the **equity share, financial control,** or **operational control approach**:

Under the **equity share approach**, a company accounts for GHG emissions according to its share of equity in the operation.

Under the two **control approaches**, a company accounts for 100% of the GHG emissions from operations over which it has control.

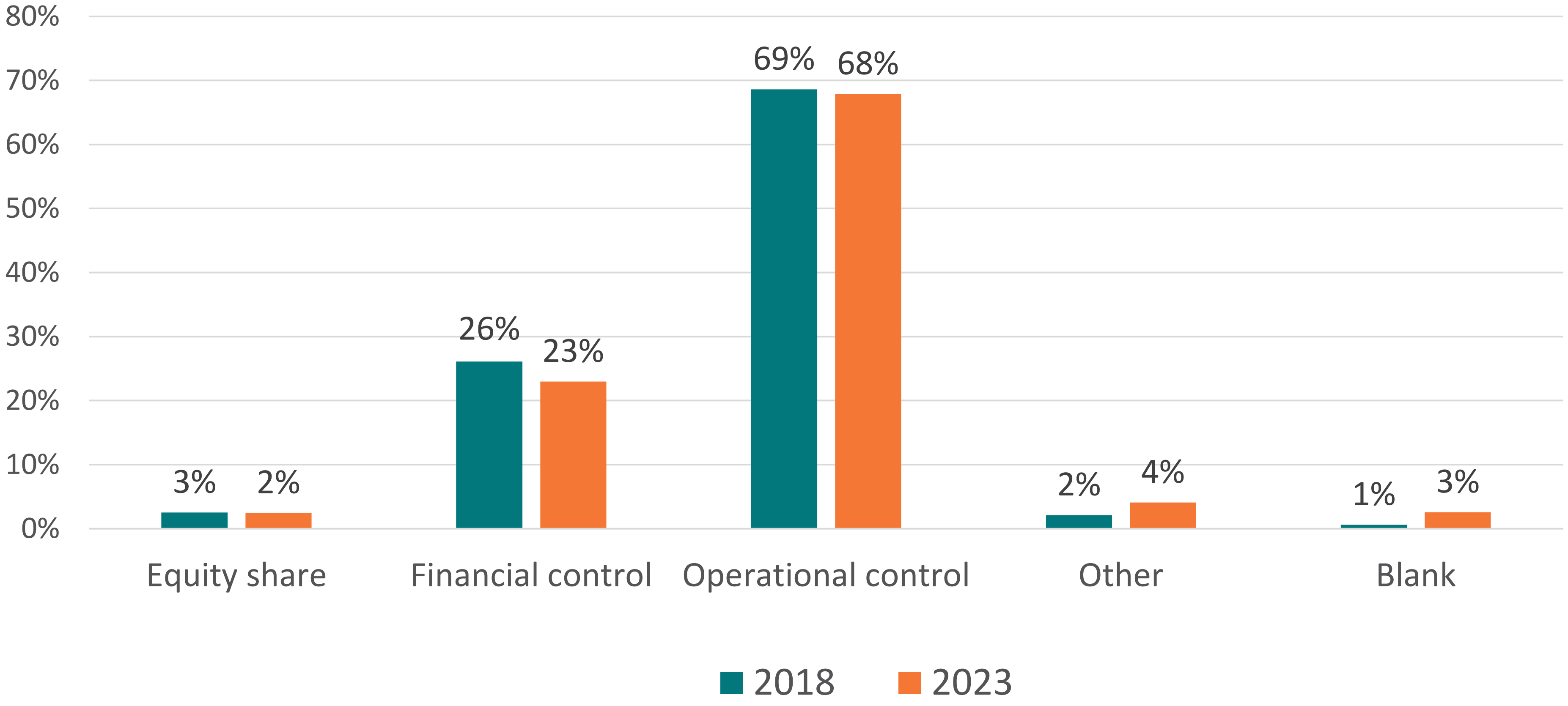
A company has **financial control** over the operation if the former has the ability to direct the financial and operating policies for the latter with a view to gaining economic benefits from its activities.

A company has **operational control** over an operation if the former or one of its subsidiaries has the full authority to introduce and implement its operating policies at the operation.

POWERED BY CDP DATA

Current utilization of consolidation approaches – per approach

CDP 2023 Climate Change disclosures



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

*Includes companies that were presented with question C0.5 and submitted their response publicly. (companies responding to the minimum version of the questionnaire were not presented with this question)

Summary of requirements and guidance on organizational boundaries from Mandatory frameworks and programs

Mandatory Program	Organizational boundary setting
IFRS S1 & S2	- IFRS S1 **requires alignment with financial statements** *(Option C - revised financial control approach)* **-** IFRS S2 **allows choice** between **either equity share or control approach** as per GHG Protocol, **unless other approach is required** by jurisdictional authority or an exchange
ESRS 1 & ESRS E1 (EU CSRD)	- ESRS 1 **requires** sustainability statement for **the same reporting entity** as **financial statements** - ESRS E1 **requires**: • **consistent organizational boundary adoption** for consolidated entities **as in financial statements** • **non-consolidated entities and contractual arrangements** not structured through entity will be included based on **operational control approach**
US SEC Climate Rule	**Allows for a choice** of consolidation approaches if the organizational boundaries materially differ from the scope of entities and operations included in the registrant's consolidated financial statements, the registrant must provide a brief explanation
California Senate Bill 253 & 219	Consolidation at group level (consistent with financial statements) is **optional** **Requirement** to disclose emissions **pursuant to the GHG Protocol standards**

Please see this Overview of GHG Protocol Integration in Mandatory Disclosure Rules (Revised October 2024) for more information.

Summary of requirements and guidance on organizational boundaries from Voluntary frameworks and programs

Voluntary Program	Organizational boundary setting
ISO 14064-1	Allows for a choice of consolidation approaches
GRI	Allows for a choice of consolidation approaches (**If** the scope of **entities covered differs from financial statements**, **explanation is required**)
CDP	Allows for a choice of consolidation approaches *(The rationale for the choice needs to include if the same consolidation approach used as in financial accounting)*
SBTi	Allows for a choice of consolidation approaches *(strongly recommends same scope as financial statements)*
PCAF	Allows for a choice between **financial control** and **operational control** *(equity share is not allowed)*

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

- **Maintain** current organizational boundary requirements and guidance
- **Revisit** organizational boundaries
  - **Requiring one consolidation approach** (operational control, financial control, equity share and/or a new approach aligned with financial accounting)
  - Creating a new **optional** consolidation approach **aligned with financial accounting**
  - **Adjusting and/or clarifying existing** consolidation approaches
  - Developing **more guidance**, such as on how to apply the consolidation approaches and interactions with the handling of leased assets

Note: Utilization of consolidation approaches among stakeholders who provided feedback showed a similar distribution with CDP 2023 data provided on in this presentation.

Proposals received related to *Corporate Standard* organizational boundaries

Proposal link	Key themes
Deloitte_1	• **Revisit current optionality** and considering **more prescriptive requirements** for consolidation approaches • **Updating definitions and improve guidance** for determining boundaries under current consolidation approaches, **specifically operational control**
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**
Green Asia Network and Thankscarbon	
Canadian Union of Postal Workers	

Equity share approach (Corporate Standard Chapter 3, p.17)

- "Under the equity share approach A company accounts for GHG emissions from operations according to its **share of equity in the operation**.

- The equity share **reflects economic interest**, which is the extent of rights a company has to the **risks and rewards** flowing from an operation.
  - **Typically**, the share of economic risks and rewards in an operation is **aligned with the company's percentage ownership** of that operation, and equity share will **normally** be the **same as the ownership percentage**.
  - Where this is not the case, the **economic substance of the relationship** the company has with the operation always **overrides the legal ownership form** to ensure that equity share reflects the percentage of economic interest.

- The principle of **economic substance** taking precedent over legal form is **consistent with international financial reporting standards**."

Equity share approach

Pros	Cons

Pros

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

Cons

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

Revised financial control approach

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

Requiring companies that choose the financial control approach to **adopt the same consolidation model** for setting their organizational boundaries for reporting GHG emissions as **they use in their financial statements**

Financial control approach (revised version)

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

Operational control approach (Corporate Standard Chapter 3, p.18)

- "A company has operational control over an operation if the former or one of its subsidiaries has the **full authority to introduce and implement its operating policies** at the operation.
  - This criterion is consistent with the current accounting and reporting practice of many companies that **report on emissions from facilities, which they operate** (i.e., for which they hold the operating license).
- It is expected that except in very rare circumstances, if the company or one of its subsidiaries is the **operator of a facility,** it will have the **full authority to introduce and implement its operating policies** and thus has operational control.
- Under the operational control approach, a company **accounts for 100% of emissions from operations** over which it or one of its subsidiaries has operational control."

Operational control approach

Pros	Cons
• **Highest adoption** for reporting (68%) & target setting • Provides a clear link between **management accountability** and **GHG emissions responsibility** • Emphasis on **operational influence** over rather than financial exposure to emissions • Typically, ease of access to **good quality data** • **Some mandatory programs** introduce this as an **add-on (secondary) consolidation approach** to be applied • Supports **compliance** with **environmental regulations** other than climate disclosures	• **Excludes emissions** from operations where the company has significant influence (20% to 50% voting rights) but lacks operational control, • Emissions accounting can be **disconnected from financial influence to realize investment needed** to drive emissions reduction • **Requires consistent application of operational control definition** across companies (e.g., joint ventures or partnerships, and leased assets) • **Some mandatory programs restrict the use** of this approach • **Not aligned with financial statements**

Overview of key highlights on consolidation approaches

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