GREENHOUSE GAS PROTOCOL

Corporate Standard Technical Working Group

Subgroup 2, Meeting #6

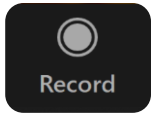
GHG Protocol Secretariat team:
Hande Baybar, Iain Hunt, Allison Leach

April 22nd, 2025

WORLD RESOURCES INSTITUTE

WBCSD 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	10 minutes
Recap of phase 1 progress	10 minutes
Operational control approach: Key revision items	65 minutes
Introduction to leased assets	25 minutes
Wrap-up and next steps	10 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

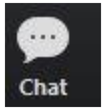
Zoom logistics and recording of meetings

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

25 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**

1A. Scientific integrity

Ensure scientific integrity and validity, adhere to the best applicable science and evidence … and align with the latest climate science.

1B. GHG accounting and reporting principles

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). …

2A. Support decision making that drives ambitious global climate action

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. …

2B. Support programs based on GHG Protocol and uses of GHG data

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 …

3. Feasibility to implement

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.

Upcoming Schedule

March 25th, 2025

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

TODAY
April 22nd, 2025

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

April 28th, 2025

ISB Meeting
- Present phase 1 outcomes supported by full TWG

May 20th, 2025

SG2 M7
- Incorporate ISB feedback
- Operational control approach revision
- Financial control approach revision

June 17th, 2025

SG2 M8
- Remaining Chapter 3 and Appendix F revisions
- Draft text review for Operational and financial control

July 15th, 2025

Full TWG M3
- Review updated phase 1 outcomes

Today's objectives

1. Discuss key items for **revising the operational control approach**
   - **Overview** of key revision items
   - **Gather input from Subgroup 2 members** on suggested revisions and specific examples to be considered during revision
2. Provide an **overview of leased assets:** Background and related key revision items *(related to operational and financial control approaches)*

Today, we will **focus our discussion** on the revisions related to the **operational control** approach.
We will also **provide background on leased assets** and **introduce** the related **key revision items**.

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.

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).

Our focus shifts towards these items

Source: Corporate Standard – Standard Development Plan, Section 5B: Scope of work for the standard revision

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Corporate Standard Subgroup 2: Phase 1 progress to date

The following **two items will be presented to ISB** for review on April 28th

Alignment with financial accounting

Optionality in consolidation approaches (ongoing)

Recommendation (for decision)

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

Informational update (for feedback)

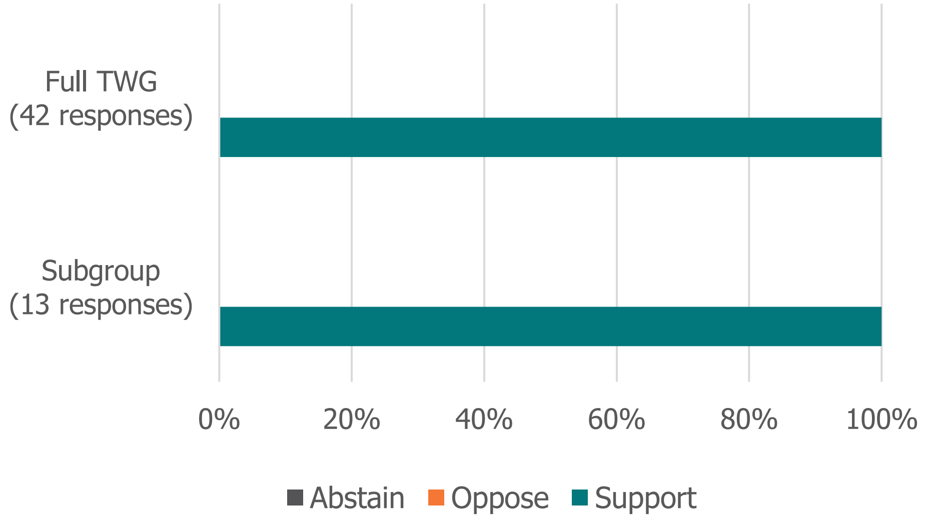
Majority support for **maintaining optionality**
*(Recommendation **to be finalized upon revision** of the consolidation approaches later in phase 1)*

Recommendation
For decision

Revise **financial control** approach to **align with financial accounting**

Level of support from TWG

Unanimous support for revising the financial control approach to align with financial accounting by requiring companies to adopt the to use the same consolidation method as in their financial statements



Rationale

- **Futureproof financial control consolidation approach's** alignment with financial accounting
- **Support compliance** with **mandatory programs** (e.g., IFRS, CSRD) requiring same reporting scope as financial statements

Implications

- Continued limitations to **comparability** (e.g., consolidation based on different financial accounting standards)
- Potential **overlap** with the **equity share** approach (e.g., equity method investments - *under evaluation)*

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Topic
Directional update

Whether to **maintain optionality in consolidation approaches**

Level of support from TWG

Majority support for maintaining optionality in consolidation approaches through the following three early directions: *(to be finalized at the end of phase 1)*

1. **Eliminate** the **equity share** approach *(majority support)*
2. Maintain and **update** the **operational control** approach *(majority support)*
3. Define the **revised financial control** as a **preferred/recommended** approach *(split opinions)*

ISB will provide feedback including their questions and/or major concerns on this directional update.

Main arguments for maintaining

- **Purpose of the initial evaluation:** To **justify moving forward** with revising the operational control approach. The recommendation will be finalized once all options on the table are revised.
- **Interoperability** with external both providing optionality for consolidation of GHG emissions (e.g., IFRS, SBTi) and requiring a single or a layered approach (e.g., CSRD).

Main arguments against maintaining

- **Cross-cutting** issue: Limiting **comparability**

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Overview of process to revise operational control approach

Initial discussion of main revision items
(Subgroup meeting 5)

Detailed discussion on key revision items
(Subgroup meeting 6)

Post meeting survey for specific **Subgroup 2 member* proposals** for revision
(Subgroup member input)

The Secretariat will **initiate the first revised draft****
(the Secretariat to lead)

Opening revised draft for **Subgroup 2 input** and proposed edits**
(Subgroup member input)

Finalizing draft revision
(Subgroup meeting 8)

Today

! **Please note that the discussion on leased assets-related revisions will take place separately, in the next section.**

*Thank you to members who have already volunteered to take part in initial text edits via an earlier follow up survey.
**Subgroup 2 meeting 7 will incorporate any follow up discussions needed on revisions related to organizational boundaries.

Operational control approach – Current definition *(Reminder)*

- *"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."*

Corporate Standard Revised Edition (2004), p.18

Operational control approach – High-level pros and cons *(Reminder)*

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** (scopes 1&2) 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 (e.g., CSRD to non-consolidated entities) • **Not** necessarily **aligned with financial statements**

These high-level pros and cons have been revised based on Subgroup 2 member inputs.

Summary of requirements and guidance on organizational boundaries from Mandatory frameworks and programs *(Reminder)*

Mandatory frameworks **allow or require** (as an add-on) the use of **operational control**

Mandatory Program	Operational control	Organizational boundary setting
IFRS S1 & S2	**Allowed**	- IFRS S1 **requires reporting entity to be the same as the related financial statements** *(consistent with 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)	**Required only for non-consolidated** entities and arrangements	- 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**
California Senate Bill 253 & 219	**Allowed**	**Requirement** to disclose emissions **pursuant to the GHG Protocol standards** Therefore, provides **optionality in choosing a consolidation approach**

Please see this [Overview of GHG Protocol Integration in Mandatory Disclosure Rules](#) for more information.

Summary of requirements and guidance on organizational boundaries from Voluntary frameworks and programs *(Reminder)*

Voluntary frameworks **allow** the use of **operational control** while increasingly recommending alignment with financial disclosures.

Voluntary Program	Operational control	Organizational boundary setting
ISO 14064-1	Allowed	**Allows for a choice** of consolidation approaches
GRI	Allowed	**Allows for a choice** of consolidation approaches (**If** the scope of **entities covered differs from financial statements**, **explanation is required**)
CDP	Allowed	**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	Allowed	Allows for a choice of consolidation approaches *(**strongly recommends** same scope as financial statements)* (Version 2.0 Consultation Draft *(Public consultation, March 2025): **Option 1**: Follow GHG Protocol, **Option 2**: Align with financial statements)*
PCAF	Allowed	Allows for a choice between **financial control** and **operational control** *(equity share not allowed)*

Corporate Standard stakeholder feedback survey

key themes related to adjusting control approaches*

- Requests for **clarification** on what is meant by operational control
  - Adding **specific indicators** to enable more consistent application of the operational control approach
- Requests for **definitions of operational control** for **different types of assets** (e.g., leases, licenses, franchises)
- Suggestions for **enhanced disclosure requirements** related to company judgements in determining boundaries
- Suggestions to reconsider **guidance on multi-party arrangements** to consider factors beyond who operates a facility
- Suggestions to update **definition of control to align with the party responsible for paying utility invoices** *(to be addressed during leased assets discussion)*

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

Proposals received related to *Corporate Standard* organizational boundaries – **specific reference to operational control** *(Reminder)*

Proposal link	Key theme
Deloitte_1	**Updating definitions and improve guidance** for determining boundaries under current consolidation approaches, **specifically operational control**
Anonymous_023	
Green Asia Network and Thankscarbon	
Canadian Union of Postal Workers	

For more detail, please see Section 2 of the Corporate Standard Proposals Summary.

Operational control approach – TWG feedback received to date*

- **Suggested revisions**:
  - Need for **clear definition/criteria** for determining **"operational control"**
  - **Robust examples** to better guide the user in when to choose and how to apply operational control approach
- **Points for consideration**:
  - Potential **overlap between** the **operational control** approach and **revised financial control** approach
  - Operational control has its **roots in health & safety reporting**
  - Companies currently using operational control **for mid-term external commitments** (e.g., 2030 SBTs)/regulatory disclosures (CSRD) – timeline for companies to adopt the revised Corporate Standard **should not disrupt reporting against those targets** (usually based on the current operational control approach)

* Includes Corporate Standard full TWG and Subgroup 2 member comments received to date.

Operational control approach - Overview of key issues

Revision items for the operational control approach is framed under **two main categories**:

Conceptual considerations

- Should the **current definition/terminology** be maintained?
- Is there a **significant overlap** with the revised financial control approach?
- How should different asse types such as **leased assets** be addressed? *Note: overarching topic will be covered separately*

Interconnected topics

Text-based revisions

- **"Full authority"** (e.g., oversimplified, applicability for multi-party arrangements)
- **"Operating policies"** (e.g., clarification, examples)
- **Specific indicators** defined (e.g., legal or contractual designation as the operator)
- **Reporting requirement on rationale** for selected consolidation approach
- **Further guidance** (e.g., updated petroleum industry guidelines for reporting GHG emissions - IPIECA)

Do you agree with these revision items, and do you suggest any additions?

Poll: Key issue - Current definition

Current text:

*"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."*

(Corporate Standard Revised Edition (2004), p.18)

Do you have any suggestions for how to address this questions?

POLL: Key conceptual question

1. Should the current definition of "operational control" be maintained?

1A. No, it should be fully revised.

- How should the operational control criteria be defined?

1B. Yes, the general definition should be maintained, but key terms should be reconsidered.

- Note key terms (e.g., full authority, operating policies) to be addressed in following slides

Key issue: Definition – Full authority

Current text:

*"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."*

(Corporate Standard Revised Edition (2004), p.18)

Related terms used in the Standard:

- Operator of a facility / operating license
- Not necessarily the authority to make all decisions *(e.g., big capital investments will likely require the approval of all the partners that have joint financial control)*
- Authority

1. Do you have any additional questions that you think should be considered?
2. Do you have any suggestions for how to address these questions?

Key questions

1B. How should "full authority" be defined?

- **How should "authority" be established in multi-party arrangements?**

Context on the issue

- Terms "full authority" and "authority" are **oversimplified** and should be revised/clarified to incorporate complex / multi-party arrangements (e.g., greatest authority*)
- Connection/differences between "authority" and "operator of a facility" needs to be clarified.
- When joint financial control: Not necessarily have the authority to make **all decisions**". What type of decisions?

* Australian National Greenhouse and Energy Reporting Act (2007) structured test model.

Key issue: Definition – Operating policies

Corporate Standard Revised Edition (2004), p.18

Current text:

*"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."*

(Corporate Standard Revised Edition (2004), p.18)

Related further text used in the Standard:

- Except in rare circumstances, operator of a facility will have operational control

Key questions

- How should "**operating policies**" be defined?
- Is it **common or rare** to have **operational control** over an operation **without being** the "**operator of the facility**"?
- What additional **guidance** and/or **examples** on this can be provided?

1. Do you agree with these revision items, or would you suggest any additions?
2. Do you have any suggestions for how to address these?

Key issue: Define specific indicators

- What specific indicators could be used to determine the "***full authority*** *to introduce and implement* ***operating policies***"?
- What specific indicators could be used to clarify what is referred to by "**full authority**" and/or "**operating policies**"?
- **Examples** of operating policies:
  - Environmental and Occupational Health & Safety Policies
  - Production and/or Process Management Policies
  - Human Resources Policies
  - Governance and Compliance Policies
  - Resource/Equipment Use & Management Policies

Key question

- What **specific indicators** could be defined to help companies determine if operational control is in place *(e.g., responsibility for operational performance; holds Health, Safety, and Environmental responsibility)*?

1. Do you agree with these revision items, or would you suggest any additions?
2. Do you have any suggestions for how to address these?

Key issue: Transparency – reporting requirement

(Relevant to both operational control and financial control)

Introducing qualitative reporting requirement(s) for companies to **explain the rationale for selecting** a particular consolidation approach.

Example text from the Secretariat: "**Companies shall disclose the rationale for selecting a particular consolidation approach** when preparing their GHG inventory, as outlined in the Corporate Standard. This disclosure shall include an explanation of the factors considered in choosing the consolidation approach, including but not limited to, the company's operational control or financial control over the operations included in the inventory.

The rationale shall be clearly stated, **providing sufficient detail to demonstrate the company's reasoning and decision-making process**. In particular, companies shall address how the selected approach reflects the operational structure, decision-making authority, and any multi-party arrangements or joint ventures involved."

The reporting requirement should also ask the companies **to disclose any judgement made while interpreting the criteria** to apply the chosen consolidation approach.

Example text from the Secretariat: "Where applicable, companies shall also **outline any judgments or assumptions made in applying the consolidation approach** to ensure transparency in the reporting process."

Do you agree with setting a reporting requirement on the rationale and judgements made in choosing and implementing a consolidation approach?

Key issue

Improve **transparency** by **adding a reporting requirement on disclosing the rationale for choosing the consolidation approach** together with **judgements applied** while implementing

(to be customized if optionality in consolidation approaches to be removed)

Operational control approach – Further guidance

Corporate Standard Revised Edition (2004), p.18

Current further guidance referenced in Corporate Standard

*"**More information on the relevance and application of the operational control criterion** is provided in petroleum industry guidelines for reporting GHG emissions (IPIECA, 2003)."*

2nd Edition of the referenced guidelines (2011)*

*"The operational control approach is thus generally defined to collect and consolidate all data or information from **assets which meet either of the following criteria**:*

- *The asset is **operated by the company**…*
- *The **asset is operated by a joint venture** (or equivalent commercial arrangement)……"*

Are there other resources that provide useful guidance on application of the operational control criteria?

*Petroleum industry guidelines for reporting greenhouse gas emissions - 2nd edition | Ipieca – pg.3-5

Key issues

- What **further guidance** *(within the CS or reference to external sources)* could be provided to ensure consistent application of the operational control criteria?

Is there major overlap between operational control and revised financial control approaches?

- For companies with **simple organizational structures**, consolidation under operational or financial control **would typically be the same**.
- However, for companies with **complex organizational structures**, applying operational and financial control approaches **could lead to different consolidation outcomes.**

Cases where operational and financial control lead to different consolidation outcomes:

- A company can meet the "**control**" criteria of **financial accounting frameworks** (e.g., IFRS, U.S. GAAP) without having **operational control** as defined by the GHG Protocol *(example on next slide)*.
- A company can also **have operational control** over an operation **without meeting the "financial control" criteria** (e.g., ESRS layered approach)

Do you think the operational control and financial control approaches serve distinct purposes?

Is there major overlap between operational control and revised financial control approaches?

Below example outlines a case where a company can meet the "**control**" criteria of financial accounting frameworks (e.g., IFRS, U.S. GAAP) **without having operational control** as defined by the GHG Protocol.

EXAMPLE

A company has **financial control** (e.g., majority voting rights, ownership) over an entity but does not directly introduce and manage the **operating policies** or **business practices** of that entity.

- **Leading financial accounting frameworks**: "Control" is primarily based on **the ability to direct financial policies** and **influence returns**, which can be separated from **operational policies and decisions**.
- **Corporate Standard:** "Operational control" focuses on the **authority to introduce and implement operating policies**, which is a different aspect of control compared to financial control.

Consolidation: The company would still **consolidate** the subsidiary for financial reporting purposes under IFRS or U.S. GAAP (because of financial control), but it may **not report the emissions** from that subsidiary under the *Corporate Standard* as it would not have **operational control**.

Please share any insights on where you believe there is a **potential major overlap** between the **operational control** and the **revised financial control** approaches.

Discussion: Operational control approach key revisions

Discussion

1. Are there **any other key issues** *(beyond those listed below)* related to the operational control approach revision?
    - **Current definition**: "**Full authority**" (e.g., oversimplified, applicability for multi-party arrangements)
    - **Current definition**: "**Operating policies**" (e.g., clarification, examples)
    - **Specific indicators** defined (e.g., legal or contractual designation as the operator)
    - **Transparency: Reporting requirement** on rationale for selecting/applying consolidation approach
2. Please share **any specific examples or challenges** you've encountered when implementing the current operational control approach, especially **those that could help inform the text revision**.

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B. Organizational boundaries - Scope of work: Leased assets

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.

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).

Source: Corporate Standard – Standard Development Plan, Section 5B: Scope of work for the standard revision

Overview of leased assets-related revisions

The following section has been organized to provide common basis pertaining to leased assets-related revision scope.

Background:

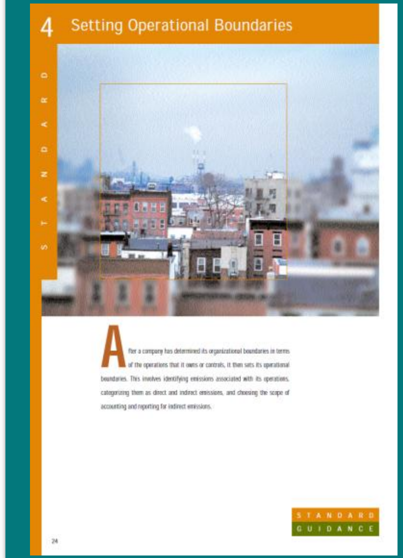
- Current requirements and guidance on leased assets
- Leased assets classification in financial accounting (high-level)
- TWG feedback received to date

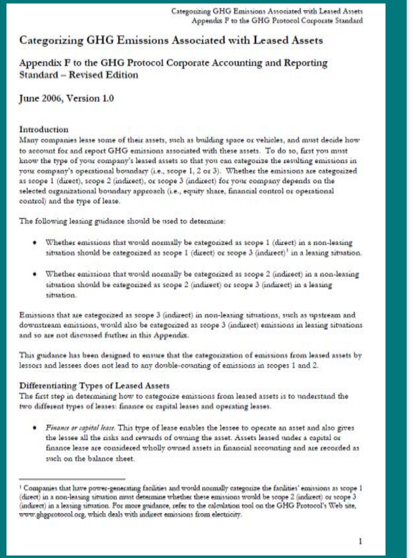
→

Discussion
(time dependent)

GHG Protocol: Current requirements and guidance on categorizing emissions from leased assets

Corporate Standard

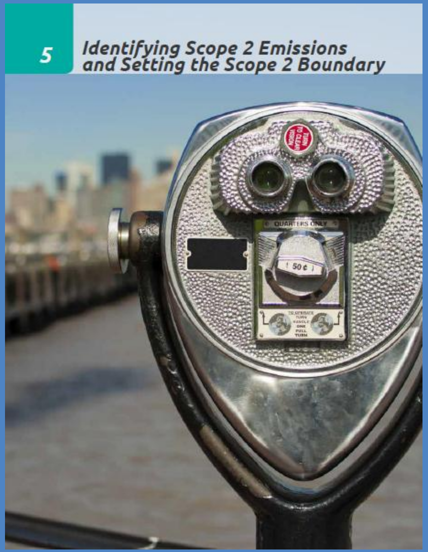




Chapter 4 Operational boundaries -subsection-

Appendix F (2006 amendment superseding Chapter 4)

Scope 2 Guidance

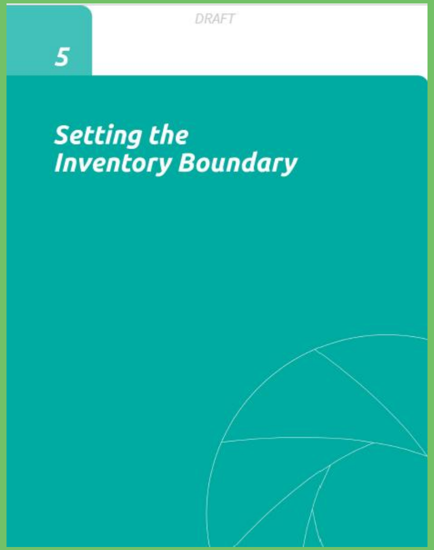


Chapter 5 Section 5.2.1

Scope 3 Standard

Appendix A*

LSR Guidance*



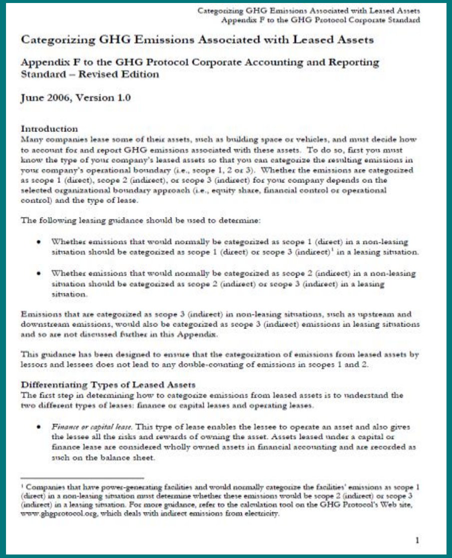
Chapter 5 Section 5.2.3

*Draft Land Sector and Removals Guidance

Corporate Standard - Current requirements and guidance on categorizing emissions from leased assets - Appendix F, 2006 Amendment (superseding Chapter 4 subsection)

- *"The **first step** in determining how to **categorize emissions from leased assets** is to understand the **two different types of leases**: finance or capital leases and operating leases.*
  - ***Finance or capital lease**. This type of lease **enables the lessee to operate an asset** and **also gives** the lessee **all the risks and rewards of owning the asset**. Assets leased under a capital or finance lease are considered wholly owned assets in financial accounting and are recorded as such on the balance sheet.*
  - ***Operating lease.** This type of lease **enables the lessee to operate an asset**, like a building or vehicle, but **does not give** the lessee **any of the risks or rewards** of owning the asset. Any lease that is not a finance or capital lease is an operating lease.*
- *One way to determine whether an asset is leased under an operating or finance/capital lease is to **check the company's audited financial statements**."*

Corporate Standard



Categorizing GHG Emissions Associated with Leased Assets
Appendix F to the GHG Protocol Corporate Standard

Categorizing GHG Emissions Associated with Leased Assets

Appendix F to the GHG Protocol Corporate Accounting and Reporting Standard – Revised Edition

June 2006, Version 1.0

Introduction
Many companies lease some of their assets, such as building space or vehicles, and must decide how to account for and report GHG emissions associated with these assets. To do so, first you must know the type of your company's leased assets so that you can categorize the resulting emissions in your company's operational boundary (i.e., scope 1, 2 or 3). Whether the emissions are categorized as scope 1 (direct), scope 2 (indirect), or scope 3 (indirect) for your company depends on the selected organizational boundary approach (i.e., equity share, financial control or operational control) and the type of lease.

The following leasing guidance should be used to determine:

- Whether emissions that would normally be categorized as scope 1 (direct) in a non-leasing situation should be categorized as scope 1 (direct) or scope 3 (indirect)[1] in a leasing situation.
- Whether emissions that would normally be categorized as scope 2 (indirect) in a non-leasing situation should be categorized as scope 2 (indirect) or scope 3 (indirect) in a leasing situation.

Emissions that are categorized as scope 3 (indirect) in non-leasing situations, such as upstream and downstream emissions, would also be categorized as scope 3 (indirect) emissions in leasing situations and so are not discussed further in this Appendix.

This guidance has been designed to ensure that the categorization of emissions from leased assets by lessors and lessees does not lead to any double-counting of emissions in scopes 1 and 2.

Differentiating Types of Leased Assets
The first step in determining how to categorize emissions from leased assets is to understand the two different types of leases: finance or capital leases and operating leases.

- *Finance or capital lease.* This type of lease enables the lessee to operate an asset and also gives the lessee all the risks and rewards of owning the asset. Assets leased under a capital or finance lease are considered wholly owned assets in financial accounting and are recorded as such on the balance sheet.

[1] Companies that have power-generating facilities and would normally categorize the facilities' emissions as scope 1 (direct) in a non-leasing situation must determine whether these emissions would be scope 2 (indirect) or scope 3 (indirect) in a leasing situation. For more guidance, refer to the calculation tool on the GHG Protocol's Web site, www.ghgprotocol.org, which deals with indirect emissions from electricity.

1

Appendix F
(2006 amendment and supersedes text in Ch4)

Provides an **exemption** to companies who are able to demonstrate that they do not have operational control over a leased asset. In this case, the company may report emissions from the leased asset under Scope 3.

Scope 3 Standard - Current requirements and guidance on categorizing emissions from leased assets – Appendix A

Adapted version of the Corporate Standard Appendix F "Categorizing GHG Emissions from Leased Assets". Incorporates **minor wording updates**/simplification only.

"The first step in determining how to categorize emissions from leased assets is to understand the two different types of leases: finance or capital leases, and operating leases. One way to determine the type of lease is to check the company's audited financial statements.

- ***Finance or capital lease:*** *This type of lease enables the lessee to* ***operate an asset*** *and also gives the lessee* ***all the risks and rewards*** *of owning the asset. Assets leased under a capital or finance lease are* ***considered wholly owned assets*** *in financial accounting and are recorded as such on the balance sheet.*
- ***Operating lease:*** *This type of lease enables the lessee to* ***operate an asset****, like a building or vehicle, but does not* ***not give the lessee any of the risks or rewards*** *of owning the asset. Any lease that is not a finance or capital lease is an operating lease."*

Scope 3 Standard

Appendix A. Accounting for Emissions from Leased Assets

This appendix provides additional guidance on accounting for emissions from leased assets.

Introduction[1]

Many companies either lease assets (e.g., buildings, vehicles) to other entities or lease assets from other entities. This appendix explains whether to account for emissions from leased assets as scope 1 emissions, scope 2 emissions, scope 3 emissions in category 8 (Upstream leased assets), or scope 3 emissions in category 13 (Downstream leased assets).

How emissions from leased assets are accounted for in a company's GHG inventory depends on the company's selected organizational boundary approach (i.e., equity share, financial control, or operational control), and the type of lease.

Differentiating types of leased assets

The first step in determining how to categorize emissions from leased assets is to understand the two different types of leases: finance or capital leases, and operating leases. One way to determine the type of lease is to check the company's audited financial statements.

- **Finance or capital lease:** This type of lease enables the lessee to operate an asset and also gives the lessee all the risks and rewards of owning the asset. Assets leased under a capital or finance lease are considered wholly owned assets in financial accounting and are recorded as such on the balance sheet.
- **Operating lease:** This type of lease enables the lessee to operate an asset, like a building or vehicle, but does not give the lessee any of the risks or rewards of owning the asset. Any lease that is not a finance or capital lease is an operating lease.[2]

The next step is to determine whether the emissions associated with the leased assets are categorized as scope 1, scope 2, or scope 3 by the reporting company. Proper categorization of emissions from leased assets by lessors and lessees ensures that emissions in scopes 1 and 2 are not double-counted. For example, if a lessee categorizes emissions from the use of purchased electricity as scope 2, the lessor categorizes the same emissions as scope 3, and vice versa.

Table [A.1] Leasing agreements and boundaries (lessee's perspective)

	Type of leasing arrangement	
	Finance/capital lease	Operating lease
Equity share or financial control approach used	Lessee has ownership and financial control, therefore emissions associated with fuel combustion are scope 1 and use of purchased electricity are scope 2.	Lessee does not have ownership or financial control, therefore emissions associated with fuel combustion and use of purchased electricity are scope 3 (Upstream leased assets).
Operational control approach used	Lessee has operational control, therefore emissions associated with fuel combustion are scope 1 and use of purchased electricity are scope 2.	Lessee does have operational control, therefore emissions associated with fuel combustion at sources in the leased space are scope 1 and use of purchased electricity are scope 2.[3]

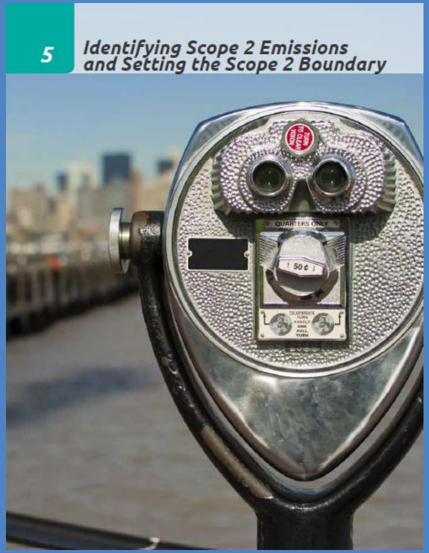
[124] Corporate Value Chain (Scope 3) Accounting and Reporting Standard

Appendix A
(adapted version of the Corporate Standard Appendix F)

Scope 2 Guidance - Current guidance on categorizing emissions from leased assets – Section 5.2.1 Leased assets

- *"**As noted in the Corporate Standard Appendix F**, all leases confer operational control to the lessee or tenants, unless otherwise noted. Therefore, **if a company is a tenant in a leased space or using a leased asset** and a**pplies the operational control approach**, any **energy purchased or acquired** from another entity (or the grid) shall be reported in scope 2. **On-site heat generation equipment**, such as a basement boiler, typically falls under the operational control of the landlord or building management company. Tenants therefore would report consumption of heat generated on-site as scope 2. If a tenant can demonstrate that they do not exercise operational control in their lease, they **shall** document and justify the exclusion of these emissions.*
- *Emissions from assets a company owns and leases to another entity, but does not operate, can either be included in scope 3 or excluded from the inventory."*

Scope 2 Guidance



Chapter 5
Section 5.2.1

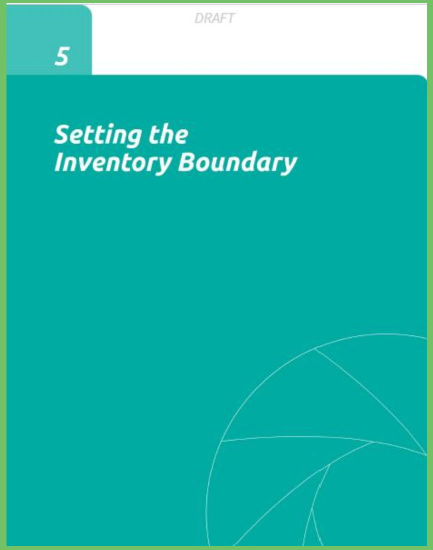
Refers to Appendix F of the Corporate Standard and **provides an example** of how to categorize GHG emissions from **purchased energy** and **on-site heat generation** in a leased space.

LSR Draft Guidance - Current guidance on categorizing emissions from leased assets – Section 5.2.3

- *"A common type of lease for lands is the finance or capital lease. In many countries, land is leased using mid- to long-term contracts, where the lessee is farming the land for a fixed fee and takes all the risks and rewards related to the operations on the land.*
- *Government concessions (e.g., for plantations) in many countries are also based on similar contract types. Instead of operating lease contracts, land owners and managers often use service contracts to commission another entity (e.g., another farmer, a service company) to execute certain work on the land they own or manage (e.g., harvesting), with a payment that is a function of the amount of worktime and/or type of machinery. However, it is possible that an operating lease contract could also be used."*

Uses the same language as ***Scope 3 Standard Appendix A*** and **provides further context** on land use-related leases.

LSR Guidance*



Chapter 5
Section 5.2.3

*Draft Land Sector and Removals Guidance

Leased assets – EXAMPLE comparison of Corporate Standard and Scope 3 Standard text

Corporate Standard Revised Edition (2004), 2006 amendment: Appendix F & Scope 3 Standard Appendix A

Leasing Agreements and Boundaries (Lessee's Perspective) – Comparison of CS Appendix F and Sc3 Appendix A

	Type of Leasing Arrangement			
	Finance/Capital Lease		Operating Lease	
	Corporate Standard	**Scope 3 Standard**	**Corporate Standard**	**Scope 3 Standard**
Equity Share or Financial Control Approach Used	Lessee does have ownership and financial control, therefore emissions associated with fuel combustion are scope 1 and with use of purchased electricity are scope 2.	Lessee has ownership and financial control, therefore emissions associated with fuel combustion are scope 1 and use of purchased electricity are scope 2.	Lessee does not have ownership or financial control, therefore emissions associated with fuel combustion are scope 3 and with use of purchased electricity are scope 3.	Lessee does not have ownership or financial control, therefore emissions associated with fuel combustion and use of purchased electricity are scope 3 (Upstream leased assets).
Operational Control Approach Used	Lessee does have operational control, therefore emissions associated with fuel combustion are scope 1 and with use of purchased electricity are scope 2.	Lessee has operational control, therefore emissions associated with fuel combustion are scope 1 and use of purchased electricity are scope 2.	Lessee does have operational control, therefore emissions associated with fuel combustion are scope 1 and with use of purchased electricity are scope 2.[a]	Lessee does have operational control, therefore emissions associated with fuel combustion at sources in the leased space are scope 1 and use of purchased electricity are scope 2.[3]

Notes:

[a] Some companies may be able to demonstrate that they do not have operational control over a leased asset held under an operating lease. In this case, the company may report emissions from the leased asset as scope 3 but must state clearly in its GHG inventory report the reason(s) that operational control is not perceived. **(Corporate Standard)**

[3] Some companies may be able to demonstrate that they do not have operational control over a leased asset held under an operating lease. In this case, the company may report emissions from the leased asset as scope 3 as long as the decision is disclosed and justified in the public report. **(Scope 3 Standard)**

Summary of comparison

- **Minor** wording **updates**/simplification made in Scope 3 Appendix A (yellow/orange text)

Leased assets – Categorization in leading financial accounting frameworks

There are differences in classifying and accounting for leased assets in financial statements.

IFRS*		U.S. GAAP**
Definition: A contract, or part of a contract, that conveys "**the right to use**" an asset (the underlying asset) for a period of time in exchange for consideration.	=	**Definition**: A contract, or part of a contract, that conveys the "**right to control the use**" of an identified asset for a period of time in exchange for consideration.
Application: **Property**, **plant** and **equipment** and **other assets**[1], with **limited exclusions**.		**Application**: **Property**, **plant** and **equipment**. Unlike IFRS Accounting Standards, the scope **excludes** leases of inventory, leases of assets under construction and all leases of intangible assets.
Lease classification (lessee): **Finance lease**		**Lease classification** (lessee): **Finance lease** or **Operating lease**

How could the differences between financial accounting standards impact the classification of leased assets for GHG emissions accounting?

[1] Such as intangible assets and inventory.

*IFRS 16 – Leases (2016)
**ASC 842 - Leases (2016)

Leased assets – Stakeholder and TWG feedback received to date

- **Financial accounting categorization vs. GHG accounting focused categorization**
  - **Leases are included** on the balance sheet in IFRS & US GAAP if the company has a "**right-to-use**." **Question**: Should emissions from an asset be included if the company has a "**right-to-use it**," **or through a convoluted decision tree around whether they may be able to change the operating policies** of the asset?
- **How to determine "control":** Under financial control; the landlord has financial control over the building, but the tenants may have financial control over the daily operations and utilities.
  - **Feedback**: Need to improve consistency of the approach to determination of "financial/operational control" and the **treatment of utilities for both the lessor and lessees** (e.g., align with the party responsible for paying utility invoices, having control over lighting switches but not the thermostat).
- **Sector-specific feedback:**
  - **Telecommunication**: Co-leased or co-used/shared assets (passive equipment such as the air conditioning in telecoms radio access network towers) should be considered during revision. Reference provided: Scope 3 Guidance for Telecommunications Operators | GSMA.
  - Challenges on accounting emissions from **Data centers.**
- **Proposal** for determining "**authority**" in multi-party arrangements" based on Australian National Greenhouse and Energy Reporting Act (2007): Where there is shared operational control there is a **structured test**:

  1) '**greatest authority**;

  2) where **equal authority**, **which has greatest financial interest**;

  3) otherwise, **agreement in writing**.

Discussion: Leased assets-related key revisions *(time dependent)*

Discussion

- Please share **any challenges or specific examples** you've encountered related to **categorizing leased assets**, especially **those that could help inform the text revision**.

Agenda

Introduction and housekeeping	10 minutes
Recap of phase 1 progress	10 minutes
Operational control approach: Key revision items	65 minutes
Introduction to leased assets	25 minutes
Wrap-up and next steps	**10 minutes**

GREENHOUSE GAS PROTOCOL

Upcoming Schedule

March 25th, 2025

SG2 M5

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

TODAY

April 22nd, 2025

SG2 M6

- Operational control approach revision
- Introduction to revisions related to leased assets

May 20th, 2025

SG2 M7

- Incorporate ISB feedback
- Operational control approach revision
- Financial control approach revision

June 17th, 2025

SG2 M8

- Remaining Chapter 3 and Appendix F revisions
- Draft text review for Operational and financial control

July 15th, 2025

Full TWG M3

- Review updated phase 1 outcomes

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 (Proposed edits for operational control approach and leased assets-related revisions)	• **Respond to feedback survey** (deadline TBC)	• Tuesday, May 20th (08:00-10:00 EDT, 14:00-16:00 CEST, 20:00-22:00 CHN) • Incorporate ISB feedback (tbc) and wrap up operational control approach revision discussion and review draft text

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 prior to the meeting, and the final version presented on April 22nd, 2025.

Slide #	Change	Details
Slide 30	Revised	Format revised – no change in content

Appendix

GREENHOUSE GAS PROTOCOL

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.

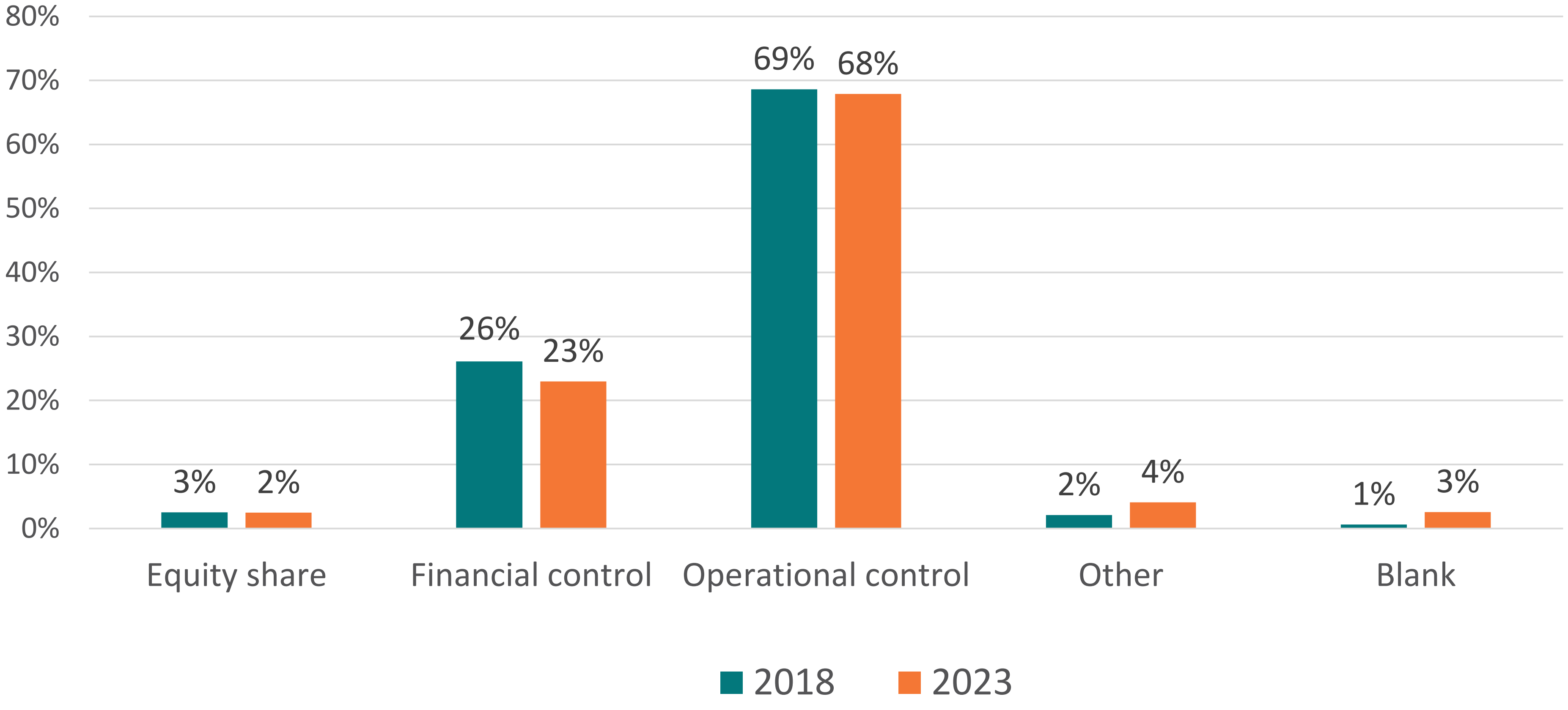
A company has **financial control** over the operation if the former has the ability to direct the financial and operating policies for the latter with a view to gaining economic benefits from its activities.

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)

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

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

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

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

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**