Corporate Standard Meeting Minutes

Subgroup 2, Meeting #7

Date: 20 May 2025

Time: 08:00 – 10:00 EDT / 14:00 – 16:00 CEST

Location: Virtual

Attendees

Technical Working Group Members

1. Christina Abbott, KPMG
2. Debbie Crawshawe, Department for Business and Trade, UK Government
3. Mónica Oleo Domínguez, Redeia
4. Kia Hong Goh, Nanyang Technological University, Singapore
5. Anna Grochowska, EFRAG
6. Gijs Kamperman, TenneT
7. Eric Knachel, Deloitte
8. Vincent Kong, BEAM Society Ltd
9. Bonar Laureto, EY Philippines
10. Andy Law, Hong Kong Institute of Certified Public Accountants
11. Claire McCarthy, We Mean Business Coalition
12. Judy Ryan, External Reporting Board, New Zealand
13. Alisa Shumm, PwC
14. Meghan Sutter, Google
15. Margaret Weidner, Independence Point Advisors

Guests

None present

GHG Protocol Secretariat

1. Hande Baybar
2. Iain Hunt
3. Allison Leach
4. David Rich

Documents referenced

1. Slides for the Corporate Standard TWG Subgroup 2 meeting on 20 May 2025

Item	Topic and Summary	Outcomes
1	***Introduction and housekeeping*** The Secretariat welcomed TWG members to the meeting. The Secretariat provided a quick reminder on TWG housekeeping items and presented the objectives and the agenda for the meeting.	No specific outcomes.
2	***Follow-up on phase 1 progress*** The Secretariat provided a brief recap of phase 1 progress to date, outlining the following topics presented to the ISB for provisional decision and directional update on April 28th: - Recommendation to revise the financial control approach to align with financial accounting - Early direction to maintain optionality in consolidation approaches	No specific outcomes.
3	***Objectives and scope of operational control approach revision*** The Secretariat provided an overview of the operational control approach revision process, along with further context on the original objective of the operational control approach and TWG member feedback received to date. The Secretariat presented the Meeting 6 follow-up survey outcomes on the operational control approach and leased assets-related revision. This was followed by a plenary discussion where members were invited to provide further input.	The Secretariat will update the examples shared on specific case studies for evaluation during the operational control revision process and will invite TWG members to provide further input as appropriate via a follow-up survey.
4	***Case studies on operational control and leased assets*** The Secretariat presented six case studies to be evaluated to inform the revision discussion on the operational control approach and leased assets and invited TWG members to provide their views on how each case should be interpreted.	No specific outcomes.
	Wrap-up and next steps The Secretariat shared next steps including the next Subgroup 2 meeting scheduled for June 17th, 2025.	The Secretariat will share meeting materials. The next meeting of Subgroup 2 is scheduled for June 17th, 2025.

Summary of discussion and outcomes

1. Introduction and housekeeping

- The Secretariat welcomed TWG members to the seventh meeting of Subgroup 2. The Secretariat provided a quick reminder on TWG housekeeping items, and presented the objectives and the agenda for the meeting (slides 1-11).

Summary of discussion

- No questions or comments provided by TWG members.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

2. Follow-up on phase 1 progress

- The Secretariat provided a brief recap of phase 1 progress to date, outlining the following topics presented to the ISB for provisional decision and directional update on April 28th (slides 12-15):
    - Recommendation to revise the financial control approach to align with financial accounting
    - Preliminary direction to maintain optionality in consolidation approaches

Summary of discussion

- No questions or comments provided by TWG members.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

3. Objectives and scope of operational control approach revision

- The Secretariat provided an overview of the operational control approach revision process, along with further context on the original objective of the operational control approach and TWG member feedback received to date (slides 16-22).
- The Secretariat presented the Meeting 6 follow-up survey outcomes on the operational control approach and leased assets-related revision. This was followed by a plenary discussion where members were invited to provide further input (slides 23-25).

Summary of discussion

- The Secretariat provided further context on the operational control approach, including its original objective as outlined in the published version of the Corporate Standard (2004), and briefly recapped the stakeholder feedback received on revising the operational control approach.
    - A member inquired whether GHG Protocol had received any stakeholder feedback indicating a preference for the operational control approach over the financial control approach. They added that it would be interesting to understand the common rationale for choosing the operational control approach over financial control. The Secretariat noted that while some stakeholders suggested requiring the operational control approach, suggestions to require the financial control approach were more common.
        - A member noted that this feedback seems inconsistent with the widespread adoption (based on 2023 CDP public disclosures) of the operational control approach. The Secretariat clarified that stakeholders who provided feedback included users of GHG data, not just users of the Corporate Standard.

        - A member suggested that entities may choose the financial control approach if they know the results usually are the same.
    - A member noted that the leading financial accounting standards such as IFRS and U.S. GAAP have updated their definitions of control to be more principles-based and suggested there is no longer a strong need to define a prescriptive criteria for control.
    - A member, referring to interoperability with external GHG programs, suggested that the external programs could have the option to continue referring to the current version (2004) of the Corporate Standard if the upcoming revision does not align with their objectives.
- The Secretariat presented the key outcomes of the Meeting 6 follow-up survey on the operational control approach and leased assets-related revisions, including the suggested text revisions for the definition of operational control. The Secretariat noted that the list of case studies being compiled on the operational control approach and leased assets will be updated to include further examples submitted via the survey. This was followed by a plenary discussion where members were invited to provide further input.
    - A member noted that they previously voted in support of fully revising the definition of operational control instead of only revisiting the key terminology used in the current definition. However, they added that in light of the follow-up survey outcomes, they now believe revisiting key terminology, especially "full authority", would address the concerns noted. Several members agreed.
        - A member asked for clarification on what is meant by fully revising the definition of operational control. The Secretariat provided a brief recap of how the concept was introduced in the indicative poll during the previous Subgroup 2 meeting.
        - Another member added that the suggested revisions shared via the follow-up survey further clarifies the definition of operational control. They noted that the most problematic part of the current definition is the reference to "operating policies". They suggested that for general reporting purposes this terminology would suffice but for GHG accounting and reporting purposes it needs to be further specified.
        - A member suggested that the focus of the operational control definition should be on GHG emissions and on who has the authority to control or significantly influence activities that impact the emissions. Several members agreed.
            - Another member introduced a question asking how the criteria specifying who influences the GHG emissions the most could be set, and questioned whether it could or should be done at the asset level. The Secretariat asked a clarifying question on whether they suggest that different criteria should be used for different units/levels. The member responded by confirming that they think different criteria could be used to determine the influence over GHG emissions at entity and asset levels.
        - A member inquired whether the subgroup has landed on starting with the "reporting entity" (as defined in the revised financial control approach) while setting the organizational boundaries for GHG accounting and reporting, and then evaluating whether any joint ventures/operations or assets would be under different scopes if operational control consolidation approach is applied. Another member supported that this should be the approach to setting organizational and operational boundaries.
        - A member, referring to the phrase "authority to choose products" on slide 23 in their survey response, expressed concerns about the use of this terminology and noted that it could be misapplied in cases of franchises.
    - A member suggested that the notion of refraining from defining prescriptive criteria such as "the ability to direct the relevant activities of an investee related to emissions" to determine "financial control" could be applied to operational control.
        - Another member asked whether there are cases where an entity has financial control over a company without having any influence over the GHG emissions.

        - The member who made the initial suggestion added that in cases where the entity could have operational control over the acquisition, sale and marketing phases which could have both direct and indirect impact on emissions.
        - A member noted that the subgroup should be focusing on the activities of a company once it is acquired and becomes operational within an entity's reporting boundary.
    - A member suggested that further evaluating the areas where the financial control and operational control approaches diverge could better inform the revision process. They added that current discussions are focused on using financial accounting terminology to define operational control and suggested that this choice should be discussed further.
    - A member followed up on their earlier comment that the control criteria used in financial accounting is now more principles-based then when the Corporate Standard was last revised. They added that, therefore, there isn't as strong a need to distinctly define financial control and operational control. They suggested that operational control could be defined not as a separate control approach but based on how it differs/diverges from financial control. They reiterated that the starting point to set boundaries should be the consolidated reporting entity (the same entity issuing the (consolidated) financial statements).
        - The Secretariat suggested noted that several case studies will be presented later in the meeting to facilitate the discussion on how operational control should be defined and how it differs from financial control.
        - Another member expressed concerns about starting the GHG accounting and reporting boundary setting with the "reporting entity". They questioned how this could apply or pose challenges for companies that are not required to issue financial statements. Another member responded by suggesting that most companies preparing their GHG inventories would at least have an income statement or a balance sheet even if they do not publicly disclose them.
    - A member shared their suggested approach to revising the operational control definition containing the following key concepts: ability to track and report GHG emissions, implementing and influencing operational changes, establishing and enforcing policies and procedures related to emissions, ability to allocate resources to manage and reduce GHG emissions, and setting emissions reduction/performance targets.

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

- The Secretariat will update the examples shared on specific case studies for evaluation during the operational control revision process and will invite TWG members to provide further input as appropriate via a follow-up survey.

4. Case studies on operational control and leased assets

- The Secretariat presented six case studies to be evaluated to inform the revision discussion on the operational control approach and leased assets and invited TWG members to provide their views on how each case should be interpreted (slides 26-34).

<u>Summary of discussion</u>

- The Secretariat provided an overview of cases to be evaluated to inform the operational control approach and leased assets revisions and invited members to provide further input on each case.

  Case 1: A standard scenario where both financial control and operational control are in place

- The Secretariat presented a case involving a typical scenario where both financial and operational control is in place, followed by a question highlighting an edge scenario: a wholly-owned subsidiary operates in another jurisdiction where, due to local rules and regulations, the parent company cannot exert full authority to implement operating policies. The Secretariat then opened the floor for discussion.

  - A member suggested that there will be many edge cases similar to the one introduced and it would not be possible to account for all edge cases during the revision process. Several members agreed.
  - A member responded by noting that revising or clarifying the term "full authority" would help address the concern with the edge case scenario.

Case 2: Joint venture owned 50/50 by two companies

- The Secretariat presented a case where neither of the parent companies has operational control in place and opened the floor for discussion.
  - A member noted that the GHG emissions of the joint venture should be reported as scope 3 if the parents choose to report based on operational control, but those emissions won't be accounted for under their scopes 1 and 2.
    - A member suggested that the early CSRD disclosures indicate that many companies underreport scope 3 emissions resulting from joint ventures they do not have financial or operational control over, and added that there could be a requirement in the Corporate Standard for reporters to separately account for emissions associated with joint ventures.
  - Another member suggested that the joint venture should be reporting its own emissions under operational control.
  - The Secretariat invited members to state their agreement/disagreement on whether it is acceptable for the parent companies to account for emissions associated with their joint ventures, over which they do not have operational control, under scope 3. No objections were raised.

Case 3: Joint operations where two companies have 50% ownership and one of the companies has operational control

- The Secretariat presented a case where one of the parent companies has operational control of the joint operation and opened the floor for discussion.
  - A member asked whether the definition of "operator" is typically used in joint operation agreements. The Secretariat responded by saying that this terminology is not used in financial accounting.
    - Another member expressed concerns on the use of the term "operator". They added that there could be cases where the operator controls or executes daily operations without the authority to make any decisions. They also noted that the roles of each party involved in the joint operation should be detailed in the contract.
  - Another member asked whether the joint operations terminology used here is based on IFRS definitions. The Secretariat confirmed that it was. The member mentioned that IFRS no longer requires proportional consolidation for joint operations but treats accounting based on specific assets controlled by each parent as if it were a separate operation.
    - A member asked whether the allocation of assets is based on the ownership percentage (50% each) or if it is asset specific (e.g., building 1 is accounted by Company A and building 2 is accounted by Company B). *The Secretariat's response after the meeting: In IFRS 11 Appendix B paragraph B4, it is detailed that the contractual agreement between the parties sets out the terms upon which how the parties share assets*.
  - A member suggested that the wording "the right to" direct/control/influence operations, including the ability to appoint or change an operator, captures the essence of operational control and applies to the cases discussed so far. Several members showed support.
  - The Secretariat invited members to share if they have any concerns regarding how GHG emissions from joint operations such as the evaluated case should be accounted for based on operational control. No concerns were raised.

Case 4: Delegated operations, where the owner of a facility appoints a contracted operator to run the operations

- The Secretariat presented a case where the owner of a facility contracts an operator who follows the owner's instructions to run the daily activities at the facility. The Secretariat introduced the question: Which party should account for GHG emissions of the facility under operational control (the owner vs. the operator) and opened the floor for discussion.
    - A member emphasized the ability to direct day-to-day operations/decisions and suggested that the operator is merely an agent in this case, following the owner's instructions, and the operation of the facility is at the benefit of the owner. Therefore, they suggested that the owner should account for the emissions of the facility under operational control. Several members agreed.
        - A member added that the operator runs the operations "on behalf of" the owner. Another member expressed support for integrating this terminology into the operational control definition.
    - A member highlighted that the party with the authority or ability to make strategic decisions should also be taken into account.
    - Another member noted that the contractual roles and responsibilities assigned to each party should be closely evaluated. They noted that the ability to direct policies will have the ultimate impact on the emissions from the facility. However, the member added that the operator, in some cases, can still have a level of influence over the emissions too (e.g., turning the heating up or down).
    - Another member agreed and shared examples of slightly different scenarios revolving around the owner's ability to influence, approve or reject the related operating policies the operator introduces.
    - The Secretariat asked members whether they agree that the owner should report GHG emissions of the facility under operational control, and not the operator. No objections were raised.

Case 5A: Long-term commercial lease of offices space

- The Secretariat presented the case of a leased arrangement with ambiguous control where the lessee has control over the plug load but does not have access to or operational control over the central HVAC system and opened the floor for discussion on how to determine which party should account for HVAC-related emissions under operational control.
    - A member suggested to focus on determining who has the right to use the asset when determining who has operational control over it.
    - A member suggested that the lessee should account for all the emissions associated with the use of the leased space including the heating/cooling of the leased space.
    - A member asked a clarifying question on whether the question intends to ask who should account for the emissions associated with the common places like the lobby. The Secretariat clarified that the question focuses on if the lessee should account for the emissions from heating the leased space, adding that in some cases tenants uses the rationale that they do not have access to the central HVAC system and therefore do not have operational control over it despite using the heating for the leased space. The member suggested that, in this case, the lessee should include emissions related to heating the leased space in their inventory. Several members expressed support.
    - Another member asked whether the introduced question refers to setting the organizational or operational boundary for GHG accounting. The Secretariat clarified that the question intends to ask who should report the indicated emissions under operational control.
    - A member noted that the criteria to exert operational control in cases like this should be evaluated carefully. They gave an example that a criterion such as the "ability to choose the energy supplier" is not implementable for regions where there is only one supplier.
    - Another member noted that the current wording in the corporate suite of standards referring both to the combustion of fuel in the "leased space" and to the heat generation "on site" is causing confusion and should be clarified. They introduced the following question: If a natural gas boiler is not located in the leased space, should the lessee or the landlord account

for the emissions associated with fuel combustion under scope 1 (natural gas)?. The Secretariat clarified that if the lessee purchased heating under scope 2.
    - A member suggested that similar conditions apply for data centers. Several members suggested that there should be a separate and detailed discussion on data centers.
    - A member asked whether the landlord should report the emissions associated with their tenants' use of their asset as scopes 1 and 2 under the financial control approach. Another member responded saying that they should. They also added that, in order not to do so, the landlords often apply the operational control approach.

Case 5B: Leased vessel

- The Secretariat presented the case of a leased vessel, built according to the specifications of the lessee, who then contracts an operator (captain and crew). The vessel is solely used to ship the lessee's goods, and the lessee also determines the delivery dates and locations. The Secretariat opened the floor for discussion on who should account for GHG emissions of the vessel under operational control.
    - A member suggested that, similar to case 4, the lessee gives instructions to the captain (operator) and therefore the lessee should account for the vessel's emissions under operational control.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

5. Wrap-up and next steps

- The Secretariat shared next steps including the next Subgroup 2 meeting scheduled for June 17th, 2025 (slides 35-38).

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- Final meeting materials including slides, minutes, and recording to be shared by the Secretariat.
- The next meeting of Subgroup 2 is scheduled for Tuesday, June 17th, 2025, at 08:00 EDT / 14:00 CEST / 20:00 CHN.

Summary of written submissions received prior to meeting

- The Secretariat conducted an asynchronous feedback survey prior to the meeting to collect further input from TWG members related to revision of the operational control approach and leased-assets. 11 responses were received prior to the deadline, with results integrated into meeting materials (slides 21 to 24) and informing the framing of meeting discussions (slide 25).