Corporate Standard Meeting Minutes

Subgroup 2, Meeting #8

Date: 17 June 2025

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

Location: Virtual

Attendees

Technical Working Group Members

1. Christina Abbott, KPMG
2. John Altomonte, WWF-Philippines
3. Debbie Crawshawe, Department for Business and Trade, UK Government
4. Rubens Ferreira, Carbonauta Ltda
5. Kia Hong Goh, Nanyang Technological University, Singapore
6. Anna Grochowska, EFRAG
7. Gijs Kamperman, TenneT
8. Eric Knachel, Deloitte
9. Bonar Laureto, EY Philippines
10. Andy Law, Hong Kong Institute of Certified Public Accountants
11. Trinity Makava Ncube, Trinity Consultants
12. Claire McCarthy, We Mean Business Coalition
13. Barbara Porco, Fordham University
14. Judy Ryan, External Reporting Board, New Zealand
15. Sheila Scott, Jacobs
16. Alisa Shumm, PwC
17. Meghan Sutter, Google
18. Margaret Weidner, Independence Point Advisors

Guests

None present

GHG Protocol Secretariat

1. Hande Baybar
2. Iain Hunt
3. Allison Leach

Documents referenced

1. Slides for the Corporate Standard TWG Subgroup 2 meeting on 17 June 2025

Item	Topic and Summary	Outcomes
1	***Introduction and housekeeping*** The Secretariat welcomed TWG members to the eighth meeting of Subgroup 2. The Secretariat provided a brief reminder on TWG housekeeping items, and presented the objectives and the agenda for the meeting.	No specific outcomes.
2	***Follow-up on financial control approach revision*** The Secretariat provided an overview of the financial control approach revision process, including a presentation of the proposed revised definition, which was developed based on input and suggested edits from a volunteer group of Subgroup 2 members, and invited members to comment.	A series of indicative polls found *split opinions* on proposed guidance on treatment of associates, non-controlling interest, joint ventures and joint arrangements.
3	***Follow-up on operational control approach revision*** The Secretariat provided an overview of the operational control approach revision process, including a presentation of the proposed revised text defining the core elements of operational control based on input from Subgroup 2 members, and invited members to comment.	An indicative poll found *split opinions* on how consolidation in multi-party arrangements be defined under operational control, with the most support for the party with the most substantial authority/influence consolidating 100% of emissions. An indicative poll found *split opinions* on the proposed text to revise the definition of operational control, with the most support for supporting the overall text with minor revision suggestions.
4	***Wrap-up and next steps*** The Secretariat outlined next steps including the review of the revised proposed text on financial control and operational control approaches and the next meeting of the full Corporate Standard TWG on July 15th.	The Secretariat will share meeting materials along with revised proposed text to define financial control and operational control. The Secretariat requested that members respond to a Meeting 8 feedback survey, including feedback on proposed text revisions, with the survey deadline to be confirmed. The next meeting will be a meeting of the full Corporate standard TWG on July 15th.

Summary of discussion and outcomes

1. Introduction and housekeeping

- The Secretariat welcomed TWG members to the eighth meeting of Subgroup 2. The Secretariat provided a brief reminder on TWG housekeeping items, and presented the objectives and the agenda for the meeting (slides 1-12).

Summary of discussion

- The Secretariat provided a status update of recent topics discussed and preliminary outcomes from Subgroup 1 and Subgroup 3, noting that status updates across subgroups will be included in future meetings.
    - A member asked about the purpose of providing guidance on target base year in the Corporate Standard. The Secretariat noted that the aim is to clarification on inventory base year and target base year without providing specific requirements and guidance on target base year. The Secretariat also highlighted that the preliminary outcome is to allow companies flexibility to use the same base year for their inventory if they have a base year for target setting purposes.
        - Another member expressed support for providing further guidance on the topic.
    - A member inquired whether the 1% exclusion threshold applies to scopes 1 and 2 separately or combined. The Secretariat responded by saying that the discussions are ongoing and to be confirmed in the next Subgroup 3 meeting on June 24th, but the most support was for separate thresholds for scopes 1 and 2.

Outcomes (e.g. recommendations, options)

- No specific outcomes.

2. Follow-up on financial control approach revision

- The Secretariat provided an overview of the financial control approach revision process, including a presentation of the proposed revised definition, which was developed based on input and suggested edits from a volunteer group of Subgroup 2 members, and invited members to comment (slides 13-22).

Summary of discussion

- The Secretariat presented an overview of the financial control approach revision process, including the **proposed revised definition of the financial control approach**, and invited members to comment.
    - A member suggested that the revised definition should be principles-based and avoid referencing how consolidation applies to specific financial accounting categories, in order to prevent user confusion and remain Generally Accepted Accounting Principles (GAAP)-agnostic. They added that, detailing specific entity and asset types in the definition or the standard text could contradict with the local GAAP used by the reporting entity. Several members agreed.
        - A member suggested to use the terms consolidated and non-consolidated entities to guide reporting entities to easily match the organizational boundary for GHG accounting with their financial information.
        - A member noted that the teams compiling GHG inventories may not necessarily be familiar with financial accounting rules and terminology and suggested providing both high-level terms such as consolidated and non-consolidated entities, and guidance with some examples for each.
    - A member from the volunteer group working on the proposed text for financial control approach revision shared their proposal.

- A member asked if the proposed text could be used at the subsidiary level. The Secretariat confirmed it can apply to any reporting entity, whether a single entity or a group of consolidated entities. The member suggested that this should be clarified in the text.
- A member asked how companies using two different GAAPs should apply the revised financial control approach. Another member suggested that the GAAP used for consolidated (group-level) accounting should be applied. Several members agreed.
- A member, referring to question 2 on slide 19, suggested that the entity which has financial control should report 100% of associated GHG emissions, including the share associated with minority interest held by third parties. Several members agreed. A member added that, in addition to this, separate disclosure of emissions associated with minority interest held by third parties ins relevant information for users of that GHG information and could therefore improve transparency.
- A member suggested that the wording referring to consolidated financial statements should be broadened to apply any form of financial information considering that not all companies prepare or disclose consolidated financial statements.

- The Secretariat presented feedback received from ISB members and observing entities, including on the need to clarify **how different types of arrangements/assets such as associates, non-controlling interest, joint operations and leased assets are treated**, along with proposals for discussion on how to address them and invited members to comment (Slides 16-18).
    - A member from the volunteer group working on proposing revisions to financial control approach inquired whether the ISB reviewed their proposal for treating different asset types under the revised financial control approach. The Secretariat confirmed that Subgroup 2 recommendation (revising the financial control approach to align with financial accounting by requiring companies to adopt the same consolidation used in their financial statements) was presented to ISB in April for a provisional decision vote and the revised text will be presented at a later stage for final decision.
        - Several members expressed concerns about including text on the treatment of different types of assets in the Standard text defining the financial control approach. The Secretariat confirmed that the proposals on how to treat different types of assets are presented for the Subgroup to align on how the overarching financial consolidation principles apply to GHG accounting, and added that considering the definitions for these asset types vary across different financial accounting frameworks, some examples from the leading financial accounting frameworks on how different asset types are treated in financial consolidation could be helpful as guidance. Several members agreed.
    - A member inquired on the explanation for the non-controlling interest (NCI) suggesting it needs to be revised. A member agreed. The Secretariat confirmed that the slides will be revised to address this feedback.
    - A member asked whether the GHG emissions of an unconsolidated entity should be accounted for under scope 3 category 15 even if the entity in question is a part of the reporting entity's value chain (e.g., supplier or customer).
    - A member inquired if the GHG emissions associated with non-controlling interest should be accounted for under scope 3 category 15 based on the equity share of the interest. The Secretariat confirmed (post meeting) that this was the intention of the revised financial control approach.
    - A member reiterated that the standard and key guidance text should be free from specific financial accounting terms such as joint operations, highlighting that not all local GAAP use or have same definition for the term. The member suggested for these proposals to be incorporated to the text as examples.
    - A member, referring to consolidation of GHG emissions from joint operations, noted that different proportions of these operations may be consolidated in different parts of the financial statements (balance sheet vs. profit and loss). They suggested that the standard

should clarify whether consolidation for GHG inventories should follow the proportion used in the balance sheet or the profit and loss statement. Another member agreed.
    - A member noted the difference between proportionate consolidation and proportionate reporting and suggested that our current discussion focuses on proportionate reporting.
- A member, referring to the proposal on how GHG emissions from joint ventures could be consolidated (slide 17), asked whether the proposal aims to describe how financial accounting rules should be applied from a GHG accounting perspective. The Secretariat confirmed that the proposal is intended to guide the Subgroup's discussion on whether the current approach to emissions accounting for joint ventures, as outlined in the Corporate Standard, should be reconsidered. Several members agreed that a principle-based approach to defining the financial control approach should be applied, and to avoid any misinterpretation and confusion, the standard text should not contain any further rules or guidance on how financial accounting rules should be applied.
- A member shared the volunteer group's proposal on how GHG emissions associated with leased assets should be treated including the following: If a lessee reflects the right-to use the asset on their balance sheet, the associated emissions should be accounted under scopes 1 and 2, and if the asset is not included in their balance sheet, then the associated emissions should be accounted under scope 3 category 1. If a lessor recognizes the underlying asset in their balance sheet, the associated emissions should be accounted under scopes 1 and 2. If a lessor recognizes the underlying asset the net investment on their balance sheet (derecognizes the asset), the associated emissions should be accounted under scope 3 category 8. Several members agreed (Please note that leased assets topic is pending a final discussion where member proposals and feedback will be discussed in detail).
    - The Secretariat asked a clarifying question on whether the proposal applies to both financial control and operational control approaches. The member responded that if the subgroup members agree to apply the concept of "the right to use the asset" under operational control, then the proposed approach could be applied uniformly.
    - A member suggested that from a financial control point of view, if the leased asset relates to one of the entities consolidated in the organizational boundary, then we do not need to apply an additional lens for evaluating the asset further. Another member agreed and added that further evaluation will be done when determining operational boundaries (i.e., scope 1 and 2 vs. scope 3).
    - A member noted that if a lessee does not include the leased asset in their balance sheet, then the associated emissions should be accounted for under scope 3 category 8 instead of category 1. The member sharing the proposal above suggested that if a lessee does not consider the underlying asset as a lease (in their balance sheet), then it is not consistent to treat it as a lease from a GHG accounting perspective. The member agreed overall but highlighted their suggestion referred to cases where a lessee pays a fee to a lease company for an operating lease.
- Some members noted that the emissions stem from operating the assets -such as energy consumption- rather than from the assets themselves. Another member agreed and added that discussions on leased assets should follow the group's review of the revised definitions for financial control and operational control from an organizational boundary setting point of view.
- A member raised concerns about whether the treatment of leased assets would impact the reporting entity's choice of consolidation approach (financial control vs. operational control) and suggested working through examples to clarify.
- **Indicative poll**: The Secretariat conducted a series of indicative polls asking the following questions:
    1. Do you agree with the proposal concerning **associates**? Respondents expressed *split opinions*.
        - Yes, I agree: 6 of 15 respondents

- No, I do not agree: 2 of 15
- Abstain – I need more information to decide: 7 of 15

2. Do you agree with the proposal concerning **non-controlling interest**? Respondents expressed *split opinions*.
    - Yes, I agree: 6 of 15 respondents
    - No, I do not agree: 2 of 15
    - Abstain – I need more information to decide: 7 of 15
3. Do you agree with the proposal concerning **joint ventures**? Respondents expressed *split opinions*.
    - Yes, I agree: 4 of 14 respondents
    - No, I do not agree: 4 of 14
    - Abstain – I need more information to decide: 6 of 14
4. Do you agree with the proposal concerning **joint operations**? Respondents expressed *split opinions*.
    - Yes, I agree: 6 of 14 respondents
    - No, I do not agree: 3 of 14
    - Abstain – I need more information to decide: 5 of 14

- Due to time constraints, the pending items for revising financial control approach were not discussed in detail. The Secretariat will share a follow up survey to gather members' input after the meeting.

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

- A series of indicative polls showed split opinions on proposed guidance on treatment of associates, non-controlling interest, joint ventures and joint arrangements.

3. Objectives and scope of operational control approach revision

- The Secretariat provided an overview of the operational control approach revision process, including a presentation of the proposed revised text defining the core elements of operational control based on input from Subgroup 2 members, and invited members to comment (slides 23-35).

<u>Summary of discussion</u>

- The Secretariat presented an overview of the operational control approach revision process, including the **proposed revised operational control definition**, and invited members to comment.
    - A member expressed concern on use of the term "more substantial" noting that it could be subjective and suggested an alternative term that is already used in the corporate suite of standards such as "significant" could be used. Another member agreed and added that the term significant is also used by IFRS. The Secretariat noted that issues have been identified with the term "significant" related to different definitions and use of the term within GHG Protocol Corporate suite of Standards and across different external programs.
        - The Secretariat noted that an alternative could be using the term "greater authority" based on an example shared by one TWG member from a regional regulation. A member supported.
        - Another member, referring to the discussion on substantial vs. significant, added that in multi-party arrangements, a minority interest owner could have significant influence while another party could have substantial operational control.
    - A member suggested that the proposed definition could be subjective and noted that this could be hard to prevent as the operational control approach, unlike the established financial accounting rules, will continue to require interpretation, especially in multi-party arrangements.

        - Another member suggested highlighting the unilateral ability to implement/enforce/direct policies, processes, practices.
    - A member suggested that the term "influence" should be revised to refer to "the power to implement/enforce/mandate".
    - A member suggested that the concept of "controlling day-to-day activities" should be included in the text.
    - A member suggested changing "and" to "or" when referring to "policies, processes, and practices".
    - A member suggested clarifying which operating policies are being referred to. The Secretariat noted that this could be discussed later in the meeting under specific indicators for operational control.
    - A member suggested clarifying the reference to "…determine the operation's GHG emissions…" by referring to the operations more broadly. Another member supported and added that companies are not necessarily thinking about how their decisions impact GHG emissions as the guiding principle to determine whether they have operational control.
- The Secretariat raised a series of questions on how the proposed definition of operational control could be further explored and expanded. These questions focused on how to apply the operational control consolidation approach in **multi-party arrangements**, and which **specific indicators** could support its implementation.

Multi-party arrangements:

- The Secretariat introduced the following question and invited members to comment: How should consolidation in multi-party arrangements be required under operational control?
    - A member noted that we discuss financial control at the entity level and asked whether the same unit applies when we discuss operational control. A member suggested that the organizational boundary defines the entities to be included in the inventory, and the operational boundary categorizes associated emissions as scopes 1 and 2, or scope 3. The Secretariat confirmed that the units for the organizational boundary setting should be the same under both consolidation approaches and highlighted that the terminology used therefore should be consistent.
- **Indicative poll**: The Secretariat conducted an indicative poll asking the following question: How should consolidation in multi-party arrangements be required under operational control? Respondents expressed *split opinions*, with the most support for the party with the most substantial authority/influence consolidating 100% of emissions.
    - Option A: The party with **the most substantial** authority/influence should consolidate 100% of emissions: 9 of 17 respondents
    - Option B: All parties with **substantial** authority/influence should consolidate 100% of emissions: 1 of 17
    - Option C: **Proportionate** consolidation should be required so that each party with some sort of operational control takes responsibility for associated emissions: 4 of 17
    - Abstain: 3 of 17

Specific indicators:

- The Secretariat introduced the following two questions and invited members to comment.

1. What specific indicators should be introduced to provide: a. clear and standardized set or pool of indicators to assess operational control, and b. clarification on how to weigh authority vs. influence.
    - A member suggested a hierarchy of indicators should be defined for the reporters to follow when assessing operational control. They suggested that the primary indicator should be the contractual responsibilities for GHG emissions and, in the absence of this, other indicators could serve as a criteria such as running daily operations or the ability to influence.

- A member introduced the idea of setting a yes/no type algorithm-based guidance and asked whether if this would be practical to develop and implement.
- Another member noted that there will always be cases where determining operational control will be subject to judgement and therefore would be subjective.

2. Should specific indicators be a part of the requirements or key guidance?
   - No specific comments from members.

General closing discussion on optionality of consolidation approaches:

- A member, referring to the subgroup discussions so far on revising operational control, expressed concern that the more the group explores the complex aspects of operational control, the more urgent the question of whether to maintain the approach becomes.
  - Several members supported this statement, one member suggesting that maintaining the operational control approach as an option for consolidation will increase confusion. The Secretariat asked to clarify if the member was instead supporting a layered consolidation approach (e.g., similar to ESRS E1 under CSRD). The member responded by confirming that the financial control approach is more straightforward for defining organizational boundaries and operational control principles are more helpful when defining operational boundaries. Another member noted that CSRD is currently under review and the reporting requirements might be simplified.
  - Another member revisited earlier subgroup discussions expressing concern that removing optionality could pose feasibility challenges – especially for companies currently using the operational control approach to set their emissions reduction targets (e.g., SBTs). The Secretariat clarified that the definition of operational control will be revised and/or further clarified, which will likely require companies currently using this approach to reassess their organizational boundaries regardless.
  - A member observed that a majority of companies (based on CDP public disclosures) opt for the operational control approach even though they have well-established financial accounting processes, suggesting that the approach meets their reporting objectives.
  - A member suggested that the mandatory programs are likely to consistently require the revised financial control approach as it aligns with financial reporting boundaries. Another member responded by saying that IFRS S2 does allow optionality when consolidating GHG emissions.
  - A member suggested that financial control vs. operational control becomes a challenging choice when assessed at the asset level. Another member responded by suggesting that that's why organizational boundary setting should be at the entity level.
  - A member shared an edge case suggesting that the reporting entity could misuse the optionality in consolidation approaches and opt for the approach to disclose a favorable emissions profile and performance. The Secretariat and several members responded by saying that it is potentially not achievable to prevent all cases where the standard could be misused, but additional reporting requirements could be introduced to enhance transparency.
  - The Secretariat confirmed that once both consolidation approaches have been reviewed, the group will revisit whether to maintain optionality. It was also noted that, without updated definitions for the approaches, this final discussion will remain pending.
- **Indicative poll**: The Secretariat conducted an indicative poll asking the following question: Do you support the proposed text to define operational control? Respondents expressed *split opinions*, with the most support for supporting the overall text with minor revision suggestions.
  - Yes, I support the overall text: 1 of 17 respondents
  - Yes, I support the overall text but have minor revision suggestions: 9 of 17
  - No, I strongly oppose the proposed text: 1 of 17
  - Abstain – I need more information: 6 of 17

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

- An indicative poll showed *split opinions* on how consolidation in multi-party arrangements be defined under operational control, with the most support for the party with the most substantial authority/influence consolidating 100% of emissions.
- An indicative poll showed *split opinions* on the proposed text to revise the definition of operational control, with the most support for supporting the overall text with minor revision suggestions.

4. Wrap-up and next steps

- The Secretariat outlined next steps including the review of revised proposed text defining financial control and operational control, and the next meeting of the Corporate Standard full TWG scheduled for July 15th, 2025 (slides 36-40).

Summary of discussion

- A member inquired whether further discussion would be needed before responding to the follow-up survey. The Secretariat confirmed that both the meeting minutes and the survey will include the synthesis of input received from members so far, adding that depending on the results of the follow-up survey, an ad-hoc or an open discussion meeting could be scheduled, where necessary.

Outcomes (e.g. recommendations, options)

- The Secretariat will share meeting materials, along with the revised proposed text defining financial control and operational control.
- The Secretariat requested that members respond to a meeting 8 feedback survey, including feedback on proposed text revisions, with the survey deadline to be confirmed.
- The next meeting will be a meeting of the full Corporate Standard TWG meeting on July 15th with an updated, 30 minutes earlier, starting time.

Summary of written submissions received prior to meeting

- The Secretariat received one feedback prior to the meeting requiring clarification as well as providing suggestions on topics including categorization of leased assets, treatment of investment entities, pending items presented on slide 21, and proposed text for defining operational control. The related clarifications were incorporated in the presentation slides, and where applicable, addressed verbally during the meeting, where applicable.