Corporate Standard Technical Working Group

Subgroup 2, Meeting #7

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

May 20th, 2025

Meeting information

Record

This meeting is **recorded**.

Raise Hand

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

Chat

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
Follow up on phase 1 progress	10 minutes
Objectives and scope of operational control approach revision	25 minutes
Case studies on operational control and leased assets	65 minutes
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

WORLD RESOURCES INSTITUTE

World Business Council for Sustainable Development

Agenda

Introduction and housekeeping	10 minutes
Follow up on phase 1 progress	**10 minutes**
Objectives and scope of operational control approach revision	25 minutes
Case studies on operational control and leased assets	65 minutes
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

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

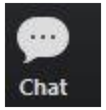
Zoom logistics and recording of meetings

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

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

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

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

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

GHG Protocol Decision-Making Criteria

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

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

Upcoming Schedule

March 25th, 2025

SG2 M5

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

April 22nd, 2025

SG2 M6

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

TODAY
May 20th, 2025

SG2 M7

- Operational control approach revisions
- Leased assets related revisions

June 17th, 2025

SG2 M8

- Incorporate ISB feedback
- Draft text review for revised 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

Today's objectives

1. Further discuss the goal of revising **the operational control approach**

2. Evaluate **case studies** to guide the operational control approach and leased assets related revisions

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

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

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

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

Our continued focus

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

Agenda

Introduction and housekeeping	10 minutes
Follow up on phase 1 progress	**10 minutes**
Objectives and scope of operational control approach revision	25 minutes
Case studies on operational control and leased assets	65 minutes
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

ISB slide
Draft

Corporate Standard Subgroup 2: Phase 1 progress to date

The following **two topics were presented to ISB** for feedback on April 28th

Alignment with financial accounting

Optionality
in consolidation approaches
(ongoing)

Recommendation (for provisional decision)

TWG *consensus* on **revising financial control approach** to align with financial accounting

Informational update (for feedback)

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

GREENHOUSE GAS PROTOCOL

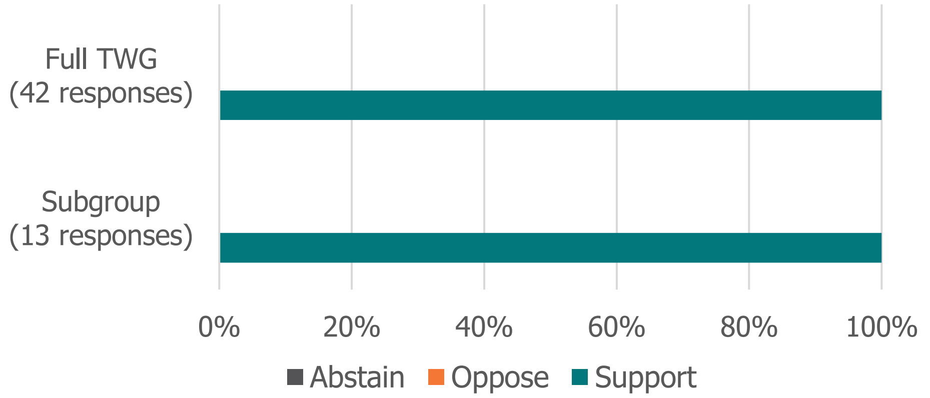
ISB slide
Draft

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)*

Question posed to ISB: Do you support adopting the following TWG recommendation?
The **financial control** approach should be **revised to align with financial accounting** by requiring companies that choose the financial control approach to use the same consolidation method as in their financial disclosures.

ISB slide
Draft

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 feedback on this directional update will be discussed in detail in the next Subgroup 2 meeting.

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**

Agenda

Introduction and housekeeping	10 minutes
Follow up on phase 1 progress	10 minutes
Objectives and scope of operational control approach revision	**25 minutes**
Case studies on operational control and leased assets	65 minutes
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

Overview of process to revise operational control approach *(updated)*

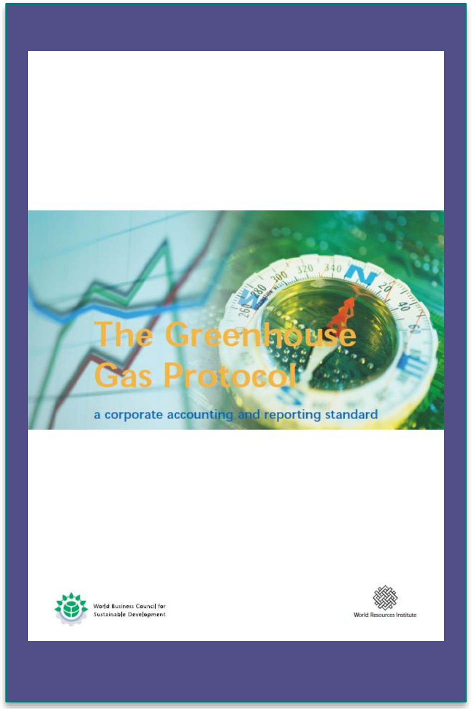
1. **Initial discussion** of main revision items — *(Subgroup meeting 5)*
2. **Detailed discussion** on key revision items — *(Subgroup meeting 6)*
3. Post meeting survey for specific **Subgroup 2 member proposals** for revision — *(Subgroup member input)*
4. Final discussion on revision items — *(Subgroup meeting 7)*
5. The Secretariat will **initiate the first revised draft** — *(the Secretariat to lead)*
6. Opening revised draft for **Subgroup 2 input** and proposed edits — *(Subgroup member input)*
7. **Finalizing** draft revision — *(Subgroup meeting 8)*

Today (step 4)

The objective of the operational control approach

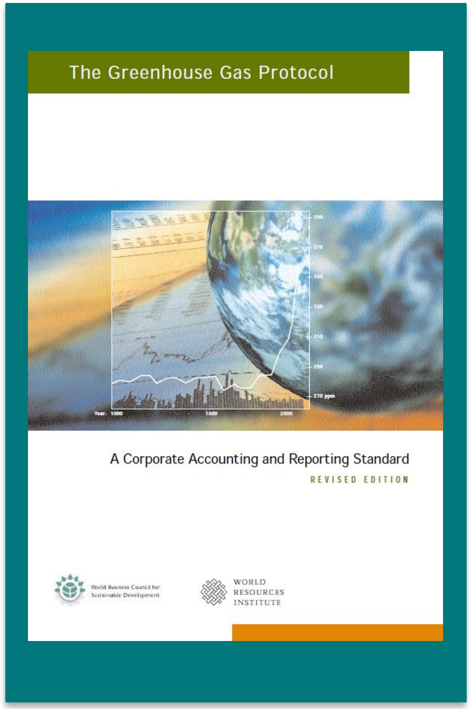
Corporate Standard 1st Edition (2001)

- **Aim**: Standardize GHG accounting and reporting
- **Consolidation**: "Equity share" or "**Control**" (based on financial accounting terms)
- **Stakeholder feedback***: Need to distinguish 'control' based on:
  - Operating license
  - Majority voting interest



Corporate Standard Revised Edition (2004)

- **Aim**: Wider adoption of GHG accounting and reporting
- **Consolidation**: "Equity share", "**Financial control**" or "**Operational control**"
- **Stakeholder feedback***: Clear definition/criteria and additional guidance on "operational control"



* Control/Operational control approach-related feedback.

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

Corporate Standard stakeholder feedback survey *(reminder)*

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**

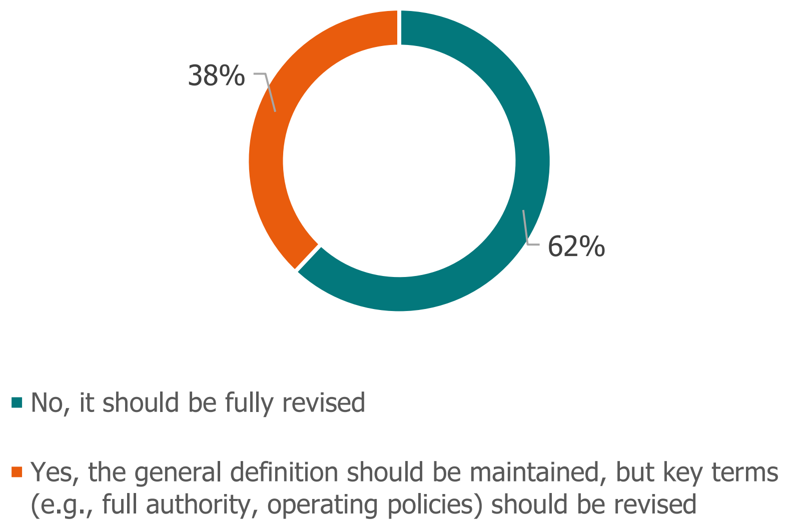
*For more detail, please see Section B of the Detailed Summary of Responses from Corporate Standard Stakeholder Survey.

Operational control approach – TWG feedback received to date*

- **Suggested revisions**:
  - **Fully revise** the current **definition** of "operational control"
    - Key terminology such as "**full authority**" and "**operating policies**" are not clear
    - The definition could be based on the entity's "**ability to control (influence)" GHG emissions** the most
    - Distinguish between "**operationally control an entity**" and "**operate an asset**"
  - Providing **robust examples where needed** to better guide the user in when to choose and how to apply operational control approach

Meeting 6 Poll Result (n:13)

Should the current definition of operational control be maintained?



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

Operational control approach – TWG feedback received to date*

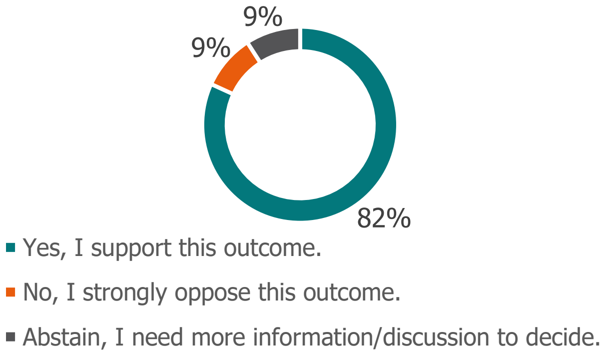
- **Points for consideration**:
  - Cases where entities **have financial control** of an asset **but not operational control** and vice-versa
  - Operational control has its **roots in environmental health and safety reporting**
  - The timeline for entities using operational control for **mid-term external commitments** (e.g., 2030 SBTs) and regulatory disclosures (e.g., CSRD) **should not be disrupted** by the Corporate Standard revisions
  - Companies using the operational control approach for **mid-term targets** (e.g., 2030 SBTs) or regulatory disclosures (e.g., CSRD), **should be given enough time to adopt** the revised Corporate Standard **without disrupting** their current accounting and disclosure needs

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

Operational control approach – SG2 Meeting 6 follow up survey outcomes

Feedback on "operational control definition"	Suggested revised definition or consideration
STRONG OPPOSITION TO FULLY REVISE THE OPERATIONAL CONTROL DEFINITION: Suggestion to **revise the existing definition** to add clarity to **avoid confusion and unnecessary burden** on entities currently applying operational control.	**Definition:** "A company has operational control over an operation if the former or one of its subsidiaries has **significant authority** to introduce and implement **its day-to-day operating policies and / or design decisions significantly influencing operations** at the operation, **such as those required for environmental compliance**. The following are **examples of indicators** of operational control and "day to day operating policies"...."
SUGGESTON to **revise existing definition** and key terminology	**Definition:** "A company is considered to have operational control over an operation if it, or one of its subsidiaries, has the full authority to direct and implement operational **and environmental policies**, including the ability to introduce and enforce **health, safety, and environmental (HSE) standards, manage day-to-day activities, and make decisions on operational performance**."
SUGGESTION to revise definition (especially the key terminology "**full authority**") With the aim to acknowledge varying structures, governance rules and capacity especially in global south	**Definition**: "A company has operational control over an operation if it has the **practical ability to direct or significantly influence** the operation's **environmental, and/or safety-related policies and practices, regardless of legal ownership or formal authority structures**."
SUGGESTION to expand the current definition	**Consideration**: Who has operational control? The entity that **sets operating budget** and **sets high level operating policy** or **the hired operator that makes day-to-day operating decisions within that budget** and **in line with overall policy**, but **still has the authority to choose** products

Do you support fully revising the operational control definition? (n: 11)



Operational control approach – SG2 Meeting 6 follow up survey outcomes

Other feedback	Suggestion
CONCERN on how would entities that **don't issue financial statements** adopt consolidation approaches based on the "revised" definitions/guidance	The reporting entity can always be the same as the one issuing financial statements. Financial control or operational control can then be applied to that reporting entity. However, **the question is**: What further guidance can/should be provided to **entities that are not required to issue a financial statement**?
SUGGESTION for additional **guidance**	**Illustrative disclosure examples** can be provided guiding companies to evaluate their specific organizational structure on a case-by-case basis **Main argument**: Key operating policies or the exercise to have operational control may differ across different asset types and industries. Therefore, **require the disclosure of the rationale & assumptions applied** while implementing operational control **rather that trying to incorporate an exhaustive list of cases** to fit into a "detailed" definition for operational control.
SUGGESTION to evaluate how **kick-out/ removal rights** should be considered	Evaluation of **kick-out rights** is a key evaluation in **VIE and JV** assessments. There is a **need for guidance** here on which takes priority when evaluating operational control.
SUGGESTION not to focus on double-under reporting	It is **unavoidable** as long as there is optionality in consolidation approaches

Discussion: The objective of the operational control approach

Discussion

1. Based on the insights shared in this section, how should the **objective of the operational control** consolidation approach be defined?
   - **Current objective:** The entity to account for 100% of the GHG emissions from operations it has the authority to operate and implement operating policies.
2. From the points raised, what should be **prioritized** in **shaping the updated definition** of operational control?

(Please note that the optionality in consolidation approaches discussion is parked until we have the revised versions of both financial control and operational control)

Agenda

Introduction and housekeeping	10 minutes
Follow up on phase 1 progress	10 minutes
Objectives and scope of operational control approach revision	25 minutes
Case studies on operational control and leased assets	**65 minutes**
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

Overview of case studies*

#	Case theme
1	Both financial and operational control in place *(standard scenario)*
2	Joint venture - 50/50 ownership and not consolidated
3	Joint operations
4	Delegated operations
5	Leased asset with ambiguous operational control - *2 cases:* A. Leased space in an office building B. Leased vessel

- These cases were compiled for informing discussions on revising the "operational control" definition.
- We will go through **each case** *and then* **wrap up** with a final discussion.

* Further cases will be shared together with a meeting follow-up survey

Case 1: Full financial & operational control

Operational control over the asset	Revised financial control over the asset
Yes	Yes

Wholly-owned subsidiary

- **Entity**: ABC Corporation
- **Asset**: ABC Manufacturing Inc., a 100%-owned subsidiary
- **Financials**: Consolidated in ABC Corporation's financial statements
- **Operational Control**: ABC Corporation sets environmental, safety, and production policies

GHG Emissions under operational control:

- 100% of GHG emissions accounted for under ABC Corporation's Scope 1 and 2

Key Insight: This is the **standard scenario** where operational control aligns with financial control, and it is **easy to apply** both consolidation approaches.

Any additional thoughts or reflections?
Follow-up question: Are there any concerns related to operational control if the subsidiary operates in a different jurisdiction?

Case 2 – Joint ventures

	Operational control over JVCo	Revised financial control over JVCo
Co C	No	No
Co D	No	No

Joint Venture Power Plant

- **Entity**: JVCo owned 50/50 by Company C and Company D
- **Financials**: Equity method; not consolidated by either parent
- **Operations**: JVCo has its own board, management team; parents do not dictate daily operations

GHG Reporting:

- **Neither** Company C nor D has operational control
- JVCo GHG **emissions are not reported** by Company C and Company D **under operational control** approach

Discussion:

- JVCo's **emissions are not accounted for** (as scopes 1 and 2) by either parent company (C or D) under **either** the **financial control** or **operational control** approach. How should this be addressed in the revised Corporate Standard?
  - **Option A**: **No change** – continue to acknowledge that cases like this exist and fall out of operational control
  - **Option B**: **No change but increased transparency** - Include a new reporting requirement for entities to qualitatively/quantitatively describe the excluded operations from the inventory boundary
  - **Option C**: **Change the principle** to require both owners to separately disclose GHG emissions based on ownership %

Discussion: What do you think of these options?

Case 3: Joint operations

	Operational control over joint operation	Revised financial control over joint operation
Co A	Yes	Yes (asset-based)
Co B	No	Yes (asset-based)

Jointly Operated Oil Field

- **Partners**: Company A and Company B each own 50%
- **Financials**: Consolidated in both companies' statements *(based on assets they control)*
- **Operations**: Company A is appointed "operator" and controls daily operations, staffing, safety, and environmental policies and procedures

GHG Reporting:

- Company A has operational control → **Accounts for 100% of emissions** from the operation under **operational control approach**
- Company B has **no** operational control → **Does not report under operational control approach**

Key Insight: This is a **straightforward scenario** where the operating partner reports the emissions under operational control.

Discussion: Any additional thoughts or reflections?

Case 4 – Delegated operations

	Operational control over Facility A	Revised financial control over Facility A
Entity X	?	Yes
OperateCo	?	No

- **Entity:** Entity X fully owns and controls Facility A
- **Operations:** Operations are outsourced to OperateCo through Operations & Maintenance (O&M) contract
- **Authority:** Entity X sets environmental and operating policies; OperateCo follows instructions

Current ambiguity:

- OperateCo is the "**operator**" of Facility A: Manages day-to-day operations **<u>but</u> does not dictate relevant policies**

Discussion:

- Who should account for GHG emissions of **Facility A** under **operational control**?
  a. **Entity X** - Add clarity to or fully revise the current definition *(e.g., "irrespective of whether day-to-day activities are delegated to third parties.")*
  b. **OperateCo** - Fully revise the accounting principles to **recognize** OperateCo's responsibility

Follow-up discussion: How should each party (Entity X and OperateCo) report the GHG emissions of Facility A?

Case 5A: Leasing arrangements with ambiguous control

Case A: Long-Term Commercial Lease of Office Building

- **Lessee**: XYZ Tech leases a floor in a commercial office building
- **Lessor**: Real estate company retains building ownership and manages HVAC, lighting, etc.
- **Financial Control**: Not consolidated in XYZ Tech's financials
- **Operational Control**:
  - XYZ Tech controls tenant-space operations (e.g., plug load, IT equipment)
  - Real estate company (landlord) controls core building systems (e.g., central HVAC, common space)

Discussion:

- Should **XYZ Tech** report only tenant-level emissions or part of shared systems under **operational control** (e.g., central HVAC)?
  - ➢ What happens when **XYZ Tech** can adjust temperature or turn HVAC system on/off via a control unit within the leased space?
- How should the following **text** in the Corporate suite of standards (Scope 3 Appendix A) **be reevaluated** to clarify this?

*"Some companies **may be able to demonstrate** that **they do have operational control** over **<an asset leased to another company under an operating lease> <u>OR</u> <a leased asset held under an operating lease>**, especially when operational control is not perceived by the lessee"*

Case 5B: Leasing arrangements with ambiguous control

Case B: Leased vessel

- **Lessee**: Company A became the lessee for a vessel that was built according to specifications made by Company A (financial lease)
- **Operator**: CaptainCo has operating license to captain and crew the leased vessel
- **Operation**:
  - The ship is **solely used** to carry only Company A's products and Company A **determines the date and port** of delivery
  - CaptainCo is the "**operator**", has authority to implement operational policies, and may have some control over the speed at which the vessel sails

GHG reporting:

- Company A excludes the vessel's GHG emissions from its boundary under operational control, based on the conclusion that it does not physically operate the vessel.

Discussion:

- Who should account for GHG emissions of the **vessel** under operational control? And why?

Discussion: Reflecting on the case studies *(time dependent)*

Discussion

Please provide your specific **recommendations** on what the revised operational control definition should include

Agenda

Introduction and housekeeping	10 minutes
Follow up on phase 1 progress	10 minutes
Objectives and scope of operational control approach revision	25 minutes
Case studies on operational control and leased assets	65 minutes
Wrap-up and next steps	**10 minutes**

GREENHOUSE GAS PROTOCOL

Upcoming Schedule

TODAY

March 25th, 2025

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

April 22nd, 2025

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

May 20th, 2025

SG2 M7
- Operational control approach revisions
- Leased assets related revisions

June 17th, 2025

SG2 M8
- Incorporate ISB feedback
- Draft text review for revised 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 meeting follow up survey by EOD on **Sunday, June 8th, 2025**	• Tuesday, June 17th (08:00-10:00 EDT, 14:00-16:00 CEST, 20:00-22:00 CHN) • Incorporate ISB feedback and finalize the discussion on revisions to the financial control and operational control approaches

GREENHOUSE GAS PROTOCOL

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 May 20th, 2025.

Slide #	Change	Details
23	Revised	Follow-up survey outcomes added
24	New	Follow-up survey outcomes added
27	Revised	Updated list
28 and 29	Revised	Updated cases
30 and 31	Revised	Summary table added and financial consolidation information updated

Appendix

GREENHOUSE GAS PROTOCOL

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)*

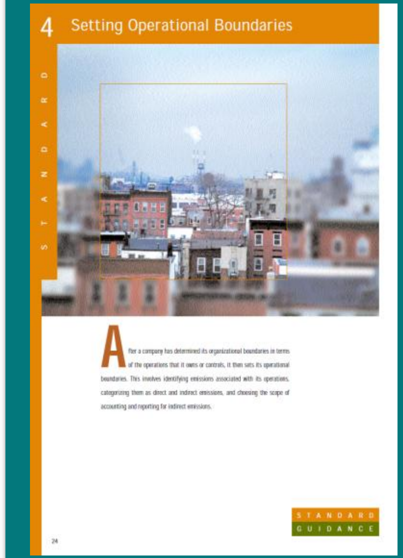
Proposals received related to *Corporate Standard* organizational boundaries – specific reference to operational control *(Reminder)*

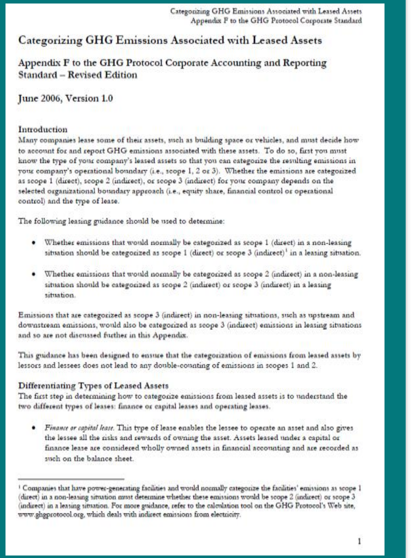
Proposal link	Key theme
Deloitte_1	**Updating definitions and improve guidance** for determining boundaries under current consolidation approaches, **specifically operational control**
Anonymous_023	
Green Asia Network and Thankscarbon	
Canadian Union of Postal Workers	

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

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

Corporate Standard

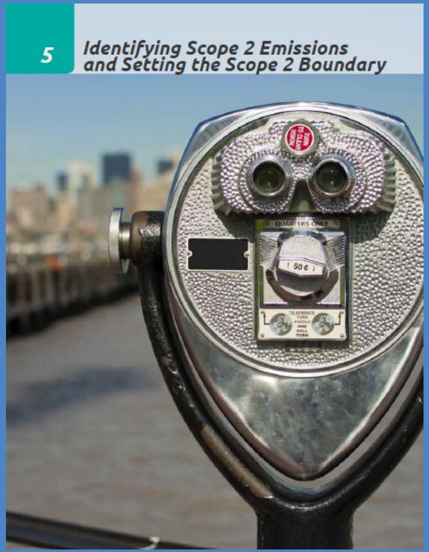




Chapter 4 Operational boundaries -subsection-

Appendix F (2006 amendment superseding Chapter 4)

Scope 2 Guidance

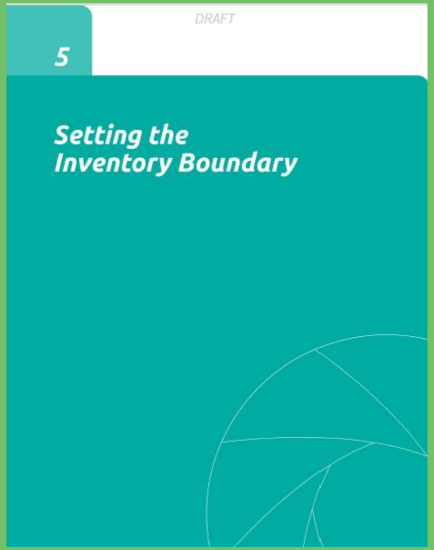


Chapter 5 Section 5.2.1

Scope 3 Standard

Appendix A*

LSR Guidance*



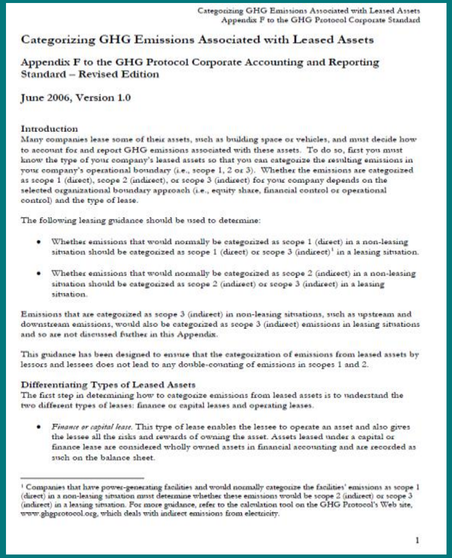
Chapter 5 Section 5.2.3

*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 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]

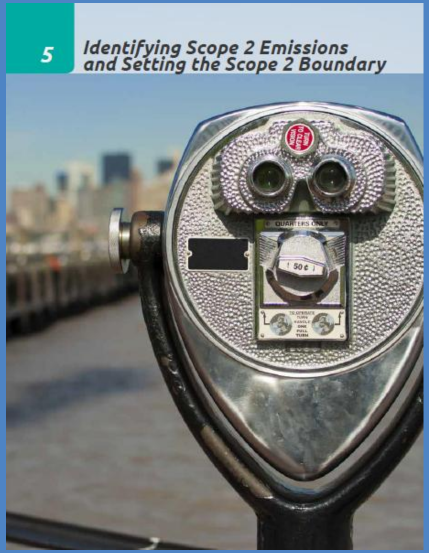
[124] Corporate Value Chain (Scope 3) Accounting and Reporting Standard

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



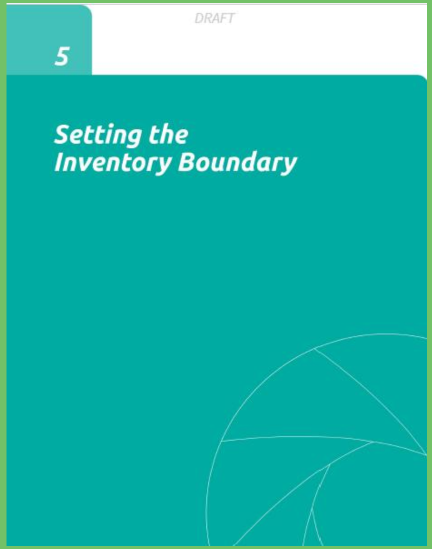
Chapter 5
Section 5.2.1

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."*

LSR Guidance*


DRAFT
5
Setting the Inventory Boundary

Chapter 5
Section 5.2.3

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

*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**

[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**.