Corporate Standard Technical Working Group

Subgroup 2, Meeting #9

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

September 2nd, 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 financial control approach revision	10 minutes
Follow up on operational control approach revision	40 minutes
Follow up on optionality in consolidation approaches	50 minutes
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

Agenda

Introduction and housekeeping	**10 minutes**
Follow-up on financial control approach revision	10 minutes
Follow up on operational control approach revision	40 minutes
Follow up on optionality in consolidation approaches	50 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

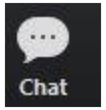
Zoom logistics and recording of meetings

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.***

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.

Overview of process to finalize phase 1 preliminary outcome on optionality

The preliminary outcome on whether, and if so how, to maintain optionality in consolidation approaches:

Today

1. Subgroup 2 indicative poll results
2. Full TWG indicative poll results
3. ISB feedback
4. Subgroup 2 meeting 9 *Sept 2nd* (Today)
5. Subgroup 2 open discussion meeting ***Sept 17th***
6. Subgroup 2 meeting 10 to finalize recommendation *Sept 30th*
7. Full TWG *Oct 21st*
8. ISB pulse check *Oct 14th*
9. Subgroup 2 to finalize *Nov 4th*
10. **FINAL** recommendation for ISB decision *Nov 24th*

The preliminary outcomes were presented to the ISB on July 28th

Legend: Subgroup 2 | Full TWG | ISB

Full TWG Preliminary Outcomes: Subgroup 1

Topic	July 15 Full TWG Preliminary Outcome	Next steps
Phase 1: Objectives	• ***Unanimous support*** for a draft objectives statement developed by Subgroup 1.	• Full TWG feedback survey in progress • Preliminary outcomes were shared with ISB in July • ISB feedback survey in progress
Phase 1: Principles	• ***Majority support*** for updating guidance for the **relevance principle** to provide clarification on the term "**materiality**". • ***Majority support*** for expanding the application of the **consistency principle** and updating guidance for the consistency principle to clarify the relationship between consistency in methods and **comparability** of information. • ***Majority support*** for updating guidance for the **accuracy principle** to include language on **conservativeness** and when companies should consider using conservative methods. • ***Split opinions*** on how to update principles to better distinguish between external **transparency and verifiability**, but with the most support for updating the transparency principle to provide a clearer distinction.	• Full TWG feedback survey in progress • Preliminary outcomes were shared with ISB in July • ISB feedback survey in progress
Phase 2: Tracking emissions over time	• ***Majority support*** that companies that a have base year established for GHG reduction targets should have the **option to use the same year** for their inventory base year or choose a different year. • ***Majority support*** for **eliminating the rolling base year** option as currently defined in the Corporate Standard. • ***Majority support*** for requiring companies to establish a **significance threshold** as part of their base year recalculation policy. • ***Majority support*** for defining a **prescriptive, quantitative significance threshold** in the Corporate Standard	• Full TWG feedback survey in progress • These phase 2 topics were not presented to the ISB and will continue to be discussed in Subgroup 1

Full TWG Preliminary Outcomes: Subgroup 3

Topic	July 15 Full TWG Preliminary Outcome	Next steps
Scope 3 requirement	• ***Majority support*** for **revised text** defining a scope 3 reporting requirement	• Full TWG feedback survey in progress • Revised text was presented to ISB in July by Scope 3 Secretariat • ISB feedback survey in progress
Justifiable exclusions for scopes 1 and 2	• ***Majority support*** for **maintaining scope 1 and scope 2 exclusions** and making the exclusions more prescriptive and quantitative • ***Majority support*** for defining **separate quantitative exclusion thresholds** for scopes 1, 2, and 3 • ***Majority support*** for defining a **1% quantitative exclusion threshold** for scope 1 and scope 2 • ***Majority support*** for requiring total scope 1 and scope 2 emissions to be **quantified to justify exclusions**	• Full TWG feedback survey in progress • Preliminary outcomes were shared with ISB in July • ISB feedback survey in progress
Less stringent scope 3 requirement	• ***Majority support*** for adopting the **SBTi company categorization approach**, pending its finalization, to define eligibility for a less stringent scope 3 requirement • ***Majority support*** for defining a less stringent scope 3 requirement as the **three most relevant scope 3 categories** • ***Majority support*** for operationalizing a less stringent scope 3 requirement with **conformance levels**, by reporter type	• Full TWG feedback survey in progress • These preliminary outcomes were presented as a case study to the ISB in July as part of a broader discussion on whether it is the role of GHG Protocol to set different levels of reporting • ISB feedback survey in progress

Today's objectives

1. Review **revisions** to existing consolidation approaches:
   - Review **feedback from full TWG and ISB** on revisions to financial control and operational control and **next steps/pending items**
   - Review the **revised proposed text defining operational control**
2. Follow-up on **optionality** in consolidation approaches, **considering the interconnection with** revisions to **consolidation approaches**:
   - **Confirm options for addressing optionality** that should be under consideration
   - Pulse check to gauge **Subgroup 2 preferences on options for consolidation**

Achieving the objectives of today's meeting is critical to reaching a preliminary Subgroup 2 outcome on how to maintain optionality during the Subgroup 2 meeting on September 30th, which will be presented to the full TWG and ISB in October.

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

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

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

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

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

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

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

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

Agenda

Introduction and housekeeping	10 minutes
Follow-up on financial control approach revision	**10 minutes**
Follow up on operational control approach revision	40 minutes
Follow up on optionality in consolidation approaches	50 minutes
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

ISB slide

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

Text revision process

- **Working draft text for defining the revised financial control approach** (see next slide) is **under review**
  - Feedback from the full TWG and ISB will inform the text finalization

Level of support

Feedback on proposed text

Subgroup 2:

- **100% support** (inc. 53% support with minor edits)
- No strong opposition
- No abstention

17 members

Full TWG *(July meeting)*:

- **95% support** (inc. 27% support with minor edits)
- No strong opposition
- 5% abstention

44 members

Rationale

- **Futureproof financial control approach's** alignment with financial accounting by adopting a **GAAP agnostic and principles-based definition**
  - Financial accounting standards—both global and local—**differ in consolidation rules** and methods, and are continually evolving
  - It may be **conflicting to define** how **certain accounting categories** (e.g., associates, joint arrangement) need to be consolidated under financial control

Key pending items

- **Finalizing the** definition of the revised approach
- Further **guidance** and **examples from leading financial accounting standards** on how financial control approach should be applied to specific accounting categories will to be added to support adoption
- Different definition will be developed for **investment entities**

For more information, please see section 2.2 of outcomes memo and Subgroup 2 meeting 8 minutes and presentation

Proposed revised definition for the financial control approach

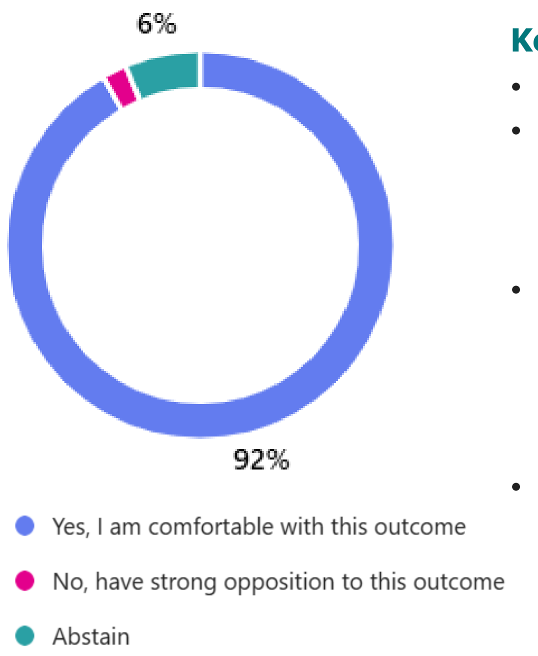
(presented during full TWG Meeting 3 on July 15th)

- *"An entity has financial control over an underlying entity or operation* ***if it consolidates the latter in its financial statements****. The reporting entity applying the financial control approach therefore* ***shall*** *define its organizational boundary for GHG accounting using the* ***same methods adopted in its consolidated financial statements****. GHG emissions associated with entities and operations that are consolidated in the reporting entity's consolidated financial statements, whether* ***as a single entity or a consolidated group of entities****, shall be accounted for under scope 1, scope 2 and scope 3, as applicable.*
- *This organizational boundary is* ***defined by the financial accounting and reporting standard applied in the entity's financial reporting****, and includes wholly-owned subsidiaries and operations, as well as investees that are not wholly-owned but whose assets, liabilities, costs, and revenues are consolidated in the financial statements in accordance with the applicable accounting standards.*
- *GHG emissions associated with* ***an investee that is not wholly-owned, but is consolidated in the financial statements*** *by the reporting entity, are consolidated in the GHG inventory using the same methods as financial accounting. The reporting entity* ***should*** *provide an additional (separate) disclosure of the investee's emissions included in the GHG inventory,* ***separated by owned interests and minority interests held by other parties****.*
- *GHG emissions associated with entities and operations in which the reporting entity has an interest but lacks financial control—such as* ***equity method investments under U.S. GAAP or IFRS*** *(e.g., unconsolidated investees, associates, joint ventures)—****shall*** *be* ***excluded from scope 1 and scope 2*** *emissions and* ***accounted for under scope 3, category 15****."*

Feedback from full TWG and ISB on financial control revisions

Full TWG feedback *(post meeting survey)*

Majority support for the preliminary draft of the revised **financial control approach text** as the direction



47 responses

Key feedback:

- **General support** for the direction
- **Clarification on separate additional disclosure** of investee's emissions separated by **owned and third-party minority interests**
- **Clarification and examples needed for non-financial experts** (e.g., "consolidated in the GHG inventory using the same methods as financial accounting")
- **Simplify** the text (only 1 strong opposition)

ISB feedback

General support for the proposed direction for the **revised financial control approach text**

Please note that the ISB feedback survey is still in progress, and this section will be updated after the meeting once the results become available.

Discussion: Do you have any clarifying questions?

Next steps for financial control approach revision

The Secretariat will **revise the draft text** based on inputs received to date and to address key pending items

Updates will be presented to collect **Subgroup member feedback**

Subgroup 2 Meeting 11 in November

The Secretariat will **edit the revised draft text**

Updated text will be **presented** to the full TWG and a **follow-up survey** to collect **full TWG feedback**

The Secretariat will **finalize the text for revised financial control approach** to present to the ISB

TBD

Based on the level of support on the directional financial control approach revision, we now shift our focus to revisions to operational control approach and revisit optionality in consolidation approaches

Agenda

Introduction and housekeeping	10 minutes
Follow-up on financial control approach revision	10 minutes
Follow up on operational control approach revision	**40 minutes**
Follow up on optionality in consolidation approaches	50 minutes
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

Initial proposed text: Operational control definition

Current definition *Corporate Standard Revised Edition (2004), p.18*	**Initial proposed revision** *based on Subgroup 2 input*
"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."	*"An entity has operational control over an operation if it, or one of its subsidiaries, has the power or practical ability to direct or implement the policies, processes, or day-to day activities of the operation, particularly those that impact the operation's greenhouse gas emissions – regardless of legal ownership or formal authority structures.* *In arrangements involving multiple parties, the entity with the greatest power or practical ability to direct or implement policies, processes, day-to-day activities or emissions-related decisions shall be considered to have operational control."*

The following slides outline the rationale for the revision, the level of support from TWG and ISB, and key feedback on further revisions

Text in green indicates major changes from the current definition.
* Use of the terminology "entity" is subject to further internal assessment/alignment.

ISB slide

Revising the **operational control approach**

Preliminary outcome

- The current **definition** should be **fully revised**
- **Working draft text for defining "operational control"** (see next slide) is **under review**
  - Feedback from the full TWG and ISB will inform the text finalization

Rationale for revision

- Key terms used in the current definition such as **full authority** and **operating policies** were open to interpretation and not applicable to many organizational structures.
- The definition should be based on the entity's **ability to control GHG emissions** the most rather than control over operating policies

Level of support

Majority support for fully revising the current definition of operational control

Subgroup 2:
- **88% support** *(47% support with minor edits)*
- 12% oppose
- 0% abstain

17 members

Full TWG *(July meeting)***:**

78% support *(35% support with minor edits)*
3% oppose
20% abstain

40 members

Implications

- The concept of operational control poses a challenge to distinguish between "**operationally controlling an entity**" and "**operating an asset**"
- The revised operational control and financial **control approaches will be aligned in most cases:** potential for **user confusion,** and the **concern about maintaining** the approach
- Continued concerns about how to define **(the greatest) power**, clarify the focus on **control over emissions** *(on proposed reference text)*

For more information, please see section 2.4 of outcomes memo and Subgroup 2 meeting 8 minutes and presentation

Level of support from full TWG and ISB on operational control revisions

Full TWG support *(post meeting survey)*

Majority support for the preliminary text as direction for revising the **definition of operational control**

Detailed feedback from full TWG on the following slide

47 responses

ISB support

Majority support for the proposed direction for the revised **definition of operational control**

- Support **subject to improved definition** of operational control and **confirmation with key external stakeholders** on interoperability (e.g., ISSB, EFRAG, GRI)

Please note that the ISB feedback survey is still in progress, and this section will be updated after the meeting once the results become available.

Key feedback from full TWG on operational control revisions

TWG members expressed *majority support* for the direction of the text update. However, detailed feedback suggests that the following 3 key topics need to be addressed to advance the revision:

1. The definition is **still open to interpretation**

2. Entity-level vs. asset-level assessment

3. Focus on control/impact on GHG emissions

The following slides consider these key topics in detail including related TWG feedback and the associated questions to guide today's discussion.

Addressing these challenges are also **interconnected with the ongoing discussion on optionality in consolidation approaches.**

Detailed TWG feedback on operational control text revision is provided in the Appendix.

Discussion: Do you have any clarifying questions on or additions to these key challenges?

Challenge 1 – Operational control definition is still open to interpretation

The definition is **still open to interpretation**	**Discussion: Question**

Challenge:

- The nature of operational control is **subjective**
- It may **not be feasible to avoid all potential loopholes**

Key feedback:

- The term "**(greatest) power**" is not clear, impractical to assess, creating assurance challenges, and it still does not address cases where 50/50 operational control is in place
- **Clarification and additional guidance** needed (e.g., operating policies, specific indicators)
- Allows **companies to downplay their authority** to **avoid accounting** for emissions
- Potential room for **further alignment with financial and legal control concepts**

Question *(revised):*

Should subjectivity be considered acceptable in defining operational control?

- **Yes -** I support allowing **some degree of subjectivity**, provided it is **addressed through clear guidance** and indicators **to the extent feasible**
- **No –** I believe the definition of operational control **should be objective and precise** to avoid interpretation
- Abstain *(please explain reason for abstention)*

Do you have any additional questions or comments about this challenge?

Challenge 2 – Level of assessment (entity vs. asset)

Entity-level vs. asset-level assessment

Challenge:

- Consolidation approaches are used for setting organizational boundaries at **the entity-level**.
  - **Operational control** approach is **currently often applied at asset-level** (e.g., who operates a specific facility)
  - **Financial control** is applied **at entity-level**
  - Need to reconsider or clearly **distinguish between organizational and operational boundary setting**

Discussion: Question

Question:

Is the concept of operational control more applicable to entity-level or asset level assessment?

- Most applicable at **entity-level**
- Most applicable at **asset-level**
- Applicable at **both entity- and asset-levels**
- Abstain

Do you have any additional questions or comments about this challenge?

Challenge 3 – Focus on control/impact on GHG emissions

Reference to control over or impact on GHG emissions

Challenge:

Feedback shows different views on specifically tying the definition of operational control to control over or impact on GHG emissions:

- **Should be maintained** – The ability to control should focus on GHG emissions.
- **Should not be maintained** - it introduces unnecessary ambiguity. The focus should be on operations.

Discussion: Question

Question:

Do you support focusing the definition of operational control on control over or impact on GHG emissions as opposed to general operations/operating policies?

- Yes, I support maintaining the focus on control over or impact on GHG emissions
- No, I oppose focusing the definition on control over or impact on GHG emissions
- Abstain

Relevant text (excerpt from the initial proposed text):

*"…the policies, processes, or day-to day activities of the operation, **particularly those that impact the operation's greenhouse gas emissions**."*

*"…to direct or implement policies, processes, day-to-day activities or **emissions-related decisions** shall be considered to have operational control."*

Do you have any additional questions or comments about this challenge?

Challenges: Operational control definition

Full Group Discussion

Poll questions

Discussion and poll questions:

1. Should **subjectivity be considered acceptable** in defining operational control?
2. Is the concept of operational control more applicable to **entity-level or asset level** assessment?
3. Do you support **focusing the definition** of operational control **on control over or impact on GHG emissions** as opposed to general operations/operating policies?

Revised operational control text

Initial proposed text *based on Subgroup 2 input*	**Revised proposed text *** *based on full TWG and ISB input*
"An entity has operational control over an operation if it, or one of its subsidiaries, has the power or practical ability to direct or implement the policies, processes, or day-to day activities of the operation, particularly those that impact the operation's greenhouse gas emissions – regardless of legal ownership or formal authority structures. *In arrangements involving multiple parties, the entity with the greatest power or practical ability to direct or implement policies, processes, day-to-day activities or emissions-related decisions shall be considered to have operational control."*	*"An [organization/entity/company] has operational control over an [operation, entity or a contractual arrangement] if ~~it, or one of its subsidiaries,~~ the former has the power or practical ability to direct ~~or~~, implement or influence the latter's policies, processes, or day-to day activities ~~of the operation, particularly those that impact the operation's greenhouse gas emissions~~ –regardless of legal ownership or formal authority structures.* *In arrangements involving multiple parties, the entity with the greatest power or practical ability to direct or implement policies, processes, or day-to-day activities ~~or emissions-related decisions~~ shall be considered to have operational control."*

Text in [brackets] include alternative language, text in green indicates latest additions, and ~~red~~ indicates deletions.
* Please find the clean version of the revised proposed text on slide 25.

Overview of updates

Initial proposed text (as presented at full TWG Meeting 3)	**What has changed**	**Revised proposed text** (New text)	**The rationale**
Reference to "**an/the operation**"	Extended and rephrased	To include "**an [operation/entity or contractual arrangement]**" **Related rephrasing:** Introducing "the former and "the latter"	Enable consistent approach to **organizational boundary setting**
Reference to "…impact the operation's **greenhouse gas emissions**" and "**emissions-related decisions**"	Deleted	-	Avoid introducing **subjective new concepts** and **further complexity**
Reference to "***or one of its subsidiaries***"	Deleted	-	To simplify and avoid reference to intermediaries
-	New addition	Reference to "**influence**" in addition to "direct and implement policies, processes…."	Enable **parties with informal or soft power to take responsibility** of emissions

Remaining challenges

- Usage or replacement of the term **"(greatest) power"**
- How to address cases where there is **50/50 operational control**
- Clarification for cases where the day-to-day **operator is different from the party with power**

Discussion: Please share comments related to revised text defining operational control

Poll question: Operational control

Question

Do you support the **proposed <u>revised</u> text to define operational control**?

A. *Yes, I **support** the overall text*
B. *Yes, I **support** the overall text **but** have **minor revision suggestions***
C. *No, I **strongly oppose** to the proposed text*
D. *Abstain*

Proposed <u>revised</u> text for defining operational control in the *Corporate Standard:*

"An [organization/entity/company] has operational control over an [operation, entity or a contractual arrangement] if the former has the power or practical ability to direct, implement or influence the latter's policies, processes, or day-to day activities–regardless of legal ownership or formal authority structures.

In arrangements involving multiple parties, the entity with the greatest power or practical ability to direct or implement policies, processes or day-to-day activities shall be considered to have operational control."

We will now move on to continue our discussion on **optionality in consolidation approaches,** considering its **close connection to the ongoing revision of the operational control approach**

Agenda

Introduction and housekeeping	10 minutes
Follow-up on financial control approach revision	10 minutes
Follow up on operational control approach revision	40 minutes
Follow up on optionality in consolidation approaches	**50 minutes**
Wrap-up and next steps	10 minutes

GREENHOUSE GAS PROTOCOL

Overview of process to finalize phase 1 preliminary outcome on optionality

The preliminary outcome on whether, and if so how, to maintain optionality in consolidation approaches:

1. Subgroup 2 indicative poll results
2. Full TWG indicative poll results
3. ISB feedback
4. **Today**: Subgroup 2 meeting 9 – *Sept 2nd*
5. Subgroup 2 open discussion meeting – *Sept 17th*
6. Subgroup 2 meeting 10 to finalize recommendation – *Sept 30th*
7. Full TWG – *Oct 21st*
8. ISB pulse check – *Oct 14th*
9. Subgroup 2 to finalize – *Nov 4th*
10. **Final** recommendation to ISB for decision – *Nov 24th*

The preliminary outcomes were presented to the ISB on July 28th

Legend: Subgroup 2 | Full TWG | ISB

ISB slide

Whether to **maintain optionality in consolidation approaches**

Initial evaluation *(early direction)*

Majority support for **maintaining optionality** in consolidation approaches. Follow-up polls showed support for:

1. **Eliminate** the **equity share** approach
2. Maintain and **update** the **operational control** approach
3. Define the **revised financial control** as a **preferred/recommended** approach

Level of support

For **maintaining optionality** in consolidation approaches

Subgroup 2:

- **90% support**
- 0% oppose
- 10% abstain

10 members

Full TWG *(March and July)*

- **81% → 66% support**
- 0% → 22% oppose
- 7% → 12% abstain

42 and 41 members

Rationale for maintaining optionality *(keep operational control)*

- **Interoperability** with programs providing optionality (e.g., IFRS, SBTi) and requiring a single or a layered approach (e.g., CSRD requires financial control and in addition calls for the value of assessing operational control-based emissions).
- **Operational control** is the **most adopted** approach for reporting and target-setting (both mandatory and voluntary reporters), and may **serve a distinct purpose** (e.g., alignment with environmental compliance).
- **Flexibility** for programs and users to choose the approach that serves their program and reporting objectives; promotes **relevance.**

Rationale for eliminating optionality *(require financial control)*

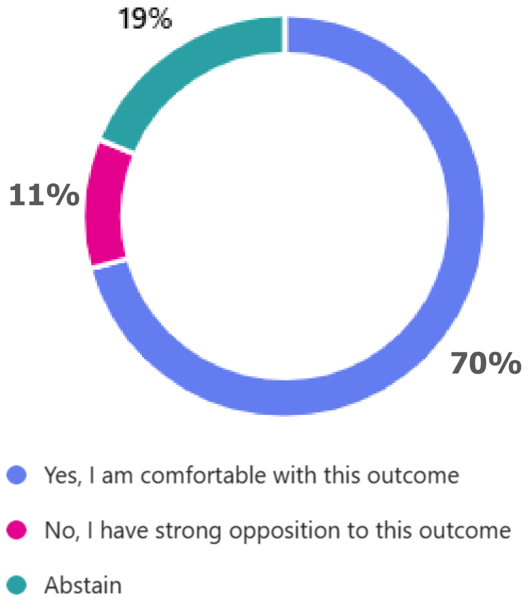
- Aligning **financial control approach** with financial accounting **addresses gaps** that previously necessitated operational control and equity share.
- **Operational control** approach has **loopholes** that allow companies to outsource and avoid accounting for emissions.
- **Key terms** used in defining **operational control have ambiguities**
- Financial control applies at entity-level whereas **operational control mostly applies at operation/asset level** (intertwined with operational boundary setting); therefore, may not be appropriate for entity-level consolidation.

For more information, please see section 2.3 of outcomes memo and Subgroup 2 meeting 4 minutes and presentation

Feedback from full TWG and ISB on optionality in consolidation approaches

Full TWG feedback *(post meeting survey)*

***Majority support* for maintaining optionality** in consolidation approaches between the revised financial control and operational control approaches.



47 responses

Key feedback:

- **Request for clarification on how the two approaches differ**
- Support for **maintaining** to serve different reporting purposes
- Support for **recommending** financial control as part of optionality
- Support for **requiring** financial control due to challenges to set a standardized definition for operational control and to align with financial information
- Optionality **hinders comparability**
- **Concern** on eliminating **equity share**

ISB feedback

***Majority support* for maintaining optionality** between the revised financial control and operational control approaches

Please note that the ISB feedback survey is still in progress, and this section will be updated after the meeting once the results become available.

Updates to organizational boundary requirements from select programs

	IFRS	ESRS	SBTi
Current requirements	**"Reporting entity" (IFRS S1):** "*An entity's sustainability-related financial disclosures shall be for the **same reporting entity as the related financial statements***" (par.20) **"Measurement approach" (IFRS S2):** Requirement to **disclose approach used (equity share or control)**, and reasons for choosing approach (par.B27), requirement to **disaggregate** scope 1 and 2 emissions between consolidated accounting group and other investees (par.29(a)(iv))	**"Reporting undertaking" (ESRS 1):** "*The sustainability statement shall be for the **same reporting undertaking as the financial statements***" (par.62) **GHG disclosures (ESRS E1):** Reference to ESRS 1 par.62-67 for GHG disclosures (i.e., disclosure for **same reporting undertaking as in financial statements**) with additional reporting requirement of scope 1 and 2 emissions from entities[1] under **operational control** (par.46), requirement to disaggregate between scope 1 and 2 emissions from consolidated accounting group and other investees (par.50)	**Target boundary and inventory boundary (Corporate Net-Zero Standard v1.2):** "A company **must select a single consolidation approach as outlined in the GHG Protocol Corporate Standard** (operational control, financial control or equity share) to (i) determine its organizational boundary, (ii) calculate its GHG emissions inventory and (iii) define its science-based target boundaries. The organizational boundary **should align with the company's financial reporting**."
Proposed updates to requirements in exposure drafts	**No proposed changes** in *Amendments to Greenhouse Gas Emissions Disclosures: Proposed Amendments to IFRS S2*, Exposure Draft	**Emissions reporting boundary (ESRS E1 v1.6 Exposure Draft):** "*The organisational boundary to be used in disclosing [GHG emissions] **shall be the reporting undertaking**… which is **equivalent to the financial control** (consolidation) boundary of the GHG Protocol*" (AR 19), requirement to separately report scope 1 and scope 2 emissions based on **operational control** when "*due to specific facts and circumstances*" financial control "*fails to convey a fair presentation of emissions deriving from operated assets that are outside of the reporting undertaking*"	**Two options under consideration for defining organizational and operational boundaries (Corporate Net-Zero Standard v2.0 consultation draft):** • **Option 1**: Organizational and operational boundaries **defined according to GHG Protocol Corporate Standard** • **Option 2**: Organizational and operational boundaries are **consistent with scope of entities[2] in financial statements**

1. "associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets)
2. "entities, operations, assets and other holdings"

External program requirements: key points

"Reporting entity" concept and alignment of reporting boundaries with that for consolidated financial statements	**Application of operational control**
• Both **IFRS S1 and ESRS 1** require sustainability statements to be for the **same reporting entity as consolidated financial statements** • The **ESRS E1** exposure draft specifies that this equates to the GHG Protocol **financial control** consolidation approach • One option under consideration in the **SBTi Corporate Net-Zero Standard** v2.0 consultation draft is to require boundaries to be set to **align with consolidated financial statements** **GHG Protocol**: Defining organizational boundaries to align with consolidated financial statements aligns with **proposed updates to financial control approach** (provisionally) agreed upon by Corporate Standard TWG and ISB	• **IFRS S2** allows **choice of consolidation approaches** in Corporate Standard (2004), including operational control[1] • **ESRS E1** requires an **additional disclosure** of scope 1 and 2 emissions from entities under operational control not part of the consolidated group (i.e., **layered requirement** to report under operational control). • The **ESRS E1** exposure draft amended the requirement, specifying that reporters **separately disclose (total) scope 1 and 2 emissions under operational control** when financial control fails to provide a fair presentation of emissions from operated assets in addition to applying financial control (i.e., **dual reporting** under financial control and operational control)

1. Reporters required to disclose reasons for choice and to disaggregate scope 1 and 2 emissions between consolidated accounting group and other investees

Options under consideration for optionality in consolidation approaches

Option 1

Financial & operational control as equal options

Companies *may* choose between financial control and operational control.

Financial control *"may"*

OR

Operational control *"may"*

Option 2

Recommend financial control

Companies *should* apply financial control but *may* apply operational control.

Financial control *"should"*

OR

Operational control *"may"*

Option 3*

Combined (layered) consolidation approach

Companies *shall/should* apply financial control and *shall/should/may* also separately report emissions under operational control but not financial control.

Financial control *"shall or should"*

AND

Operational control (partial)*** *"shall/should/may"*

Option 4*

Dual consolidation approaches

Companies *shall/should* report according to financial control and *shall/should/may* also separately report according to operational control, if applicable.

Financial control *"shall/ should"*

Operat-ional control *"shall/ should/ may"*

Option 5**

Require financial control approach

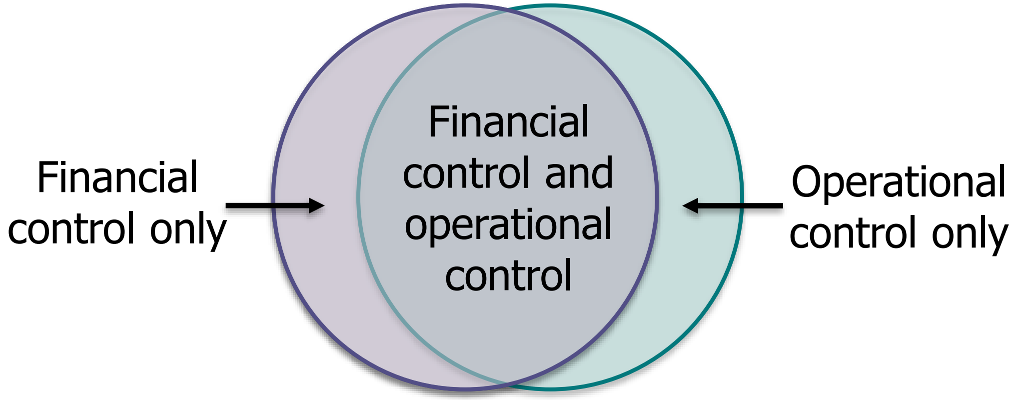
Companies *shall* apply financial control.

Financial control *"shall"*

* Please note that the use of shall/should/may is TBD and is subject to assessing the level of support for the option.
** Option is parked for today's discussion due to low support from TWG and ISB.
*** Only emissions for entities/assets/operations under operational control but *not* financial control.

GREENHOUSE GAS PROTOCOL

Scenarios to demonstrate the application of options under consideration

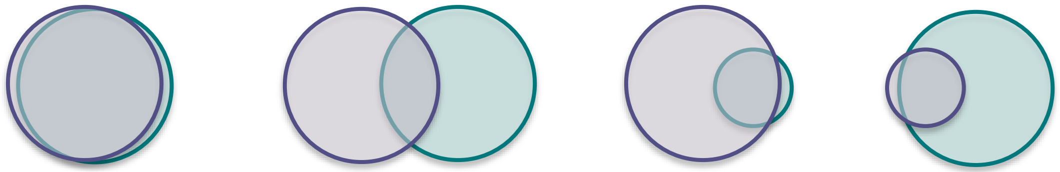


Case 1
Financial and operational control mostly overlap

Case 2
Financial and operational control do not overlap

Case 3
Financial control > operational control

Case 4
Operational control > financial control



Case	Emissions under financial control (FC) and operational control (OC)			Emissions reported under each option				
	Under FC only	**Under OC only**	**Under both FC and OC**	**Option 1** FC and OC as equal options	**Option 2** FC recommended	**Option 3** Combined approach	**Option 4** Dual reporting	**Option 5** FC required
Case 1	5	5	90	95	95	95+5=100	95 / 95	95
Case 2	40	40	20	60	60	60+40=100	60 / 60	60
Case 3	90	5	5	95 or 10	**95** or 10	95+5=100	95 / 10	95
Case 4	5	90	5	10 or 95	**10** or 95	10+90=100	10 / 95	10

GREENHOUSE GAS PROTOCOL

How to implement financial control and operational control approaches
(with a mapping to the options presented in previous slides)

Draft for TWG discussion

Option 1	Option 2	Option 3	Option 4	Option 5
Financial & operational control as equal options	Recommend financial control	Combined (layered) consolidation approach	Dual consolidation approaches	Require financial control approach

1 ***Should the financial control approach be required, recommended, or just an available option?***

- **1a. Requirement (*"shall"*)** — Options 3, 4, 5
- **1b. Recommendation (*"should"*)** — Options 2, 3, 4
- **1c. Available option (*"may"*)** — Option 1

2 ***How should the operational control approach be implemented vis-à-vis financial control?***

- **2a. Eliminate** — Option 5
- **2b. Dual consolidation with financial control** — Option 4
- **2c. Combined (layered) with financial control** — Option 3
- **2d. Standalone option** — Options 1, 2

Single required approach: financial control

Poll questions

3 ***Should the operational control approach be required, recommended, or just an available option?***
(for options 2b, 2c and 2d)

- **3a. Requirement (*"shall"*)** — Options 3, 4
- **3b. Recommendation (*"should"*)** — Options 3, 4
- **3c. Available option (*"may"*)** — Options 1, 2, 3, 4

WORLD RESOURCES INSTITUTE

World Business Council for Sustainable Development

Discussion: GHG Protocol decision-making criteria analysis (UPDATED DRAFT)

Draft for TWG discussion

Criterion	Option 1: Financial control and operational control as equal options	Option 2: Financial control as recommended option	Option 3: Combined (layered) consolidation (as recommendation)	Option 4: Dual consolidation approaches (as recommendation)	Option 5: Require financial control
Scientific integrity	N/A	N/A	N/A	N/A	N/A
GHG accounting and reporting principles	**Pros:** Promotes relevance **Cons:** May inhibit completeness, transparency, and consistent reporting across companies	**Pros:** Somewhat promotes relevance; promotes consistent reporting across companies **Cons:** Continued risk to potentially inhibit completeness and transparency	**Pros:** Promotes completeness and transparency	**Pros:** Promotes completeness and transparency	**Pros:** Ensures consistent reporting across companies **Cons:** May inhibit relevance
Support decision-making that drives ambitious global climate action	**Pros:** Provides flexibility for users and programs to choose/require the approach best fitting **Cons:** May inhibit decision-making if the chosen approach fails to meet stakeholder expectations	**Pros:** Continued flexibility while promoting a more standardized approach use **Cons:** May inhibit decision-making if the chosen approach fails to meet stakeholder expectations	**Pros:** Promotes decision-making (provides complete emissions profile)	**Pros:** Promotes decision-making (provides fair presentation of emissions profile)	**Pros:** Promotes consistent decision-making by providing a standardized consolidation **Cons:** May inhibit decision-making if financial control fails to meet stakeholder expectations
Support programs based on GHG Protocol and uses of GHG data	**Pros:** Promotes interoperability with external programs **Cons:** Risk of double counting/undercounting of emissions; inhibits comparability	**Pros:** Promotes interoperability with external programs **Cons:** Risk of double counting/undercounting of emissions;	**Pros:** Promotes greater standardization; Eliminates risk of under or no counting of emissions **Cons:** Potential risk to interoperability with programs	**Pros:** Aligns with ESRS E1 exposure draft, promotes greater standardization; Eliminates risk of under or no counting of emissions **Cons:** Potential risk to interoperability with other programs (e.g., IFRS)	**Pros:** Promotes greater standardization **Cons:** Risk interoperability with programs allowing optionality
Feasibility to implement	**Pros:** Least impact, closest to status quo **Cons:** Remaining ambiguities in defining operational control, question of whether approach should be applicable at entity level	**Pros:** Minimal impact compared to other options, maintaining both control approaches as options **Cons:** Remaining ambiguities in defining operational control, question of whether approach should be applicable at entity level	**Pros:** May help facilitate application of financial control at entity level and operational control at asset level; allowing opting out and apply single consolidation **Cons:** Complex approach with (significant) implementation challenges	**Pros:** Allowing companies to opt out and apply single consolidation **Cons:** Complex approach with (significant) implementation challenges	**Pros:** Maintains feasibility for current users of the approach **Cons:** Requires many companies to change consolidation approach, posing feasibility challenges

Discussion and Polls: Options for consolidation

Full Group Discussion

Poll questions

Discussion and poll questions:

1. Please indicate if you **agree with giving further consideration to each of the options** provided for setting organizational boundaries.

   Strongly agree / Agree / neutral / disagree / strongly disagree / abstain

2. Are there **any other options** that should be considered?

3. Please indicate **whether you would support each of the options** provided for setting organizational boundaries.

   Strongly support / support / neutral / oppose / strongly oppose / abstain

Options under consideration:

1. Financial & operational control as equal options
2. Recommend financial control
3. Combined (layered) consolidation
4. Dual consolidation
5. Require financial control

Questions posed today to get a preliminary indication of Subgroup 2 member preferences. Members will be asked to indicate preferred option in next meeting on September 30th to determine recommendation to bring to full TWG and ISB.

Agenda

Introduction and housekeeping	10 minutes
Follow-up on financial control approach revision	10 minutes
Follow up on operational control approach revision	40 minutes
Follow up on optionality in consolidation approaches	50 minutes
Wrap-up and next steps	**10 minutes**

GREENHOUSE GAS PROTOCOL

WORLD RESOURCES INSTITUTE

World Business Council for Sustainable Development

Upcoming Schedule

The preliminary outcome on whether, and if so how, to maintain optionality in consolidation approaches:

1. Subgroup 2 indicative poll results
2. Full TWG indicative poll results
3. ISB feedback
4. Subgroup 2 meeting 9 *Sept 2nd*
5. **Next step:** Subgroup 2 open discussion meeting *Sept 17th*
6. Subgroup 2 meeting 10 to finalize recommendation *Sept 30th*
7. Full TWG *Oct 21st*
8. ISB pulse check *Oct 14th*
9. Subgroup 2 to finalize *Nov 4th*
10. **Final** recommendation to ISB for decision *Nov 24th*

The preliminary outcomes will be presented to the ISB in November

Legend: Subgroup 2 | Full TWG | ISB

Next steps

Items to be shared by GHG Protocol Secretariat	TWG member action items	Next meeting date
• Final slides, minutes, and recording from this meeting • Feedback survey • Draft text review • Operational control approach	Respond to meeting follow up survey *(deadline to be confirmed)*	• **Open discussion** meeting on Sept 16th on operational control approach and optionality *(other TWG members will be invited as optional)* • **Subgroup 2** meeting on Tuesday, Sept 30th

Thank you!

Hande Baybar, baybar@wbcsd.org

Iain Hunt, iain.hunt@wri.org

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

Appendix

GREENHOUSE GAS PROTOCOL

Detailed key feedback from full TWG on operational control revisions

- **General support for the direction of the update**
- **Proposed definition is still subjective and open to interpretation:**
  - The term **"(more/greatest) power"** could be **subjective** and **impractical to assess**, making **assurance challenging.** It is also not applicable where there is 50/50 operational control
  - Clear and standardized definition is needed to **avoid companies from downplaying their authority/power**
  - Clarification needed on what is meant by **operating policies**
  - Specific indicators could be set (e.g., who pays for the energy, who chooses the equipment, who manages and maintains, who introduces operating policies)
  - **Align the definition of control** with the financial and legal control concepts
- **Entity-level vs. asset-level:** Operational control should be assessed at **entity level not at operational/asset level**
- **Reference to control/impact on GHG emissions**
  - Should **be maintained –** The ability to control should focus on GHG emissions
  - Should **not be maintained** - it introduces unnecessary ambiguity
- **Recent updates to external programs (i.e., ESRS E1) should be considered**
- **Additional reporting requirements** (rationale of choosing the approach)
- **Additional guidance and examples needed:**
  - Clarification needed on how operational control would apply in complex contractual and multi-party arrangements
  - Provide practical examples to illustrate how this differs from financial control
  - Categorization of leased assets
- **Other alternatives: Proportionate consolidation** or a **multi-step assessment method** should be applied