



Corporate Standard Technical Working Group

Subgroup 2, Meeting #11

GHG Protocol Secretariat team:

Hande Baybar, Iain Hunt, Allison Leach

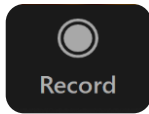
November 4th, 2025



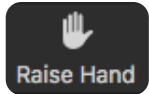
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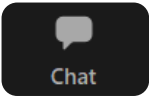
Meeting information



This meeting is **recorded**.



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



You can also use the **Chat** function in the main control.



Recording, slides, and meeting minutes will be shared after the call.

Agenda

Introduction and housekeeping	10 minutes
Proposed package for consolidation	80 minutes
Operational control approach revision	20 minutes
Wrap-up and next steps	10 minutes



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Agenda

Introduction and housekeeping

10 minutes

Proposed package for consolidation

80 minutes

Operational control approach revision

20 minutes

Wrap-up and next steps

10 minutes



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Housekeeping: Guidelines and procedures

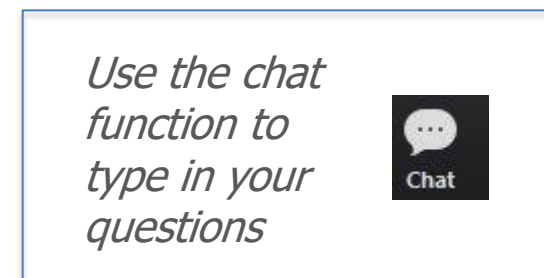
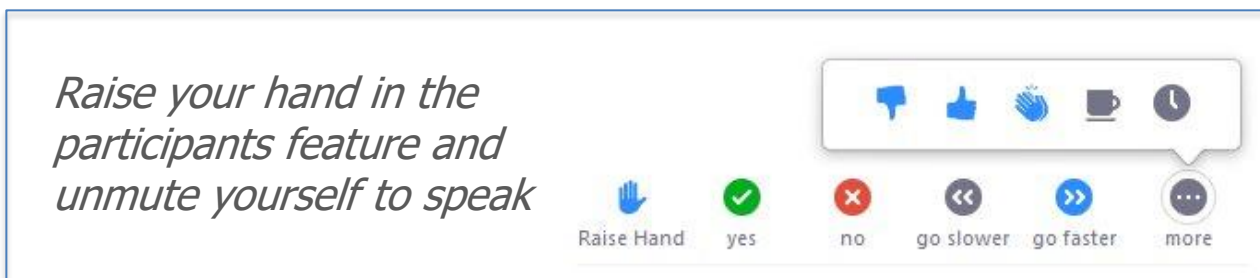
- We want to make **TWG meetings a safe space** – our discussions should be open, honest, challenging status quo, and ‘think out of the box’ in order to get to the best possible results for GHG Protocol
- Always **be respectful**, despite controversial discussions on content
- TWG members should **not disclose any confidential information** of their employers, related to products, contracts, strategy, financials, compliance, etc.
- In TWG meetings, **Chatham House Rule** applies:
 - “When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.”
- **Compliance and integrity** are key to maintaining credibility of the GHG Protocol
 - Specifically, all participants need to follow the **conflict-of-interest policy**
 - **Anti-trust rules** have to be followed; please avoid any discussion of competitively sensitive topics*

* Such as pricing, discounts, resale, price maintenance or costs; bid strategies including bid rigging; group boycotts; allocation of customers or markets; output decisions; and future capacity additions or reductions

Zoom logistics and recording of meetings

Zoom Meetings

- All participants are muted upon entry
- Please turn on your video
- Please include your full name and company/organization in your Zoom display name

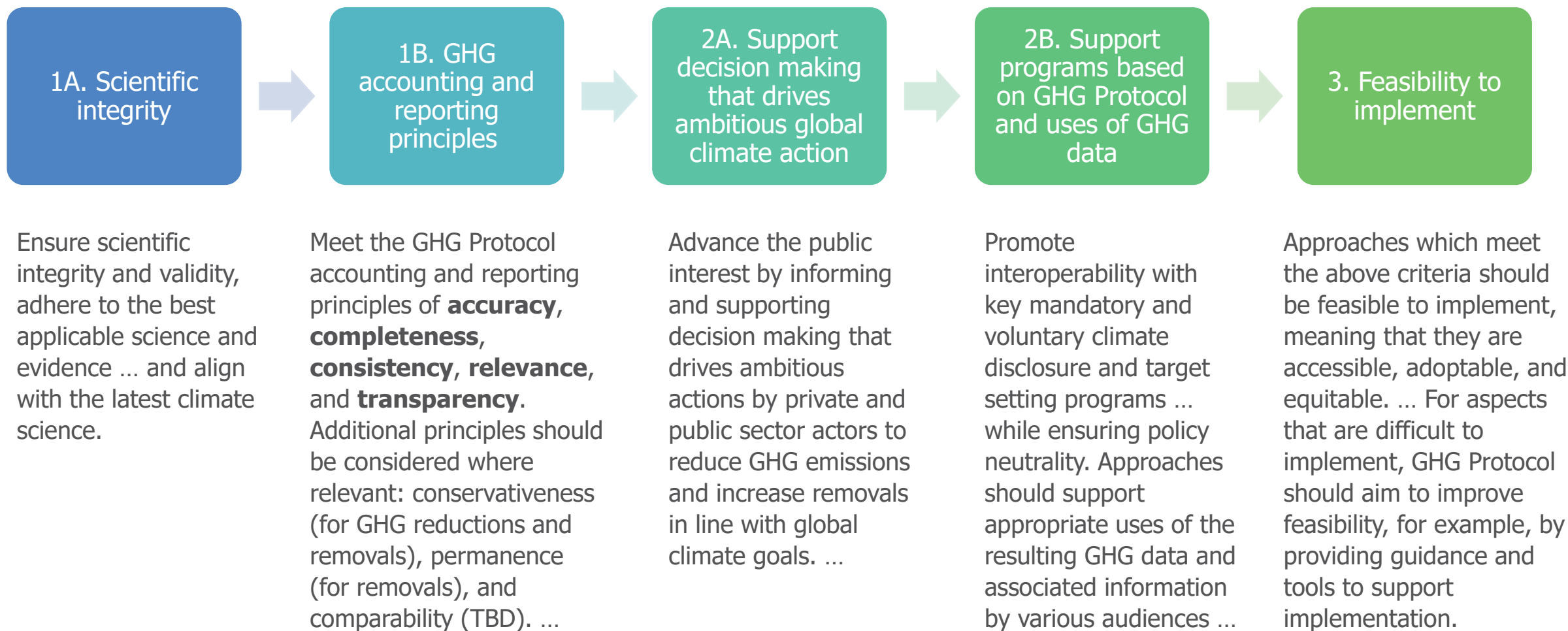


Meetings will be recorded and shared with all TWG members for:

- 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.***

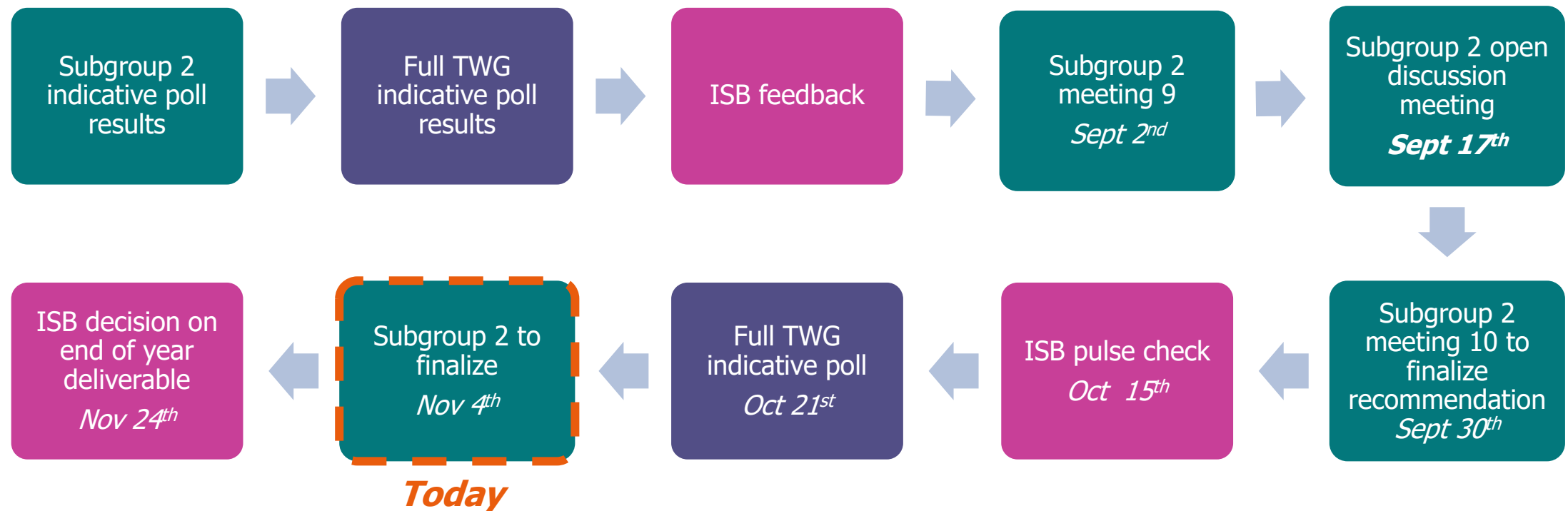
GHG Protocol Decision-Making Criteria



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:



Legend:

Subgroup 2

Full TWG

ISB



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End-of-year public deliverable: Summary of outcomes agreed by TWG and ISB

(Milestone defined in Corporate Standard Development Plan* (SDP), Section 9: Workplan and timeline)

SG2 content: Phase 1 topic

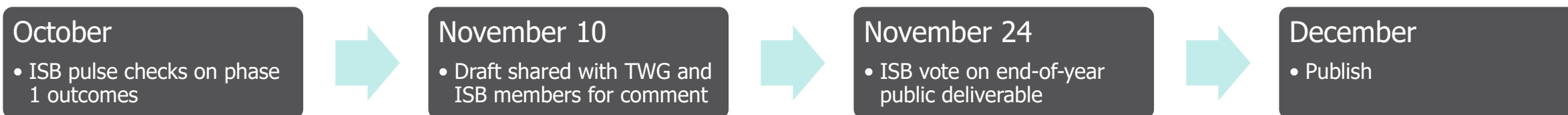
- **Setting organizational boundaries**
(proposed package for consolidation)
 - **Key updates on consolidation approaches**
(substantive text from the working draft revisions)

Information to be provided

- Current approach/current text
- Summary of proposed changes
- Proposed new text
- Options considered
- Rationale/basis for conclusions

Summary of outcomes to be provided for informational purposes only, to provide interim guidance to stakeholders until complete draft for public consultation available in 2026.

Timeline for publication:



* Corporate Standard – [Standard Development Plan](#)

Today's objectives

1. Follow-up on **proposed package for consolidation**

- Review **ISB** and **TWG level of support**, and **feedback**
- **Discuss revisions to proposed package for consolidation** based on feedback received to date

2. Review **revisions** to the **operational control approach**

- Review **feedback from SG2, TWG and ISB** on operational control approach challenges
- Review the **proposed structure for the operational control approach**



Achieving the objectives of today's meeting is critical to reaching a preliminary Subgroup 2 outcome on organizational boundary setting, which will be presented to the ISB (for decision) in November.

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).

Agenda

Introduction and housekeeping

10 minutes

Proposed package for consolidation

80 minutes

Operational control approach revision

20 minutes

Wrap-up and next steps

10 minutes



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Overview: Subgroup 2 phase 1 topics and progress

Topic	Subgroup 2 recommendations (preliminary)	Full TWG outcome	ISB pulse check
Optionality in consolidation	Maintain optionality for consolidation approaches between financial control and operational control	Majority support	Support: 10 of 12 Oppose: 1 of 12 Abstain: 1 of 12
Proposed package for consolidation (Updated)	Require consolidation based on control Recommend financial control Recommend operational control add-on for scope 1 and 2 emissions that are under operational control, but not financial control based on complete/fair presentation principle Maintain operational control as a stand-alone option that companies may apply Require disclosure on rationale for choosing a different approach	Majority support	Support: 11 of 11 (5 with minor edits) Oppose: 0 of 11 Abstain: 0 of 11
Operational control revision	Operational control should be maintained, and the definition should be fully revised	Majority support	Support: 10 of 12 Oppose: 1 of 12 Abstain: 1 of 12
	Working draft text defining operational control as the basis for the revision direction	Majority support	Support: 11 of 12 Oppose: 0 of 12 Abstain: 1 of 12
Financial control revision	Financial control approach should be revised to align with financial accounting	Unanimous support	Provisionally approved
	Working draft text defining the financial control approach as the basis for the revision direction	Majority support	Support: 11 of 12 Oppose: 0 of 12 Abstain: 1 of 12

Subgroup 2, phase 1: Package of proposed revisions

Package of updates to requirements/recommendations for setting organizational boundaries

Package item #	Example text	Notes
1. <i>Require consolidation based on control</i>	Companies shall account for and report 100 percent of their consolidated GHG data according to [the] [a] control approach as presented below . Control is defined in terms of financial control or operational control .	Equity share approach eliminated
2. <i>Recommend financial control</i>	Companies should apply the financial control consolidation approach, accounting for and reporting on 100% of emissions from entities under financial control (i.e., in their consolidated financial statements).	Financial control revised to align with financial accounting with a GAAP-agnostic principle-based definition
3. <i>Recommend add-on reporting under operational control where relevant</i>	Additionally, companies should account for and report on 100% of scope 1 and 2 emissions from entities, operations, and assets under operational control that are not already included under financial control where relevant (e.g., where financial control does not provide a sufficiently complete picture of their GHG emissions).	Operational control under revision to provide further clarity for consistent application while maintaining its purpose
4. <i>Maintain operational control as a standalone option where relevant</i>	Companies may apply the operational control consolidation approach in lieu of financial control , accounting for and reporting on 100% of emissions from entities, operations, and assets under operational control .	
5. <i>Disclosure requirement on rationale for the approach applied</i>	Companies who choose not to apply recommendations #2 and #3 (i.e., consolidation based on financial control, additional reporting under operational control, respectively) shall disclose their rationale for choosing a different approach .	Providing flexibility for reporters while promoting transparency for the user of GHG data

Please note that following *strong opposition*, the proposed package item on allowing **jurisdictionally required consolidation approaches to be applied** if not compatible with the recommended approach **was excluded**. We will review the **full TWG feedback** on this today.

Some very minor edits to the proposed example text in made in the following slides per package item. **Red** indicates deletions and **green** indicates new additions.



Full Package

Proposed package for setting organizational boundaries

Preliminary outcome

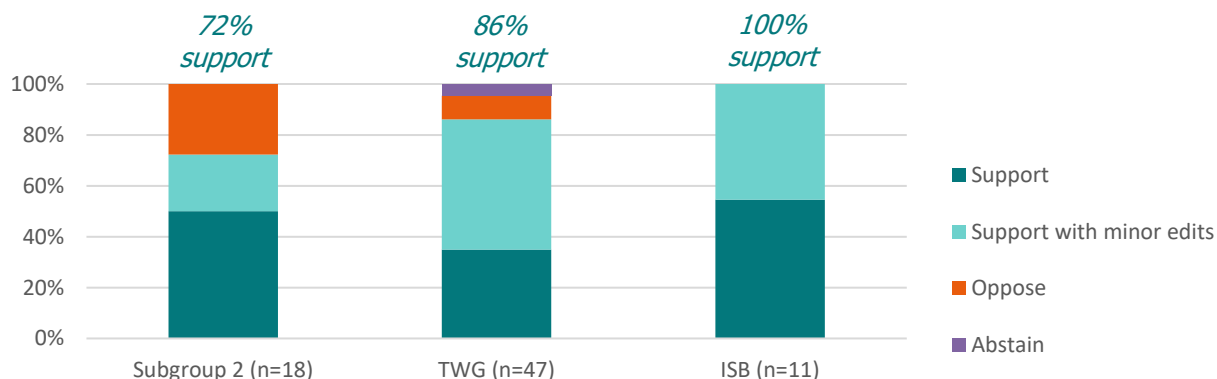
1. *Require* consolidation based on **control**
2. *Recommend* **financial control**
3. *Recommend* **add-on reporting** under **operational control** where relevant
4. Maintain **operational control** as a **standalone option** where relevant
5. **Disclosure requirement** on rationale for applying a different approach

Note: Revisions also include updates to the definitions of financial control and operational control.

Rationale

- Maintain optionality to **support diverse applications** of the standard
- **Promote standardization** and **enhance comparability** of GHG information
- Recommend a **best practice approach** for companies to disclose a **complete picture of emissions** and **promote transparency**

Level of support*



Implications

- Recommended best practice approach **more complex** than status quo
- Continued **coordination with external programs** needed to promote **interoperability**
- Some **optionality maintained**, not all reporters expected to adopt recommended best practice approach
- Equity share approach **eliminated**

* Updated level of support from TWG and ISB.

Item #1 Overview

Require consolidation based on control

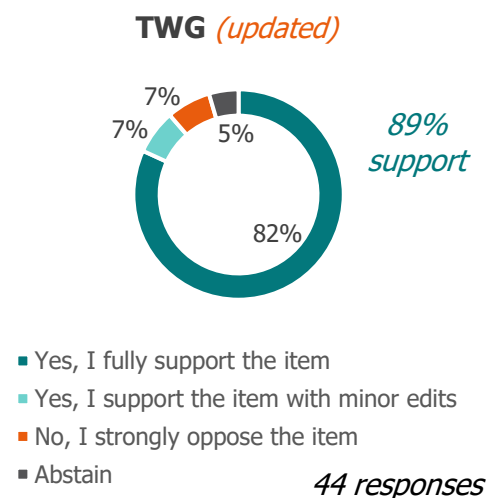
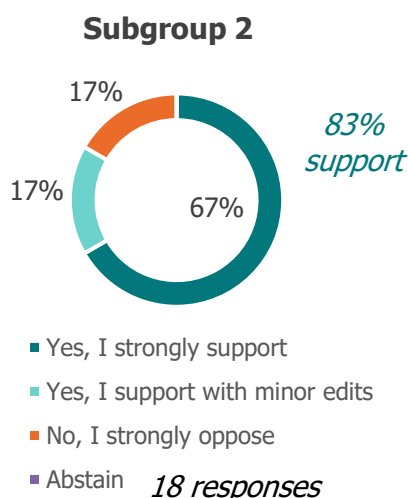
Current text in Corporate Standard (ch. 3)

"Companies **shall** account for and report their consolidated GHG data according to **either the equity share or control approach** as presented below."

Proposed text as example

"Companies **shall** account for and report ~~100 percent of their consolidated GHG data emissions according to [the] [a]~~ **based on control approach as presented below**. Control ~~is~~ **can be defined in terms of financial control ~~or~~ and/or operational control.**"

Level of support



Rationale

- Providing a **clear requirement** for consolidation using a "shall" statement
- Emissions from **equity in non-controlled entities** are **now required** to be reported **under scope 3, Category 15**, rather than scope 1 or 2 (due to scope 3 reporting requirement)
- The **revised financial control approach definition** includes language that clarifies that equity in non-controlled entities are reported under scope 3, category 15

Text in **red** indicates deletions and **green** indicates new additions.

* Updated.

Item #1
Discussion

Require consolidation based on control

Feedback	Source	Secretariat response
1. Text becomes redundant once equity share is eliminated	Subgroup 2	This statement outlines the requirement for reporters to define their organizational boundaries . Without this requirement, reporters could potentially adopt other methods to define their boundaries. Therefore, it is necessary to use the overarching term “control” to ensure consistency and clarity .
2. Referring to “ control ” only could be confusing	Subgroup 2, TWG, ISB	Control is already a used and known overarching terminology in the Standard referring to financial and operational control. Suggestions to reframe the overarching term as “ the reporting entity ” instead of “consolidation based on control” is not viable as operational control boundaries could go beyond the reporting entity. However, financial control vs. the reporting entity use is evaluated under item #2.
3. Recommend that companies conduct a screening assessment to determine whether their financial control boundaries differ from their operational control boundaries to enable an informed choice	TWG	Proposed text to implement feedback: “ <i>[Organizations] [Companies] [Entities] should* conduct a screening assessment to evaluate whether, and to what extent, their organizational boundaries differ under the financial control and operational control approaches. The outcome of this assessment should inform a transparent and substantiated selection of the consolidation approach.</i> ” Note: Defining a transition period can help address potential feasibility challenges of conducting a screening assessment and/or switching consolidation approaches. This topic will be evaluated in future meetings. <i>Poll: Do you support adding a screening recommendation in the package?</i>



Do you have any questions or comments?

* Framing this as a recommendation instead of a requirement aims to prevent additional challenge on feasibility to implement.



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Item #2 Overview

Recommend financial control

Current text in Corporate Standard (ch. 3)

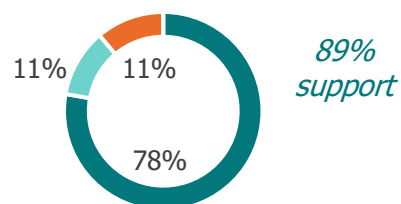
"When using the control approach to consolidate GHG emissions, companies **shall choose** between **either the operational control or financial control** criteria."

Proposed text as example

"Companies **should** apply the financial control consolidation approach **by** accounting for and reporting on ~~100% of~~ **all required GHG emissions** from **entities under financial control** (i.e., **included** in their consolidated financial statements)."

Level of support

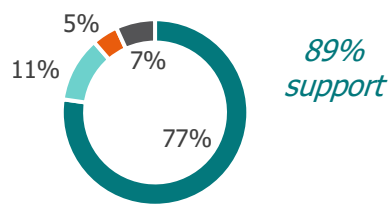
Subgroup 2:



- Yes, I strongly support
- Yes, support with minor edits
- No, I oppose
- Abstain

18 responses

TWG (updated)



- Yes, I fully support the item
- Yes, I support the item with minor edits
- No, I strongly oppose the item
- Abstain

44 responses

Rationale

- **Majority support** from Subgroup 2 and full TWG for the revised **financial control approach to be the preferred approach** **if** a preferred approach is defined
- Addresses the increasing need to **enhance comparability across companies** by recommending alignment of GHG emissions boundary with financial accounting
- Recommending an approach aims to **promote standardization without requiring a single approach** which could restrict the applicability of the standard
- **Supports interoperability** with key external programs (e.g., IFRS, ESRS) that require the reporting boundary to be aligned with financial statements (i.e., same reporting entity)

Item #2
Discussion

Recommend financial control

Feedback	Source	Secretariat response
1. Consider renaming the concept of financial control as the reporting entity/undertaking to fully align with some key external programs such as IFRS S1 and ESRS 1 Earlier feedback (pre-proposed package): Set "the reporting entity" as the primary step for defining organizational boundaries	Subgroup 2	1. Defining the primary step for setting organizational boundaries as following the reporting entity boundaries may inhibit completeness (e.g., exclusion of non-consolidated entities and contractual arrangements) in cases where operational control approach is applied (item #4). The current approach under IFRS S1 and S2 discloses only emissions that overlap between financial and operational control. This may significantly inhibit completeness when the two approaches diverge substantially. 2. Similarly, renaming the financial control concept as "the reporting entity" could be limiting when introducing the overarching requirement for consolidation based on control, which encompasses not only financial control (i.e., reporting entity) but also operational control. Starting with the reporting entity boundary may also inhibit completeness if the operational control approach is applied. Proposed solution: Adding a footnote to financial control text highlighting that it corresponds to "the reporting entity". <i>Discussion</i>
2. Why there is only reference to "GAAP", which is used in the US, and not to IFRS	TWG	Generally Accepted Accounting Principles (GAAP) is a general terminology used to refer to financial accounting frameworks including GAAPs used in the US and many other jurisdictions, as well as IFRS. The financial accounting standard used in the U.S. is referred to as U.S. GAAP. Explaining the revised financial control approach as GAAP-agnostic aims to indicate that it does not provide any rules specific to a certain financial accounting standard.
3. Emphasize that financial control is the recommended approach and not an equal option to choose instead of operational control	ISB	A 'should' statement is used to clarify that the financial control approach is the recommended approach, while a 'may' statement is used to provide the operational control approach as an available option for cases where relevant. <i>(To be discussed in more detail with item #4).</i>



Do you have any questions or comments?


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Item #3 Overview

Recommend add-on operational control where relevant *

Current text in Corporate Standard (ch. 3)

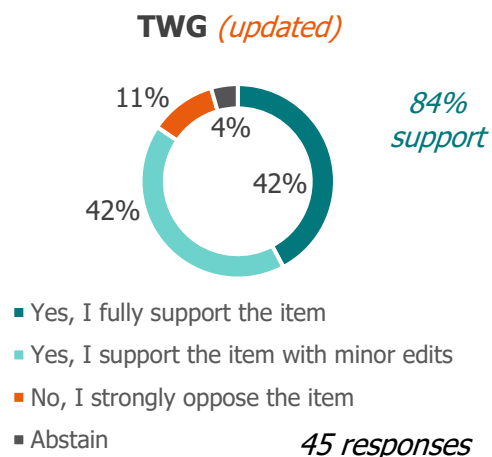
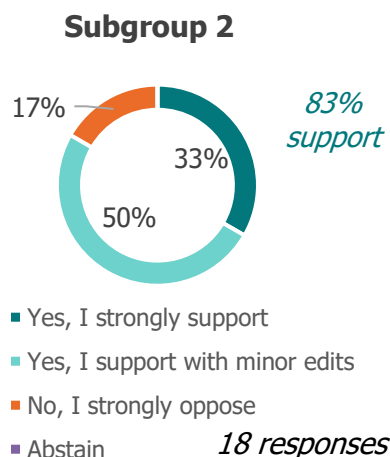
"When using the control approach to consolidate GHG emissions, companies **shall choose** between **either the operational control or financial control** criteria."

Proposed text as example

"Additionally, where relevant** companies **should separately** account for and report on ~~100% of all~~ **required** scope 1 and 2 emissions from entities, operations, and assets **under operational control that are not already included under financial control** (e.g., where financial control does not provide a complete/fair presentation of their GHG emissions)."

Level of support

Rationale



- Financial control and operational control boundaries **may diverge significantly** in some cases
- To ensure **complete emissions disclosure**, separate add-on reporting of emissions **outside the financial control boundary**—but associated with **operationally controlled entities or assets**—may be needed where excluding them would result in an **incomplete emissions profile** (based on completeness and relevance principles) and **inhibit informed decision-making**

Text in **red** indicates deletions and **green** indicates new additions.

* Operational control approach is **under revision** to **provide further clarity for consistent application** while maintaining its purpose.
 ** The text is moved to the beginning of the statement to enhance clarity. Alternative and more specific terminology could be "**sufficiently complete**" or "**fair presentation**".

Item #3
Discussion

Recommend add-on operational control where relevant

Feedback	Source	Secretariat response	Discussion/Poll questions
1. "Where relevant" needs to be defined and/or example cases could be provided	Subgroup 2, TWG	Further guidance on cases where the recommended add-on operational control approach may be relevant will be provided. Alternative terminology could be used such as complete presentation or fair presentation *	1. What are example cases where this recommendation applies? (<i>e.g., non-consolidated entities, leased assets, joint operations</i>) 2. What alternative terminology would you recommend? (<i>e.g., complete/fair presentation, other</i>) <i>Poll</i>

* **Complete presentation:** Could be defined based on the CS principle **"Completeness"**.

Fair presentation: Detailed definition available in **Draft Amended ESRS 1 Exposure Draft** paragraphs 16 to 19 and 21. "...a **complete, neutral and accurate** depiction of its **material** impacts,..."



Do you have any additional questions or comments?



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Item #3 Discussion

Recommend add-on operational control where relevant

Feedback	Source	Secretariat response	Discussion/Poll questions
2a. Should this recommendation apply to scope 1 and 2 emissions only, or should scope 3 emissions be included as well? 2b. Related topic: Clarify whether the add-on should be presented as a separate reporting recommendation or included in the total inventory with disaggregated disclosure	Secretariat	2a. TWG level of support (<i>updated</i>): split opinions (n=43) Scope 1 and 2 only: 42% Scope 3 as well: 42% Abstain: 16% Rationale to include scope 1 and 2 only: Avoid feasibility challenges associated with add-on scope 3 assessment & reporting Rationale to include scope 3 as well: Ensure organizational boundaries remain consistent throughout the disclosure, whether presented as a total inventory or as separate report -- 2b. Rationale to include in the total inventory: All emissions under control (whether financial control or operational control) will be captured in the inventory ➤ Example disaggregation: 1. Emissions under financial control only 2. Emissions under both financial and operational control 3. Emission under operational control only Rationale for separate disclosure: The total inventory will be aligned with financial statements, and the add-on information will aim to provide transparency for the user	3. Should the accounting for all controlled scope 1 and 2 emissions be prioritized to promote feasibility, or should organizational boundaries remain consistent and also encompass scope 3 emissions? <i>Poll</i> 4. Should emissions under operational control but not under financial control be recommended as a separate disclosure, or included in the total inventory with disaggregated disclosure? <i>Poll</i> 5. Would introducing reference to operational boundaries by referring to scopes help consolidation process or create confusion?



Do you have any additional questions or comments?

Further discussion on **distinction between organizational and operational boundaries** will take place later in the meeting evaluating entity vs asset level assessment.



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Item #3
Discussion contd.

Recommend add-on operational control where relevant

Feedback	Provider	Secretariat response	Discussion/Poll questions
3. Add-on separate reporting based on operational control in addition to financial control could be confusing – stakeholders give mixed feedback on an add-on and more complicated consolidation methods	TWG, ISB	- The proposed recommendation for reporters to conduct a screening assessment to evaluate organizational boundary differences between financial and operational control approaches aims to determine whether the add-on is needed to disclose complete emissions under control (<i>financial + operational</i>). - This recommendation applies only to reporters whose financial control and operational control boundaries differ significantly. - Key external programs (e.g., ESRs E1) introduced requirements around complex consolidation methods which have received mixed stakeholder feedback and are currently under revision. To avoid confusion, the revised text will include additional guidance and example cases, which will help support the reporters.	6. Do you have any additional suggestions to address this concern?



Do you have any additional questions or comments?



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Item #3
Discussion contd.

Recommend add-on operational control where relevant

Feedback	Provider	Secretariat response	Discussion/Poll questions
4. Clarify if the add-on separate reporting covers entities, operations, and/or assets, and clearly distinguish the organizational and operational boundary concepts <i>This topic is also related to feedback #2 listed under item #3 on earlier slide.</i>	Subgroup 2 TWG	The add-on reporting based on operational control aims to cover both entity level (e.g., non-consolidated entities) and asset level assessment (e.g., leased assets). Introducing an asset level assessment at the organizational boundary level may cause confusion; however, the current Appendix F (<i>on categorizing emissions from leased assets</i>) uses a similar approach by evaluating leased assets based on whether they fall within the organizational boundary, which is already known to the user. Operational boundary assessment, on the other hand, aims to clarify which scope the associated emissions fall under.	7. Do you agree that the add-on reporting should cover both entities and assets? <i>Poll</i> 8. Should leased assets be treated as an exception in organizational boundary setting, requiring asset-level assessment? 9. Does this additional recommendation—covering both entities and assets—affect the distinct purposes served by organizational and operational boundary setting? *
5. Clarify if the aim of the recommended operational control add-on goes beyond simply switching emissions from scope 3 to scope 1 and 2	TWG	The recommended add-on for operationally controlled emissions not included under financial control aims to maintain financial control as the primary basis while promoting more complete disclosure of all emissions under control (both financial and operational control). It is not aimed at merely switching emissions from scope 3 to scope 1 and 2 as there is no guarantee that all non-consolidated but operationally controlled emissions will be currently captured under scope 3.	Do you have any additional questions or comments related to this feedback?



Do you have any additional questions or comments?

* At the Full TWG, we will discuss whether to keep organizational and operational boundaries separate or merge them into one inventory/reporting boundary, as this is a cross-cutting topic for Subgroups 2 and 3.



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Item #4 Overview

Maintain operational control as [standalone] **[separate]** option *

Current text in Corporate Standard (ch. 3)

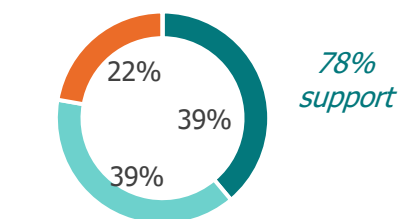
"When using the control approach to consolidate GHG emissions, companies **shall choose** between **either the operational control or financial control** criteria."

Proposed text as example

"Companies **may** apply the operational control consolidation approach **in lieu of financial control****, accounting for and reporting on ~~100% of~~ **all required GHG** emissions from entities, operations, and assets **under operational control.**"

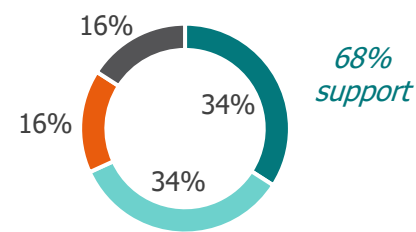
Level of support

Subgroup 2



- Yes, I strongly support
 - Yes, I support with minor edits
 - No, I strongly oppose
 - Abstain
- 18 responses

TWG (updated)



- Yes, I fully support the item
 - Yes, I support the item with minor edits
 - No, I strongly oppose the item
 - Abstain
- 44 responses

Rationale

- **Maintaining optionality** in consolidation approaches is:
 - **a priority to support diverse applications of the standard** in line with the revised draft **objectives statement*****
 - Necessary to **support interoperability** with external programs
- Allows companies the option to **choose the method that best aligns with their reporting objectives while recommending a best-practice approach**

* Operational control approach is **under revision** to **provide further clarity for consistent application** while maintaining its purpose

** The situations where operational control may be applied in lieu of financial control will be discussed further and **specified in guidance**.

*** Please see the revised draft objectives statement in the Appendix.

Item #4
Discussion

Maintain operational control as [standalone] **[separate] option**

Feedback	Source	Secretariat response	Discussion questions
1. Provide example cases where applying only operational control could be relevant	Subgroup 2 TWG	Further guidance on cases where the operational control approach may be relevant will be provided. Example cases suggested by TWG members: - Complex organizational structures where the switch between OC and FC will not be feasible and won't impact the emissions profile significantly - Reporting objective is internal decision-making better met through operational control Note: Proposed pre-screening recommendation aims to guide reporters in determining whether the recommended approach or the operational control approach alone better aligns with their organizational structure.	1. What are example cases where adopting operational control only would be relevant?
2. May statements are often not adopted by the user who opt for shall and should statements. Additionally, it is challenging to justify following a may statement to the assurance provider	Subgroup 2 TWG	The aim of using a 'may instead of 'should' is to encourage reporters to adopt financial control; therefore, this feedback aligns with the intent of this item. Additional guidance on example cases where this option apply will help reporters justify their choice. Some examples could include; mandatory program, and or key stakeholder requiring/requesting operational control, alignment with internal decision-making process by applying operational control	2. Do you have any additional suggestions to address this concern ?



Do you have any additional questions or comments?



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Item #4
Discussion

Maintain operational control as standalone option

Feedback	Source	Secretariat response	Discussion questions
3. Operational control as a standalone/available option is less preferable, as the aim is to promote the financial control approach. However, it can be retained since it is framed as a 'may' statement	ISB	Further guidance on cases where the recommended add-on operational control approach may be relevant will be provided.	N/A

Item #5 Overview

Disclosure requirement on rationale for the approach applied

Current text in Corporate Standard (ch. 9)

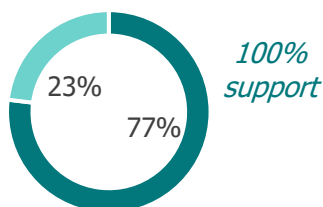
"Required information: An outline of the organizational boundaries chosen, including the chosen consolidation approach."

Proposed text as example*

"Companies **who choose not to apply recommendations #2 and #3** (i.e., consolidation based on financial control, additional reporting under operational control, respectively) **shall disclose their rationale for choosing a different approach.**"

Level of support

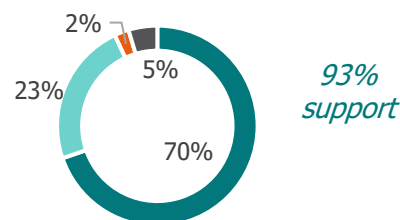
Subgroup 2



- Fully support
- Support with minor edits

13 responses

TWG (updated)



- Yes, I fully support the item
- Yes, I support the item with minor edits
- No, I strongly oppose the item
- Abstain

43 responses

Rationale

- **Promotes standardization** by requiring a rationale when the recommended best practice approach is not applied
- **Promotes transparency to users** of GHG data

* Please note that an overarching disclosure requirement for reporters to disclose the applied consolidation approach will be included in the text.

Item #5
Discussion

Disclosure requirement on rationale for the approach applied

Feedback	Source	Secretariat response	Discussion/Poll questions
1. Language should make it clear that financial control and operational control are not equal options. Reporters must justify any decision not to adopt the recommended approach to prevent this being used as a loophole for applying other consolidation methods.	Subgroup 2 TWG	'Should' statements applying to items #2 and #3 specify financial control + an operational control add-on as a recommended option compared to operational control as a standalone/separate approach. As noted in item #4 (slide 28), the term "where relevant" will be supported by guidance and example cases to clarify when the operational control approach may apply. Proposed text edits: "<i>Companies who choose not to apply recommendations #2 and #3 (i.e., consolidation based on financial control, additional reporting under operational control, respectively) shall disclose their rationale for choosing a different the applied approach. The rationale should include the outcomes of the screening assessment comparing organizational boundaries under financial and operational control.</i>"	1. Do you support the proposed text edits? <i>Poll</i> 2. Do you have any additional suggestions to address this concern?
2. Consider requiring disclosure on whether the same consolidation approach is applied at both parent and subsidiary levels	ISB	Current text in the Corporate Standard: "Once a corporate consolidation policy has been selected, it shall be applied to all levels of the organization."	3. Should the current approach be revisited to provide flexibility for applying different consolidation approaches at different levels of the organization? <i>Poll</i> 4. Do you have any additional comments related to this feedback?



Do you have any additional questions or comments?



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Subgroup 2, phase 1: Package of proposed revisions (take stock of minor revisions)

Package of updates to requirements/recommendations for setting organizational boundaries

Package item #	Example text	Notes
1. <i>Require consolidation based on control</i>	Companies shall account for and report 100 percent of their consolidated GHG data emissions according to [the] [a] based on control approach as presented below. Control is can be defined in terms of financial control or and/or operational control.	Equity share approach eliminated
2. <i>Recommend financial control</i>	Companies should apply the financial control consolidation approach by accounting for and reporting on 100% of all required GHG emissions from entities under financial control (i.e., included in their consolidated financial statements).	Financial control revised to align with financial accounting with a GAAP-agnostic principle-based definition
3. <i>Recommend add-on reporting under operational control where relevant</i>	Additionally, where relevant companies should separately account for and report on 100% of all required scope 1 and 2 emissions from entities, operations, and assets under operational control that are not already included under financial control (e.g., where financial control does not provide a complete/fair presentation of their GHG emissions).	Operational control under revision to provide further clarity for consistent application while maintaining its purpose
4. <i>Maintain operational control as a standalone/separate option where relevant</i>	Companies may apply the operational control consolidation approach in lieu of financial control , accounting for and reporting on 100% of all required GHG emissions from entities, operations, and assets under operational control.	
5. <i>Disclosure requirement on rationale for the approach applied</i>	Companies who choose not to apply recommendations #2 and #3 (i.e., consolidation based on financial control, additional reporting under operational control, respectively) shall disclose their rationale for choosing a different approach.	Providing flexibility for reporters while promoting transparency for the user of GHG data

- Text in **red** indicates deletions and **green** indicates new additions.

- Proposed text addition **recommending reporters to do a screening** (slide 17) will potentially be added to the text following Subgroup 2 input.

Other feedback

Overall proposed package

Feedback	Source	Secretariat response	Discussion/poll questions
1. Consider simplifying the overall language	Subgroup 2, TWG	The proposed example text is developed using the shall, should, may statements to be consistent with the overall language used in the Corporate Standard. Further simplification, especially on item #3 and #4, may be made following today's discussion and further full TWG member feedback.	1. What additional edits would you suggest to make the proposed example text simpler? <i>Please type in the chat or share your suggested/detailed edits via the latest full TWG feedback survey (still active)</i>

Other feedback

Overall proposed package

Feedback	Source	Secretariat response	Discussion / poll questions
2. Further evaluate whether to allow jurisdictionally required consolidation approach to be used if it is incompatible with the package provided in the Corporate Standard (<i>jurisdictional relief</i>) Initial proposed language (now excluded from the package): "Companies who are subject to jurisdictional requirements that are incompatible with the above may apply jurisdictional requirements for setting organizational boundaries."	Subgroup 2 TWG	Subgroup 2 level of support: <i>Majority opposition</i> TWG level of support (<i>updated</i>): <i>Split opinions</i> Pros of a jurisdictional relief: - Ensure interoperability with most external programs, except where equity share is allowed/required - Allow flexibility for both programs and reporters Cons: - External programs may not follow the same principles, which could lead to inconsistent consolidation approaches and further inhibit comparability; Could be used as a wildcard or loophole by the reporters - GHG Protocol should take the lead in defining best practice and available options, with jurisdictions following suit	2. Do you agree with the pros and cons listed? 3. Do you agree with the Subgroup 2 outcome that jurisdictional relief should <u>not</u> be included in the package? <i>Poll</i>

Other feedback

Overall proposed package

Feedback	Source	Secretariat response
3. Additionally, reconsider whether the wording around “ 100% of emissions ” is consistent with the revisions to justifiable exclusions (e.g., 1% exclusion for scope 1 and 2, and 5% for scope 3)	TWG	Proposed text edit: Replacing the reference to “100%” as “ all required ” in the phrase “ <i>accounting for and reporting on 100% of emissions</i> ” used in multiple items of the package. The purpose of this edit is to avoid conflicting language with the revised requirements on justifiable exclusions . <i>Discussion</i>

Full current text vs. consolidated proposed text

Current text in the Corporate Standard (chapter 3)

Example text for the proposed package

"Companies **shall** account for and report their consolidated GHG data according to **either the equity share or control approach** as presented below." (page 17)



Companies **shall** account for and report **their** consolidated GHG **emissions based on control**. Control **can be** defined in terms of financial control and/or operational control."

Item #1

"When using the control approach to consolidate GHG emissions, companies **shall choose** between **either the operational control or financial control** criteria." (page 17)



"Companies **should** apply the financial control consolidation approach by accounting for and reporting on **all required GHG** emissions from **entities under financial control** (i.e., **included** in their consolidated financial statements)."

"Additionally, where relevant* companies **should separately** account for and report on **all required** scope 1 and 2 emissions from entities, operations, and assets **under operational control that are not already included under financial control** (e.g., where financial control does not provide a complete/fair presentation of their GHG emissions)."

"Companies **may** apply the operational control consolidation approach **in lieu of financial control****, accounting for and reporting on **all required GHG** emissions from entities, operations, and assets **under operational control**."

Item #2

Item #3

Item #4

"**Required information:** An outline of the organizational boundaries chosen, including the chosen consolidation approach." (page 63)



"Companies **who choose not to apply recommendations #2 and #3** (i.e., consolidation based on financial control, additional reporting under operational control, respectively) **shall disclose their rationale for choosing a different approach**."

Item #5

* Alternative and more specific terminology could be "sufficiently complete" or "fair presentation".

** The situations where operational control may be applied in lieu of financial control will be discussed further and **specified in guidance**.

Discussion & Poll: Proposed package for consolidation



Group Discussion

Question:

Do you have any **other questions or comments about the proposed package** that have not yet been addressed?

1. Require consolidation based on control

2. Recommend financial control

3. Recommend additional reporting under operational control where relevant

4. Maintain operational control as a standalone/separate option where relevant

5. Disclosure requirement on rationale for choosing the approach applied

Agenda

Introduction and housekeeping	10 minutes
Proposed package for consolidation	80 minutes
Operational control approach revision	20 minutes
Wrap-up and next steps	10 minutes



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Initial proposed text: Operational control definition (Meeting 9)

Current definition

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

"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."

Initial proposed revision

based on Subgroup 2 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."*

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

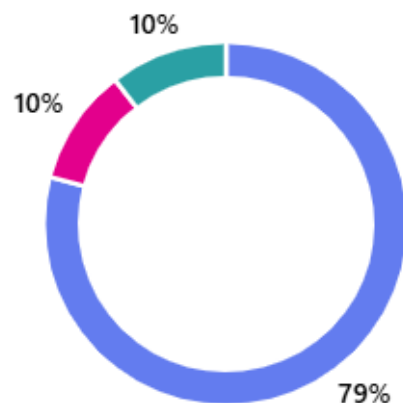
Text in **green** indicates major changes from the current definition.

* Use of the terminology "entity" is subject to further internal assessment/alignment.

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 is provided in the Appendix

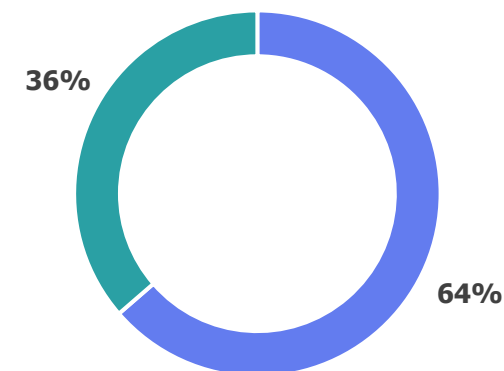
- Yes, I am comfortable with this outcome
- No, I have strong opposition to this outcome
- Abstain

47 responses

ISB support (pulse check)

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)



- Yes, fully support the direction
- Yes, support with minor edits

11 responses

Revised operational control text (Meeting 9)

Initial proposed text

based on Subgroup 2 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."

Revised proposed text *

based on full TWG and ISB input

*"An [**organization**/entity/**company**] has operational control over an [operation, **entity or a contractual arrangement**] if ~~it, or one of its subsidiaries~~; the former **directly or indirectly** 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.*

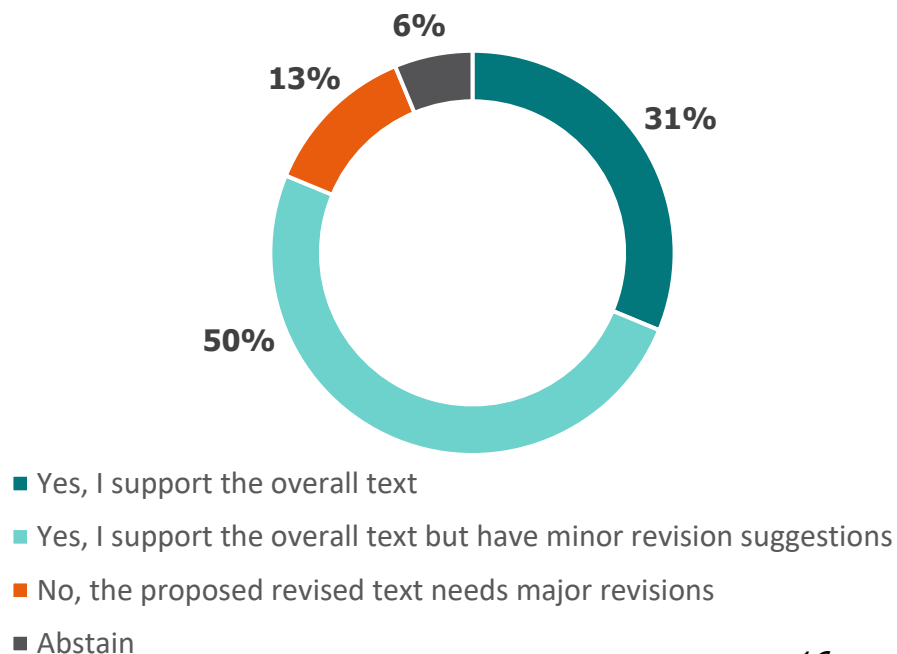
*In arrangements involving multiple parties, the entity with the greatest power or practical ability to direct or implement policies, processes, **or** day-to-day activities ~~or emissions-related decisions~~ shall be considered to have operational control."*

Text in [brackets] include alternative language, text in **green** indicates latest additions, and **red** indicates deletions. **Green** text in bold indicates the latest edits.

Subgroup 2 follow-up survey outcomes: Level of support for the revised operational control definition

Subgroup 2 support (post meeting survey)

Majority support for the revised text **defining operational control**



16 responses

Subgroup 2 feedback

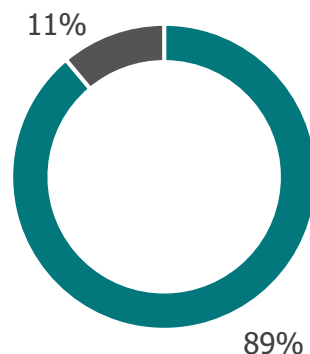
- **Suggested minor text edits**
- **Defining operational control when joint operational control is in place:** In **joint control arrangements**, each party should account for their **share of GHG emissions** from the operation, entity, or asset. To **clarify ownership and responsibility**, parties may establish contractual agreements outlining how emissions ownership and management duties are divided.
- **Key guidance for multi-party arrangements:** Essential to provide **criteria to identify which party has the greatest power/ability** to influence operations. For example, in a landlord/tenant setup, the party that holds the contract with the energy supplier may be considered to have the most influence.

Subgroup 2 follow-up survey outcome on challenges of operational control concept

Subgroup 2 level of support on **challenges associated with the operational control concept**:

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

Majority agreement for allowing some degree of subjectivity while defining operational control

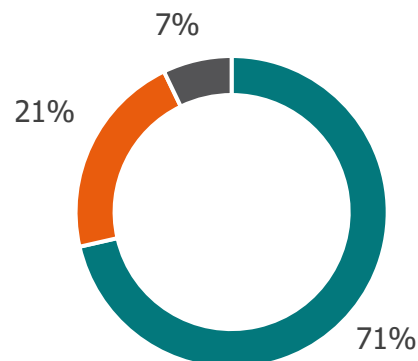


- Yes - I support allowing some degree of subjectivity, provided it is addressed through clear guidance and indicators to the extent feasible
- Abstain

18 responses

2. Does operational control **apply at the entity level**?

Majority agreement on operational control being applicable at the entity level

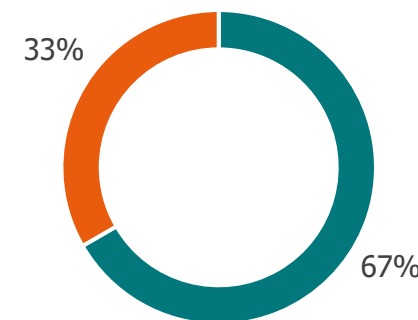


- Yes, operational control can apply at the entity level
- No, operational control cannot apply at the entity level
- Abstain

14 responses

3. Focus on control/impact on GHG emissions

Majority support for considering control over GHG emissions while defining operational control



- Yes, I support considering the control/impact on GHG emissions when defining operational control
- No, I oppose focusing the definition of operational control on control/impact on GHG emissions

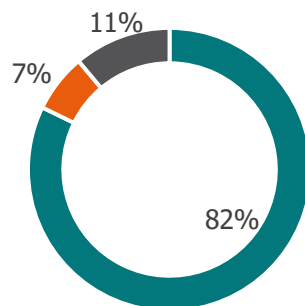
15 responses

Full TWG views on challenges of operational control concept *(updated)*

Full TWG level of support on **challenges associated with the operational control concept**:

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

Majority agreement for allowing some degree of subjectivity while defining operational control

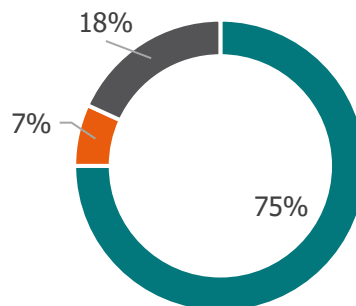


■ Yes, I fully agree
■ No, I strongly disagree
■ Abstain

45 responses

2. Does operational control **apply at the entity level?**

Majority agreement on operational control being applicable at the entity level

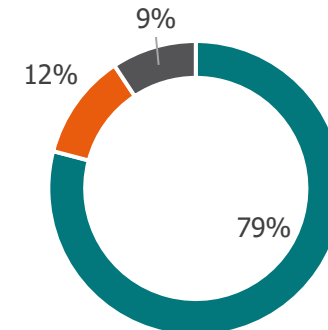


■ Yes, I fully agree
■ No, I strongly disagree
■ Abstain

44 responses

3. Focus on control/impact on GHG emissions

Majority agreement for considering control over GHG emissions while defining operational control



■ Yes, I fully agree
■ No, I strongly disagree
■ Abstain

43 responses



Do you have any questions or comments on these outcomes?



Poll question: Do you agree with these outcomes?



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Proposed structure for the operational control approach text

Broad and inclusive definition

(current working draft text paragraph 1 on slide 39)

Short principles-based clarification for complex and multi-party arrangements

(current working draft text paragraph 2 on slide 39)

Specific reporting requirements in addition to the overarching requirement on disclosing the rationale for choosing the approach

(e.g., judgement applied, how the boundary differs from financial control)

Definition of key terms (TBD)

Key guidance

(e.g., categorization of emissions from co-locations and leased assets)



Do you have any questions or comments
on the proposed structure?

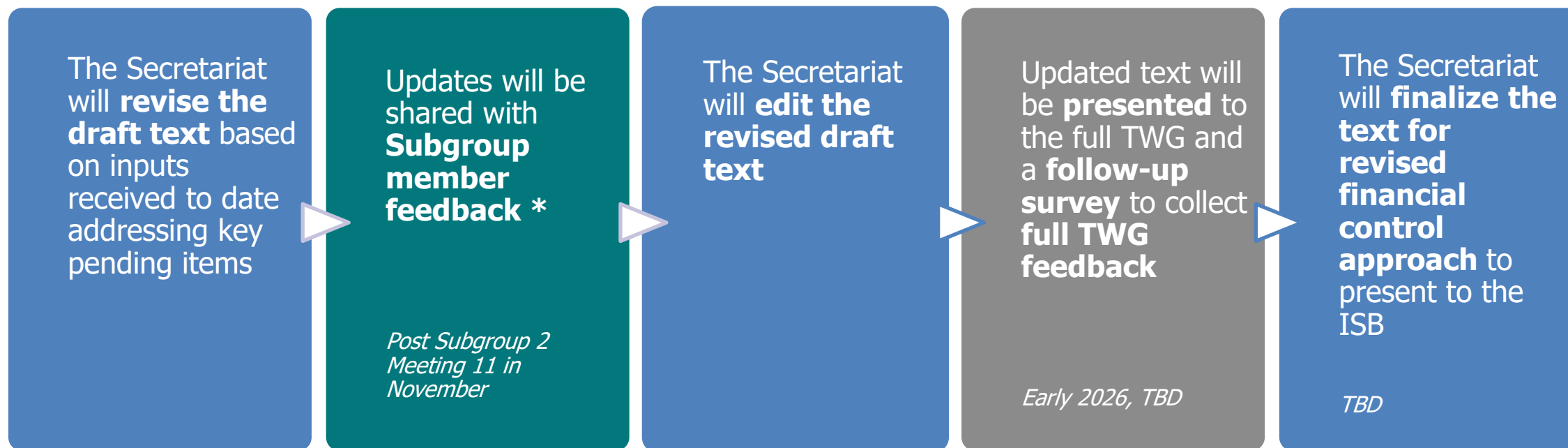


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Next steps for revising the operational control text



* The revised draft text will be presented along with example cases for Subgroup 2 members to review and test its applicability.

The **core text** defining operational control (current working draft) will be presented to the ISB in November as part of the decision vote on the consolidation recommendation.

Agenda

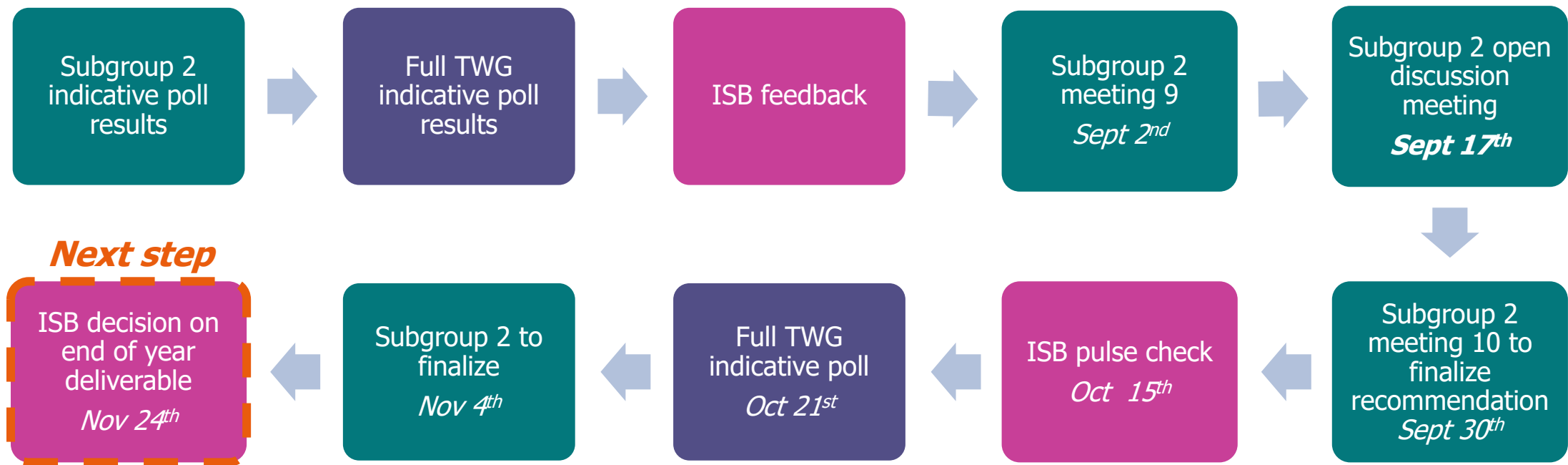
Introduction and housekeeping	10 minutes
Proposed package for consolidation	80 minutes
Operational control approach revision	20 minutes
Wrap-up and next steps	10 minutes



GREENHOUSE GAS PROTOCOL

Upcoming Schedule

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



The preliminary outcomes will be presented to the ISB in November for decision

Legend:

Subgroup 2

Full TWG

ISB



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Next steps

Items to be shared by GHG Protocol Secretariat

- Final slides, minutes, and recording from this meeting
- Feedback survey
- Draft text review for proposed approach for consolidation

TWG member action items

Respond to meeting follow up survey (*deadline to be confirmed*)

Next meeting date

- **Full TWG** meeting on Tuesday, January 13th
- **Subgroup 2** meeting on Tuesday, February 3rd

Thank you!

Hande Baybar, baybar@wbcsd.org

Iain Hunt, iain.hunt@wri.org

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



Appendix



GREENHOUSE GAS PROTOCOL



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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.

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 entities¹ 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 <u>when</u> "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 entities² in financial statements

- "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)
- "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

- 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**

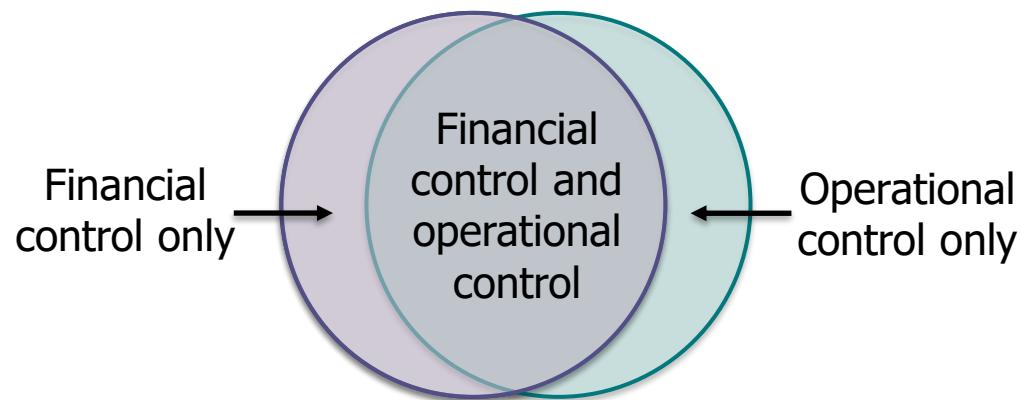
GHG Protocol: Defining organizational boundaries to align with consolidated financial statements aligns with **proposed updates to financial control approach** (provisionally) agreed upon by Corporate Standard TWG and ISB

Application of operational control

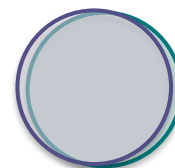
- **IFRS S2** allows **choice of consolidation approaches** in Corporate Standard (2004), including operational control¹
- **ESRS E1** requires an **additional disclosure** of scope 1 and 2 emissions from entities under operational control not part of the consolidated group (i.e., **layered requirement** 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

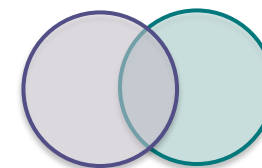
Scenarios to demonstrate the application of options under consideration



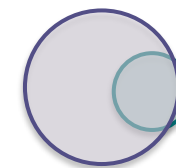
Case 1
Financial and operational control mostly overlap



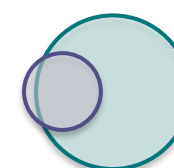
Case 2
Financial and operational control do not overlap



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

Updating consolidation approaches: key takeaways

Takeaway #1:

Financial control (align with financial consolidation) should be the **primary basis** for defining organizational boundaries for GHG inventories

- Establishing a **common basis** promotes **standardization**, more **consistent reporting**, and **more comparable** GHG information
- Basis in financial consolidation **supports key uses of GHG data** by external stakeholders (i.e., investors) and **regulatory reporting programs**

Takeaway #2:

Consolidation/reporting based on **operational control** (pending final revisions) **remains relevant** and should have a role to play in some cases

- **Financial control may not always provide a fair presentation** of an entity's emissions
- Entities have different objectives and needs for developing their GHG inventories (e.g., **internal purposes** to inform emission reduction efforts or other voluntary purposes) which may be **best served by operational control**

Rationale behind the proposed consolidation package

Proposed package based on *control*:

1. **Require** consolidation based on control
2. **Recommend** financial control
3. **Recommend operational control add-on**: Recommend separate reporting of emissions that are **under operational control but not financial control**, *if financial control alone fails to provide complete emissions profile*
4. **Maintain operational control** as a stand-alone option that companies may apply *if the recommended option does not align with their reporting objectives*

- Providing optionality for consolidation is a priority to **support diverse applications of the standard** in line with the **draft revised objectives statement***
- Increasing need to **enhance comparability** across companies and **promote standardization**
- **Recommend a best-practice approach** for companies to **disclose a complete picture of GHG emissions to maximize transparency and informed climate action** while allowing companies the **flexibility** to choose the method that best aligns with their reporting objectives
- Maintain **interoperability** with external programs
- **Majority support** from Subgroup 2 and full TWG for the **revised financial control approach to be the preferred approach**

This key feedback was reflected in the level of support for the options presented, helping to shape the proposed consolidation package.

How the proposed option for consolidation works in practice

	Consolidated entities	Non-consolidated entities and contractual arrangements
Under operational control of reporting entity	Boundary A <i>Shall</i>	Boundary C <i>Should</i> (as separate or disaggregated add-on)
Not under operational control of entity	Boundary B <i>Should</i>	Boundary D (Reported under Scope 3, Category 15)

APPROACH

BOUNDARY

Recommended best practice approach: Financial control (<i>should</i>) with operational control add-on (<i>should</i> , where relevant)	(A + B) + C as an add-on, <i>where relevant</i>
Minimum recommended approach: Financial control only (<i>should</i>)	A + B
Optional approach: Operational control only (<i>may</i> , where relevant)	A + C

Mapping external program requirements to proposed approach

External program requirements

Proposed ("best practice") approach

Both **IFRS S1** and **ESRS 1** require boundaries for sustainability statement to be the **same as for financial statements**.



Aligns with revised definition of **financial control** consolidation approach (recommended step 1 under "best practice" approach).

IFRS S2 allows choice between **equity share¹ and control** and requires **disaggregation of scope 1 and 2 emissions** between consolidated group and other investees.



Additional recommendation to **separately report emissions under operational control** from entities outside of consolidated group is interoperable with **IFRS'** disaggregated reporting requirement.

ESRS E1 (v1.6 Exposure Draft) requires organizational boundary to align with that for financial statements (GHG Protocol's financial control approach)



Aligns with revised definition of **financial control** consolidation approach (recommended under "best practice approach").

ESRS E1 (v1.6 Exposure Draft) requires separate full scope 1 and 2 reporting under operational control under **fair presentation principle**



"Best practice" approach recommends **separate reporting under operational control²**

1. Equity share approach to be eliminated, but emissions from investees not under control must be reported under scope 3, category 15.

2. Proposed "best practice" approach recommends separate reporting of emissions under operational control but *not* financial control, whereas proposed requirement from ESRS E1 v1.6 Exposure Draft entails reporting all emissions under operational control where relevant.

GHG Protocol decision-making criteria analysis of the proposed approach

Current approach for consolidation in the Corporate Standard and the proposed package for consolidation are analyzed based on the decision-making criteria. It combines the **strength option 3** provides for aligning with GHG Protocol principles.

Criterion	Current approach Current approach to consolidation in Corporate Standard Equity share/Financial control/Operational control	Proposed approach Financial control as recommended option with separate add-on operational control, or stand-alone operational control where relevant
Scientific integrity	N/A	N/A
GHG accounting and reporting principles	Pros: Promotes relevance Cons: May inhibit completeness, transparency, and consistent reporting across companies	Pros: Promotes relevance, completeness, transparency and consistent reporting across companies
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: Balancing flexibility with a standardized approach supports better decision-making by ensuring a complete emissions profile. Cons: May inhibit decision-making if the chosen approach 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 under-counting or not counting of emissions; inhibits comparability	Pros: Promotes greater standardization (financial control as primary basis); Eliminates risk of under-counting or not counting of emissions; allows for disclosure of data points compliant with external program requirements Cons: Continued coordination is needed to maintain interoperability with external programs (e.g., IFRS)
Feasibility to implement	Pros: Status quo Cons: Ambiguities in defining operational control	Pros: May help facilitate application of financial control at entity level and operational control at asset level; allowing stand-alone use of financial and operational control where relevant can ease implementation Cons: Recommended "best practice" approach is complex and may pose feasibility challenges

Subgroup 1

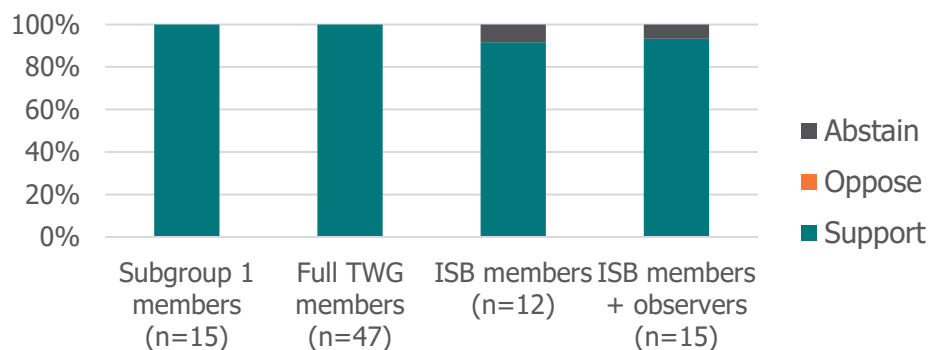
Corporate Standard revised **objectives statement**

Draft objectives statement

The primary goal of the Corporate Standard is to **help companies develop and maintain a relevant, complete, consistent, accurate, and transparent GHG inventory**, using standardized approaches and principles in order to:

- Provide companies with **information that can be used to develop an effective strategy to manage and reduce GHG emissions** and track implementation progress
- Support more **transparent and comparable reporting** of GHG emissions according to a standardized set of accounting and reporting requirements

Level of support



Rationale

- **Incremental updates** to current objectives listed in Corporate Standard with updated format to **highlight a primary goal** in connection with key uses of GHG information supported
- Responds to stakeholder requests for more **comparable GHG information**

Implications

- Supporting **more comparable reporting of GHG information** recognized as an objective

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*)

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