Corporate Standard Meeting Minutes

Subgroup 2, Meeting #5

Date: 25 March 2025

Time: 09:00 – 11:00 EDT / 14:00 – 16:00 CET

Location: Virtual

Attendees

Technical Working Group Members

1. Christina Abbott, KPMG
2. John Altomonte, WWF-Philippines
3. Mónica Oleo Domínguez, Redeia
4. Kia Hong Goh, Nanyang Technological University, Singapore
5. Anna Grochowska, EFRAG
6. Gijs Kamperman, TenneT
7. Eric Knachel, Deloitte
8. Vincent Kong, Sun Hung Kai Properties
9. Bonar Laureto, EY Philippines
10. Andy Law, Hong Kong Institute of Certified Public Accountants
11. Trinity Makava Ncube, Trinity Consultants
12. Claire McCarthy, We Mean Business Coalition
13. Barbara Porco, Fordham University
14. Sheila Scott, Jacobs
15. Alisa Shumm, PwC
16. Margaret Weidner, Independence Point Advisors

Guests

None present

GHG Protocol Secretariat

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

Documents referenced

1. Slides for the Corporate Standard TWG Subgroup 2 meeting on 25 March 2025

Item	Topic and Summary	Outcomes
1	***Introduction and housekeeping*** The Secretariat welcomed TWG members to the fifth meeting of Subgroup 2. The Secretariat provided a quick reminder on TWG housekeeping items, presented the objectives and the agenda for the meeting, and provided a brief recap of progress made to date. The Secretariat welcomed new TWG members.	The Secretariat will inform members about any changes to the Subgroup 2 meeting schedule in the upcoming period as soon as they are confirmed.
2	***Evaluating full TWG outcomes on alignment with financial accounting*** The Secretariat provided a brief recap of options evaluated for revising the financial control approach to align with financial accounting. The Secretariat shared a summary of poll results and feedback survey outcomes on the preliminary outcome of revising the financial control approach to align with financial accounting. A volunteer subgroup that is working on proposed edits to revise the financial control approach provided a brief status update.	TWG recommendation to revise the financial control approach to align with financial accounting will be presented to the ISB for a decision on April 28th, 2025.
3	***Evaluating full TWG outcomes on optionality in consolidation approaches*** The Secretariat provided a brief recap on the evaluation of current consolidation approaches in the Corporate Standard and options under consideration for optionality in consolidation approaches. The Secretariat shared related poll results and feedback survey outcomes. The Secretariat presented the reframed options for maintaining optionality in consolidation approaches. TWG members provided further input via plenary discussion. Following the discussion, the Secretariat conducted indicative polls to gauge TWG members' opinions.	An indicative poll found strong *majority support* for maintaining optionality in consolidation approaches in the Corporate Standard while specifying a preferred/recommended consolidation approach. An indicative poll found *split opinions* on how the preferred/recommended approach should be operationalized (i.e., open to all reporters with a *should* statement or required for specific reporters with a *shall* statement). An indicative poll found *unanimous support* for specifying the revised financial control approach as the preferred/recommended consolidation approach in the Corporate Standard. These directional updates will be presented to the ISB for information on April 28th, 2025.
4	***Wrap-up and next steps*** The Secretariat shared next steps including the next Subgroup 2 meeting scheduled for April 22nd, 2025.	The Secretariat will share meeting materials. Subgroup 2 phase 1 preliminary outcome on alignment with financial accounting and directional updates on optionality in consolidation approaches will be presented to the ISB on April 28th, 2025. The next meeting of Subgroup 2 is rescheduled for April 22nd.

Summary of discussion and outcomes

1. Introduction and housekeeping

- The Secretariat welcomed TWG members to the fifth meeting of Subgroup 2. The Secretariat provided a quick reminder on TWG housekeeping items, welcomed new TWG members, presented the objectives and the agenda for the meeting, and provided a brief recap of progress made to date (slides 1-13).

Summary of discussion

- The Secretariat presented an overview of the upcoming schedule for Subgroup 2 and the plan to take preliminary outputs from the full TWG back to the Subgroup and then to the Independent Standards Board (ISB). The Secretariat noted that shifting the dates of upcoming subgroup meetings in May is being considered. The Secretariat will inform subgroup members of any changes if and when they are confirmed.
- New TWG members of Subgroup 2 were welcomed and invited to introduce themselves.

Outcomes (e.g. recommendations, options)

- The Secretariat will inform members about any changes to the Subgroup 2 meeting schedule as soon as they are confirmed.

2. Evaluating full TWG outcomes on alignment with financial accounting

- The Secretariat provided a brief recap of options evaluated for revising the financial control approach to align with financial accounting. The Secretariat shared a summary of poll results and feedback survey outcomes on the preliminary outcome of revising the financial control approach to align with financial accounting (slides 14-19).
- A volunteer subgroup that is working on proposed edits to revise the financial control approach provided a brief status update (slides 20-22).

Summary of discussion

- The Secretariat provided an overview of indicative poll and full TWG survey outcomes on the following preliminary outcome: Revise the financial control approach to align with financial accounting by requiring the companies that choose the financial control approach to apply the same consolidation model as their financial disclosures. The full TWG feedback survey found *unanimous support* for this preliminary outcome.
- A volunteer group formed by a subset of Subgroup 2 members is working on proposed edits to revise the financial control approach. This volunteer group provided a brief status update including the draft language, question to consider, and parking lot items to be addressed later on. The group also provided a brief comparison of the current and proposed revised definition of financial control.
    - One member highlighted the complexity of defining control and suggested that despite the fact that there are many instances where a company both owns and controls an asset, there are also exceptions where: 1. A company owns an asset but does not operate it, 2. A company operates an asset owned by another party, or 3. A company has partial ownership of the asset.
    - Another member suggested that IFRS no longer has proportional consolidation and added that under a joint operation, parents only account for the operation they have control over, instead of proportional accounting.
        - Another member responded by saying that this recent IFRS update indicates a change in rules from percentage-based accounting to physical accounting allocation. They suggested that this change is a great example of why the requirements of consolidation should match with the financial accounting framework used by the

company rather than specifying rules to determine financial control in the Corporate Standard.

Outcomes (e.g. recommendations, options)

- TWG recommendation to revise the financial control approach to align with financial accounting will be presented to the ISB for a decision on April 28th, 2025.

3. Evaluating full TWG outcomes on optionality in consolidation approaches

- The Secretariat provided a brief recap on the evaluation of current consolidation approaches in the Corporate Standard and options under consideration for optionality in consolidation approaches. The Secretariat shared related poll results and feedback survey outcomes (slides 23-31).
- The Secretariat presented the reframed options for maintaining optionality in consolidation approaches including their analysis based on the GHG Protocol decision-making criteria. TWG members provided further input via plenary discussion. Following the discussion, the Secretariat conducted indicative polls to gauge TWG members' opinions on how optionality in consolidation approaches should be maintained (slides 32-34).

Summary of discussion

- The Secretariat shared feedback survey results from the full TWG on the initial support for eliminating the equity share approach. ***POST MEETING UPDATE****: Only 1 member indicated strong opposition to this outcome. However, it was confirmed that this was an error while responding the survey and the respondent confirmed they do support this outcome. The slides were updated accordingly.*
- The Secretariat shared feedback survey results from the full TWG on maintaining optionality in consolidation approaches. ***POST MEETING UPDATE****: 2 members indicated strong opposition to this outcome. However, it was confirmed that one of these responses was an error and the respondent confirmed they do support this outcome. The slides were updated accordingly.*
    - One member noted that the initial recommendation on maintaining optionality should be revisited after both the financial and operational control approaches are revised.
        - The Secretariat confirmed that this is a top-down analysis on maintaining optionality based on the objectives and uses of the Corporate Standard and once both approaches are revised, the recommendation will be revisited to incorporate a bottom-up evaluation. The Secretariat added that, this top-down, initial analysis is needed to justify moving forward with detailed updates to the operational control approach.
        - Another member supported this comment and suggested that optionality in consolidation approaches can be designed in a way that is interoperable with mandatory frameworks and can clarify the operationalization for complex contractual arrangements. However, they added that once the details are laid out, the decision to maintain optionality should be reconfirmed to ensure it is fit for purpose. Another member agreed.
        - One member also supported this comment but added that certain types of structures (e.g., asset managers, general partners, parties with veto rights) will result in differences between operational control and financial control. They noted that there is therefore a reason to keep the optionality. They added that the high adoption rate of operational control should be kept in mind while finalizing the recommendation on whether to maintain or remove optionality in consolidation approaches.
    - One member suggested that the layered approach, initially considered as a required approach, could be reconsidered in the context of optionality. They added that a "building blocks" approach consisting of both the financial and operational control approaches can be applied. They suggested the following example: The company *should/shall* use the financial control approach. In certain cases, the company *may*, in addition, account for and report GHG emissions from sites, assets, and entities under operational control, over which it does

not have financial control. They highlighted that this approach can address the potential significant overlap between financial and operational control.

    - One member asked if the suggested "building blocks" option could be evaluated under a preferred/recommended approach structure.
    - The Secretariat confirmed that this option can be further evaluated.

  - The Secretariat welcomed comments on the following rationale proposed by a TWG member for opposition to maintaining optionality: "Optionality is misused by companies to understate their GHG emissions."
    - One member suggested that removing optionality can result in a disconnect with external programs that provide optionality in consolidation approaches.
    - Another member suggested that maintaining optionality could pose a risk for interoperability with external programs requiring integration (of the same group of entities) with financial statements. They added that this specific use case should be weighed against other use cases while further evaluating optionality in consolidation approaches.
    - One member suggested that maintaining optionality in consolidation approaches further inhibits comparability between different companies' inventories. They added that maintaining optionality prevents the ability to aggregate corporate-level GHG data at the sectoral or national level.
      - *The Secretariat response post meeting: Facilitating GHG emissions data aggregation at the regional/sectoral/national level is currently not among the objectives of the Corporate Standard.*

- The Secretariat shared feedback survey results from the full TWG on "how to maintain optionality" and "if there were support to specify a preferred/recommended approach, which consolidation approach should it be?". The Secretariat also presented the reframed options for considering the question "How should optionality in consolidation approaches be maintained in the Corporate Standard?" together with their analysis based on the GHG Protocol decision-making criteria and invited the members to discuss the options. The discussion is organized by option.
  - **General discussion**
    - One member, who earlier in the meeting proposed the "building blocks" approach, further elaborated their proposed option as follows. They added that this proposal supports interoperability with ESRS E1 and also IFRS S1 and S2.
      - *"1. The company should (shall?) follow the financial control approach.*

        a) In certain cases, the company may, in addition to above, account for and report GHG emissions from sites, assets, and entities under operational control, over which it does not have financial control.

        2. The company may, alternatively, chose the operational control approach. In such case [to be supported with additional reporting requirements/guidance], the emissions accounted will originate from the organizational boundary that is;

        a) under both financial and operational control; as well as

        b) operational, but without financial control."

    - One member raised concerns about the "building blocks" proposal saying it can suggest alignment with ESRS E1 and it should be designed more accurately once the financial and operational control approach revisions are completed. They added that current ESRS E1 approach could result in double-counting of scope 1 and 2 emissions by the lessor and lessee and this can contradict the Corporate Standard's current stance on avoiding double-counting scope 1 and 2 emissions.
      - One member highlighted that when the mandatory programs require a layered approach to capture emissions from non-consolidated entities under

operational control, they require these scope 1 and 2 emissions to be reported separately, suggesting that this should not increase the existing double-counting risk with maintaining optionality in consolidation approaches.

- Another member suggested that there are potentially significant overlaps between the revised financial control approach and the current operational control approach and noted that this increases the risk of both double-counting and/or under-counting assets. They provided the following example from the Oil & Gas industry: One company might have license to exploit a field and could then entrust the operation of the field to another company. In this case, the first company owns the license (financial control) and the second company is the operator (only has operational control, no financial control). If both companies use the same control approach to determine their organizational boundaries, then all assets will be accounted for. But if they opt for different consolidation approaches, it is possible for that field to not be accounted for at all or accounted for twice. They suggested a real world or theoretical example to check all options against the risk of double counting scope 1 and 2 emissions.
    - The Secretariat welcomed input from members who wished to provide examples. The challenge of the examples not being sufficient to capture all cases was also noted.
    - Another member added that in addition to the example from Oil & Gas industry, companies also claim lack of influence over decisions on assets as another common way for them not to account for emissions from certain assets/activities.
- Another member noted that they support maintaining optionality and suggested that the only way to prevent the risk of double- or under-counting is to require a single consolidation approach. They added that even if the revised financial control approach is determined as the single required consolidation approach, due to differences to consolidation rules between different local GAAPs, the risk of double- or under-reporting could not be eliminated. They added that they don't support this considering the wide use cases of the Corporate Standard.
    - One member agreed and suggested that this risk should be acknowledge and perhaps preventing it should not be the ultimate aim while considering if and how optionality in consolidation approaches should be maintained.
    - Another member added that by increasing transparency through enhanced reporting requirements for companies to disclose what entities/activities are being accounted for could help address this issue.

- Another member noted that both ESRS E1 and IFRS S2 have provisions to disaggregate scope 1 and 2 emissions and the emissions from activities/entities that are not consolidated in financial statements are separately reported based on operational control (layered approach). They also raised concern around the application of the current operational control approach and the potential inconsistency with IFRS S2 and ESRS E1 requirements.
- One member asked why the majority of reporters opt for the operational control approach. They suggested that if it is because the operational control approach is "easier to understand", then addressing this by providing clarification and further guidance on how to implement the financial control approach could be useful.

- The Secretariat noted that more companies are expected to use the financial control approach to comply with new mandatory disclosure requirements, noting that there is currently only anecdotal evidence on this.

- One member questioned whether maintaining operational control approach could be interoperable with IFRS S2 Paragraph 29(a)(iv).
  - Another member suggested that maintaining optionality in consolidation approaches meets the GHG Protocol decision-making criteria "Support programs based on GHG Protocol and uses of GHG data".
  - One member suggested that these mandatory programs refer to the GHG Protocol so this is a circular question which should be kept in mind and discussed further.
  - The Secretariat noted that in addition to the stated GHG Protocol decision-making criteria, The GHG Protocol is and will remain policy neutral.

- **Option 1: Yes, Maintain optionality with all options equal**
  - One member highlighted that the split in responses to the full TWG feedback survey on "which consolidation approach should be preferred/recommended?" supports the argument that all options should be kept equal.
  - One member suggested that optionality in consolidation approaches could be maintained by keeping all options equal for companies to choose from but providing additional guidance and examples on which option to choose based on their reporting objectives. Another member added that transparency, while keeping all options equal, can be improved by adding reporting requirements for companies to provide the rationale behind their consolidation approach choice.

- **Option 2A: Preferred approach recommended for all reporters with "should" statement**
  - One member noted that if the financial control approach were to be specified as the preferred/recommended approach (under Option 2 for maintaining optionality), companies currently using the operational control approach to report their GHG emissions or set their emissions reduction targets should be given a grace period to switch to financial control until they re-baseline and/or their short-term targets expire.
    - The Secretariat asked whether Option 2B, presented on slide 32, captures the essence of this suggestion.
    - The member confirmed that it could.

- **Option 2B: Preferred approach required for some reporters with "shall" statement**
  - While discussing Option 2B (i.e., maintaining optionality while specifying a preferred approach), one member asked if there is an estimate on how much flux there is between the suggested differentiation criteria (e.g., mandatory reporters, SMEs).
    - Several members noted that there are multiple challenges around determining a differentiation criteria such as the different definitions of SMEs in different jurisdictions/geographies, which are not always tied to financial metrics, and the need to address situations where companies could move in and out of these differentiated groups.
    - The Secretariat noted that Subgroup 3 currently uses the agnostic term "small companies" for setting differentiated reporting criteria for a scope 3 reporting requirement.
    - One member suggested that optionality could be provided for SMEs to adopt the operational control approach.

- One member disagreed with the suggestion of the GHG Protocol defining any differentiation criteria for GHG emissions accounting in the Corporate Standard, adding that this also applies to the Subgroup 3 discussion around differentiated scope 3 reporting requirements to enhance feasibility for small companies. They added that, rather than the GHG Protocol defining SMEs or mandatory reporters, this can be packaged as guidance to aid companies in choosing and applying a consolidation approach.

- **Indicative poll**: The Secretariat conducted an indicative poll to assess the level of support among subgroup 2 members on the following topics: Maintaining optionality while specifying a preferred/recommended approach, how to specify a preferred/recommended approach, and specifying the revised financial control approach as the preferred/recommended approach.
  - There was strong *majority support* for maintaining optionality in consolidation approaches while specifying a preferred/recommended approach (11 of 13 members) with no strong opposition and one member abstaining.
  - Members expressed *split opinions* on how to specify a preferred/recommended approach: 5 of 12 members supported a provision of a "should" statement for all reporters while 4 of 12 members supported provision of a "shall" statement to apply to specific reporters, and 3 of 12 members abstained.
  - There was *unanimous support* for specifying the revised financial control approach as the preferred/recommended consolidation approach: All 12 members supporting this outcome.

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

- The following directional updates based on Subgroup 2 discussions on maintaining optionality in consolidation approaches will be presented to the ISB in April.
  - An indicative poll found strong *majority support* for maintaining optionality in consolidation approaches and specifying a preferred/recommended approach.
  - An indicative poll found *split opinions* on how to specify a preferred/recommended approach.
  - An indicative poll found *unanimous support* for specifying the revised financial control approach as the preferred/recommended consolidation approach.

5. Wrap-up and next steps

- The Secretariat shared next steps including the next Subgroup 2 meeting scheduled for April 22nd, 2025 (slides 35-37).

<u>Summary of discussion</u>

- One member proposed setting up a smaller group to further discuss and define safeguards around how to operationalize the revised financial control approach by looking into specific cases.

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

- Final meeting materials including slides, minutes, and recording to be shared by the Secretariat.
- The next meeting of Subgroup 2 is scheduled for Tuesday, April 22nd, 2025, at 08:00 EDT / 14:00 CEST / 21:00 CHN.

Summary of written submissions received prior to meeting

- The Secretariat conducted an asynchronous feedback survey following the full TWG Meeting #2 held on March 4th to gauge TWG member opinions on the preliminary outcomes of Subgroup 2. 33 responses were received prior to the deadline, with results integrated into meeting materials and informing the framing of meeting discussions.