







Mandatory emissions schemes vs voluntary climate-related commitments

Key consideration	Mandatory emissions schemes ⁽¹⁾	Voluntary climate-related commitments
 Setting targets	A government body or a body with the relevant authority sets up the scheme and determines its key features, including the emissions targets or thresholds.	Company sets emissions targets.
 Types of targets	Two types: <ul style="list-style-type: none"> • absolute – e.g. CO₂ emissions cannot exceed a specified threshold for that year; or • cumulative average over a compliance period – e.g. the average CO₂ emissions per vehicle produced during the year cannot exceed a specified threshold. 	Generally, companies set only absolute climate-related targets voluntarily.
 Documenting targets	Typically, in a law or regulation.	Typically, in the company's sustainability report or related transition plan.
 Monitoring compliance	A government body or a body with the relevant authority.	Company is responsible.
 Consequences of missing the emissions target	Depending on the terms of the scheme, a company may need to: <ul style="list-style-type: none"> • purchase and surrender emissions allowances or carbon credits; • pay a penalty; • take remedial action; or • take other actions. 	There are no legal consequences, but usually companies commit to purchase carbon credits to offset their excess emissions.
 Nature of the obligation	Legal obligation.	Constructive obligation if criteria are met.

¹ Similar considerations apply to an emissions obligation arising from a contractual arrangement.



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