
Accounting Standards Advisory Forum meeting

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Project	Pollutant Pricing Mechanisms
Topic	Pollutant pricing mechanisms survey and questionnaire
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Accounting Standards Advisory Forum, July 2024, Agenda Paper 8D

This paper was discussed at the International Accounting Standards Boards (IASB's) June 2024 meeting as Agenda Paper 10C. The agenda papers referred to in this paper are the other agenda papers for the IASB's June meeting.

Purpose

1. This paper includes the survey distributed to users (pages 2-8) and the questionnaire distributed to Accounting Standards Advisory Forum (ASAF) members (pages 9-19).
2. The survey and questionnaire are for information purposes only.

User survey

Are Financial Statements Transparent on Company's Participation in the Carbon Markets?

Purpose of this survey

This survey seeks your view about the information companies provide about their participation in carbon markets and other mechanisms to reduce greenhouse gas (GHG) emissions.

- **Why are we surveying investors:** Carbon markets and other mechanisms to reduce GHG emissions play a key role in the effort to limit the effects of climate change. In recent years, their prevalence has grown as an increasing number of governments, companies, and individuals have made commitments to reduce their GHG emissions. Some stakeholders, including investors, have argued that the lack of specific accounting requirements in IFRS Standards for these mechanisms has led to diversity in practice in reporting their effects on companies.
- **What we will do with your feedback:** Your responses will help the International Accounting Standards Board (the IASB) decide if there is a problem regarding information about such mechanisms, and whether to develop accounting requirements for these mechanisms.
- **Time to complete survey:** The survey should take between 5-10 minutes to complete.

Background

Carbon markets and other mechanisms to reduce GHG emissions include emissions trading systems (ETS) used in the compliance market (often referred to as compliance schemes), and carbon offset credits (carbon offsets) created and traded in the voluntary market (often referred to as voluntary schemes).

Compliance market

An ETS limits GHG emissions by issuing tradable emissions units that participating companies use to meet their compliance obligations. They are established and regulated by governments, and participation is mandatory for companies covered by the ETS. Two main types of compliance schemes exist:

- **Cap-and-trade schemes:** An overall cap is set by relevant authorities of a region, state, or country on the total volume of GHG emissions during a specified commitment period. This overall cap is then allocated across participants by distributing or selling emission allowances. Participants must remit allowances to cover GHG emitted. Over time the overall cap is reduced as the economy traverses a path to decarbonisation. Such schemes are more commonly observed in Europe (e.g. the EU Emissions Trading Scheme) but also exist in China, New Zealand, South Korea, Mexico, California, and Quebec.
- **Baseline and credit schemes:** Total GHG emissions are not capped, instead a baseline is established, and credits are issued to companies that have reduced their emissions below this level. Australia, British Columbia, and Tokyo are examples of regions where such schemes exist.

Voluntary market

The voluntary market operates outside of the compliance market and enables carbon emitters to offset their emissions by purchasing carbon offsets on a voluntary basis. Companies may purchase carbon credits from counterparties in the voluntary markets to show progress towards meeting their net-zero commitments. A project-based system is used, where carbon offsets are created through the development of projects that remove or reduce GHG emissions from the atmosphere. Two main types of voluntary schemes exist:

- **Avoidance/reduction:** Carbon offsets are generated by measuring the emissions that were avoided or reduced as result of implementing a project. Examples include renewable energy projects, energy efficiency improvements, waste management initiatives.
- **Removal/sequestration:** Carbon offsets are generated by measuring the amount of GHG emissions removed by a project by means of afforestation, reforestation or carbon capture and storage technologies.

Section 1 - Data protection

We invite you to speak with us for an optional follow-up discussion

At the end of the survey, you will be asked to indicate whether you will be willing for us to contact you to discuss your answers in a follow-up meeting. If you answer 'yes', you will be asked to enter your full name, organisation name and email address. If you answer 'no', your responses will be captured anonymously.

Data protection and how we treat your data:

By completing this survey, you agree and acknowledge that the IFRS Foundation may use the data you provide to help decide whether to start a project to develop accounting requirements for carbon markets and other mechanisms to reduce GHG emissions. The IFRS Foundation may use such data in Board Papers and at public Board Meetings. Where the IFRS Foundation will use the data for such purpose, any personal data will be aggregated and anonymised; quotes may be published from responses but without name or organisation.

The IFRS Foundation will handle any personal data in accordance with data protection legislation.

The IFRS Foundation will retain personal data you provide through the form for as long as necessary to implement the purposes described above or to comply with legal, or regulatory requirements.

If you have any questions regarding the handling of your personal data, please contact compliance@ifrs.org.

If you indicate in the survey form your interest to be contacted by the Foundation about your survey response, the IFRS Foundation may contact you for this purpose.

Section 2 – Investor background questions

1. My current role in the investment industry is best described as:
 - Buy-side investment professional

- Sell-side investment professional
 - Credit Rating Agency analyst
 - Individual investor
 - Other
2. My asset class coverage is primarily:
- Equities
 - Fixed-Income / Credit
 - Both
 - Other
3. I follow companies that are predominantly listed in:
- Europe
 - North America
 - South America
 - Africa
 - Asia Oceania
 - My coverage is global
4. I follow companies that participate in the carbon markets:
- Yes—please complete section 3
 - No—please go to section 6

Section 3 – Questions to help the IASB prioritise its project

5. The companies I follow provide sufficient information in their financial statements about their participation in the carbon market and other mechanisms to reduce GHG emissions:
- Agree
 - Disagree
 - Not applicable—I do not use this information in my analysis (please complete section 6)
6. What additional information about companies' participation in the carbon market and other mechanisms to reduce GHG emissions would you like to see in the financial statements and how would you use that information in your analysis?

7. An IASB project to address the accounting for carbon markets and other mechanisms to reduce GHG emissions is:
- Very important, a project should be prioritised

- Somewhat important, at the moment I have sufficient information for my analysis, however a project should be considered in the future
- Not important, I do not believe the accounting issues are significant enough to warrant a project
- I am unsure / cannot determine the importance of such a project

Section 4—Participation in compliance schemes

8. Do you follow companies that participate in the compliance markets?

- Yes
- No

9. Of the companies that I follow:

- Most participate in compliance schemes
- Some participate in compliance schemes
- Only a few participate in compliance schemes
- I am unsure / cannot determine how many participate in compliance schemes

10. The companies participating in compliance schemes that I follow participate in a (select all that apply):

- Cap-and-trade scheme
- Baseline and credit scheme
- I am unsure / cannot determine
- Other - please describe in the text box provided in the following question

11. If you selected 'other' as a response to the previous question, please provide more information in the text box below.

12. The companies that I follow that participate in compliance schemes operate in the (select all that apply):

- Electricity and heat generation industry
- Energy intensive industry – oil refineries, steel works, metals, chemicals
- Aviation industry
- Transport industry
- Other - please describe in the text box provided in the following question

13. If you selected 'other' as a response to the previous question, please provide more information in the text box below.

14. In my research and analysis I have observed diversity in accounting for compliance schemes in the financial statements:

- Agree
- Disagree
- Do not know

15. The diversity in accounting I have observed results in:

- Very significant problems, I find it difficult to compare companies participating in compliance schemes
- Some problems, I have to make adjustments when comparing companies participating in compliance schemes
- No problems, I can easily cope with the diversity
- No problems, I do not use this information

Section 5—Participation in voluntary schemes

16. Do you follow companies that participate in the voluntary markets?

*If you selected 'no' to the previous question for the compliance markets and if you select 'no' for this question, you confirm that you do not cover companies in either markets.

17. Of the companies that I follow:

- Most participate in voluntary schemes
- Some participate in voluntary schemes
- Only a few participate in voluntary schemes
- I am unsure / cannot determine how many participate in voluntary schemes

18. The companies participating in voluntary schemes that I follow participate as (select all that apply):

- Project developers: implementing projects that avoid or reduce GHG emissions
- Broker/retail traders: buying and selling carbon offsets on private carbon trading platforms, or carbon exchanges
- End users: purchasing carbon offset to reduce their GHG emissions
- I am unsure / do not know

19. The companies participating in voluntary schemes that I follow participate in (select all that apply):

- Avoidance/reduction schemes
- Removal/sequestration schemes
- I am unsure / do not know
- Other - please describe in the text box provided in the following question

20. If you selected 'other' as a response to the previous question, please provide more information in the text box below.

21. The companies that I follow participating in voluntary schemes operate in the (select all that apply):

- Electricity and heat generation industry
- Energy intensive industry – oil refineries, steel works, metals, chemicals
- Aviation industry
- Transport industry
- Other - please describe in the text box provided in the following question

22. If you chose 'other' as a response to the previous question, please provide more information in the text box below.

23. The companies that I follow participating in voluntary schemes provide sufficient information about the costs of their participation in these schemes:

- Agree
- Disagree
- I am unsure / do not know

Section 6 – additional questions and consent to contact

24. If you have any additional comments you would like to make about information reported in the financial statements about carbon markets and mechanisms to reduce GHG please provide these below.

25. Can we contact you to discuss your responses to the questions in this survey in a 1:1 meeting?

If you answer 'yes', you will be asked to enter your full name and email address

If you answer 'no', your responses will be captured anonymously

- Yes
- No

26. You have clicked 'yes' to us contacting you in relation to your responses to this survey.

Please provide us with your first name and surname.

27. You have clicked 'yes' to us contacting you in relation to your responses to this survey.

Please provide us with your organisation's name, or enter 'N/A' not applicable.

28. You have clicked 'yes' to us consent contacting you in relation to your responses to this survey.

Please provide us with your email address so we may contact you to schedule a meeting.

ASAF questionnaire

Background

Many respondents to the IASB's Third Agenda Consultation, identified a project on pollutant pricing mechanisms as a high priority. Applying its criteria for adding a project to its work plan, the IASB also concluded that this project is a high priority. However, the IASB decided not to add a project on pollutant pricing mechanisms to its work plan, concluding that other projects were of higher priority.

As part of its ongoing activities, the IASB monitors financial reporting developments and practice and stands ready to address urgent or emerging accounting issues that arise between agenda consultations.

Since completing the Third Agenda Consultation, several stakeholders have suggested that we should prioritise a pollutant pricing mechanism project. They argue that pollutant pricing mechanisms are increasing in prevalence and that there are deficiencies in the accounting for these mechanisms.

Purpose of the questionnaire

As mentioned at the December 2023 ASAF meeting, we would like ASAF members' help to gather more information about:

- The prevalence of pollutant pricing mechanisms.
- The types of entities affected by pollutant pricing mechanisms.
- The significance of pollutant pricing mechanisms to the financial position, financial performance and cash flows of IFRS reporters.
- The accounting issues arising from pollutant pricing mechanisms including whether there is diversity in practice or other deficiencies in the accounting.
- The importance of information about pollutant pricing mechanisms to users of financial statements and whether any deficiency in the accounting adversely affects the usefulness of that information.

This information will help the IASB to assess whether the situation has changed since the Third Agenda Consultation such that the IASB now needs to prioritise a project on pollutant pricing mechanisms ahead of other projects on its work plan.

Structure of the questionnaire

There are three sections to the questionnaire:

- **Section 1: Compliance schemes**— seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction are required to participate in by law or other means. Examples of such schemes include carbon taxes and emissions trading schemes—for example, the European Union Emissions Trading Scheme.

- **Section 2: Voluntary schemes**—seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction participate in on a voluntary basis, for example through the voluntary purchase of carbon credits.
- **Section 3: Entities that generate or issue credits**— seeks information about IFRS reporting entities that generate or issue credits that can be used to offset emissions made by other entities.

Next steps

Please provide your response to the questionnaire to Rachel Knubley (rknubley@ifrs.org) by **29th March 2024**.

If you have any questions on any aspects of the questionnaire, please also contact Rachel Knubley.

We plan to present the results of the questionnaire to a future ASAF meeting.

We would like to thank you very much for your help in completing this questionnaire.

Section 1: Compliance schemes

This section seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction are required to participate in by law or other means (compliance schemes). Examples of such schemes include carbon taxes and emissions trading schemes—for example, the European Union Emissions Trading Scheme.

If you are responding on behalf of more than one jurisdiction, it would be helpful to have the information separately for each jurisdiction.

Question 1.1

Please provide a brief description of any compliance schemes that operate in your jurisdiction, including a description of the rights and obligations that arise for IFRS reporting entities that participate in these schemes. Alternatively, please provide a link to where information about such schemes can be found (ideally in English).

Answer 1.1:

Question 1.2

Do significant numbers of IFRS reporting entities in your jurisdiction participate in compliance schemes? If possible, please indicate the percentage of companies in your jurisdiction that participate in these schemes.

Answer 1.2:

Question 1.3

Please describe the types of IFRS reporting entities that are required to participate in these compliance schemes. For example, what industry do they operate in, are they listed or unlisted entities, what size of entity is required to participate?

Answer 1.3:

Question 1.4

How significant are the financial effects of these schemes to the financial position, financial performance and cash flows of the entities affected?

Answer 1.4:

Question 1.5

Are there plans to introduce new compliance schemes or expand the scope of existing compliance schemes in your jurisdiction?

- I'm not aware of such plans.
- Yes, there are such plans.

If the answer is Yes, please provide details:

Answer 1.5:

Question 1.6

Is there guidance in your jurisdiction on how to account for these schemes?

- No (then go to Question 1.7)
- Yes

If the answer is Yes, please describe or provide a link to any such guidance (ideally in English):

Answer 1.6:

Question 1.7

If there is no guidance on how to account for these schemes, please describe the main accounting approaches used in your jurisdiction to account for these schemes.

Answer 1.7:

Question 1.8

Are you aware of diversity in practice or other deficiencies in the accounting for these schemes in your jurisdiction?

- I'm not aware of diversity in practice or other deficiencies.
- Yes, I'm aware of diversity in practice or other deficiencies (then go to Question 1.9).

Question 1.9

If diversity in practice or other deficiencies exist, do you have evidence that these deficiencies adversely affect the usefulness of information provided to users of financial statements?

I don't have such evidence.

Yes, I have such evidence.

If the answer is Yes, please describe that evidence:

Answer 1.9:

Question 1.10

Have you conducted, or do you plan to conduct, any research in this area?

No

Yes

If the answer is Yes, please describe the research conducted or planned:

Answer 1.10:

Section 2: Voluntary schemes

This section seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction participate in on a voluntary basis—for example, through the voluntary purchase of carbon credits (voluntary schemes).

If you are responding on behalf of more than one jurisdiction, it would be helpful to have the information separately for each jurisdiction.

Question 2.1

Do IFRS reporting entities in your jurisdiction participate in voluntary schemes to reduce or offset their emissions?

- No
- Yes

If the answer is Yes, please describe the main types of schemes that operate in your jurisdiction including a description of the rights and obligations that arise for entities that participate in these schemes:

Answer 2.1:

Question 2.2

Do significant numbers of IFRS reporting entities in your jurisdiction participate in voluntary schemes? If possible, please indicate the percentage of companies in your jurisdiction that participate in these schemes.

Answer 2.2:

Question 2.3

Is the prevalence of voluntary schemes in your jurisdiction increasing?

- No
- Yes

Question 2.4

Please describe the types of IFRS reporting entities that participate in these voluntary schemes. For example, what industry do they operate in, are they listed or unlisted entities, what size of entity participates?

Answer 2.4:

Question 2.5

How significant are the financial effects of these schemes to the financial position, financial performance and cash flows of the entities affected?

Answer 2.5:

Question 2.6

Do these schemes give rise to accounting issues that are difficult to resolve?

No

Yes

If the answer is Yes, please describe the accounting issues that arise from these schemes:

Answer 2.6:

Question 2.7

Are you aware of diversity in practice or other deficiencies in the accounting for these schemes in your jurisdiction?

I'm not aware of diversity in practice or other deficiencies.

Yes, I'm aware of diversity in practice or other deficiencies (then go to Question 2.8).

Question 2.8

If diversity in practice or other deficiencies exist, do you have evidence that these deficiencies adversely affect the usefulness of information provided to users of financial statements?

I don't have such evidence.

Yes I have such evidence.

If the answer is Yes, please describe that evidence:

Answer 2.8:

Question 2.9

Have you conducted, or do you plan to conduct, any research in this area?

No

Yes

If the answer is Yes, please describe the research conducted or planned:

Answer 2.9:

Section 3: Entities that generate or issue credits

This section seeks information about IFRS reporting entities that generate or issue credits that can be used to offset emissions made by other entities. In responding to the questions in this section, please exclude information about entities—for example, governmental bodies—that do not report under IFRS Accounting Standards.

If you are responding on behalf of more than one jurisdiction, it would be helpful to have the information separately for each jurisdiction.

Question 3.1

Do IFRS reporting entities in your jurisdiction generate or issue credits (for example, carbon credits) that can be used to offset emissions made by other entities?

- No
- Yes

If the answer is Yes, please describe the nature of these credits, including the rights and obligations that arise from these credits:

Answer 3.1:

Question 3.2

Do significant numbers of IFRS reporting entities in your jurisdiction generate or issue such credits? If possible, please indicate the percentage of companies in your jurisdiction that generate or issue such credits.

Answer 3.2:

Question 3.3

Is the number of IFRS reporting entities in your jurisdiction that generate or issue credits increasing?

- No
- Yes

Question 3.4

Please describe the types of IFRS reporting entities that generate or issue credits. For example, what industry do they operate in, are they listed or unlisted entities, what size of entity generates or issues these credits?

Answer 3.4:

Question 3.5

How significant are the financial effects of these credits to the financial position, financial performance and cash flows of the entities affected?

Answer 3.5:

Question 3.6

Does issuing or generating credits give rise to accounting issues that are difficult to resolve?

- No
- Yes

If the answer is Yes, please describe the accounting issues that arise from these activities:

Answer 3.6:

Question 3.7

Are you aware of diversity in practice or other deficiencies in the accounting for these credits in your jurisdiction?

- I'm not aware of diversity in practice or other deficiencies.
- Yes I'm aware of diversity in practice or other deficiencies (then go to Question 3.8).

Question 3.8

If diversity in practice or other deficiencies exist, do you have evidence that these deficiencies adversely affect the usefulness of information provided to users of financial statements?

- I don't have such evidence.
- Yes I have such evidence.

If the answer is Yes, please describe that evidence:

Answer 3.8:

Question 3.9

Have you conducted, or do you plan to conduct, any research in this area?

- No
- Yes

If the answer is Yes, please describe the research conducted or planned:

Answer 3.9: