Discussion of Carbon credit accounting: Evidence of asset features in Brazilian markets that do not perfectly qualify as intangibles

Ana Simpson, IASB Technical Staff
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Discussion structure

- Takeaways from the study
- Relevance
- Observations
- Suggestions for future work

Takeaways from the study

Information about carbon credit markets in an IFRS jurisdiction

- Prevalence in Brazil
  - voluntary market - 12% of global emissions in 2022
  - regulated market of decarbonization credits – potential to meet 28% of global demand by 2030
- Economic nature of carbon credit arrangements
- Accounting issues, eg
  - Do carbon credits meet the definition of an asset?
  - Do the obligations meet the definition of a liability?
  - What is the business model?
  - Do assets and liabilities talk to each other?

Confirms diversity in practice:

- Practices vary across type of market
  - voluntary market
  - regulated market
- Practices vary with business model
  - carbon credits through third party projects
  - carbon credits through own operations
- Objective of holding carbon credits:
  - trading
  - retirement
- Important to understand and **distinguish between:**
  - diversity in outcomes due to different **fact patterns**
  - diversity in outcomes due to differences in **application**

Relevance

Pollutant Pricing Mechanisms – IASB's reserve list

The project would aim to develop specific requirements for pollutant pricing mechanisms. Initial research would consider whether the project should aim to address:

All types of pollutant pricing mechanisms, or only some, such as emission trading schemes	Scope
Accounting by traders and scheme administrators, or limit the project to companies that are required to (or choose to) participate in such schemes.	Agents

Authors derive the following standard-setting implications

Need for a **specific standard** that would address:

- **differentiation** of carbon credits

- recognition of **assets** and **liabilities**

-**measurement** at fair value or cost

Need for better **comparability**

uniformity?

Avoid **misleading information**

Ensure **faithful representation**

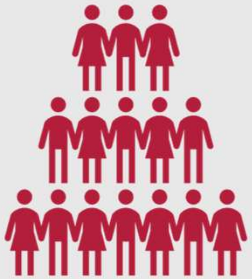
- What is the standard-setter's objective?
  - it is not to ensure uniformity
  - understand why diversity exists
  - is a potential solution useful to users?

What evidence the IASB is interested in and suggestions for future work (1/2)

- What are the different practices?
- What is the prevalence of each?

- Are these companies' practices representative of all the accounting practices for carbon credits in this jurisdiction?
- Easier option - extend the sample
    - This may provide insights on whether accounting practices vary with economic fundamentals
- More difficult option - talk to stakeholders
    - Do the **preparers** think there is an issue that needs to be addressed by standard-setting?
    - Do **investors** consider how a company accounts for carbon credits a priority?

What evidence the IASB is interested in and suggestions for future work (2/2)



What is the impact on users?

- Is diversity in practice **causing problems**?
  - Can investors tolerate a certain degree of **diversity in practice?**
  - Could you restate the accounting treatments for similar allowances to make them comparable and analyse the economic implications of such **restatements** on companies' performance?
- Are there any **unintended consequences**? eg authors refer to 'room for earnings management' …
- Are **costs or benefits** of better disclosure observable?
  - through empirical analysis – if extending the sample
  - through survey/interviews – if speaking to stakeholders

Thank you!

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