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

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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:

- **Scope**: All types of pollutant pricing mechanisms, or only some, such as emission trading schemes.

- **Agents**: Accounting by traders and scheme administrators, or limit the project to companies that are required to (or choose to) participate in such schemes.
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)

- 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!