COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

Carbon Offset

Brazilian Accounting Standard

Agenda

- Timeline
- Main Features
- Presentation
- Measurement
- Constructive Obligation
- Liability - Measurement and Retirement

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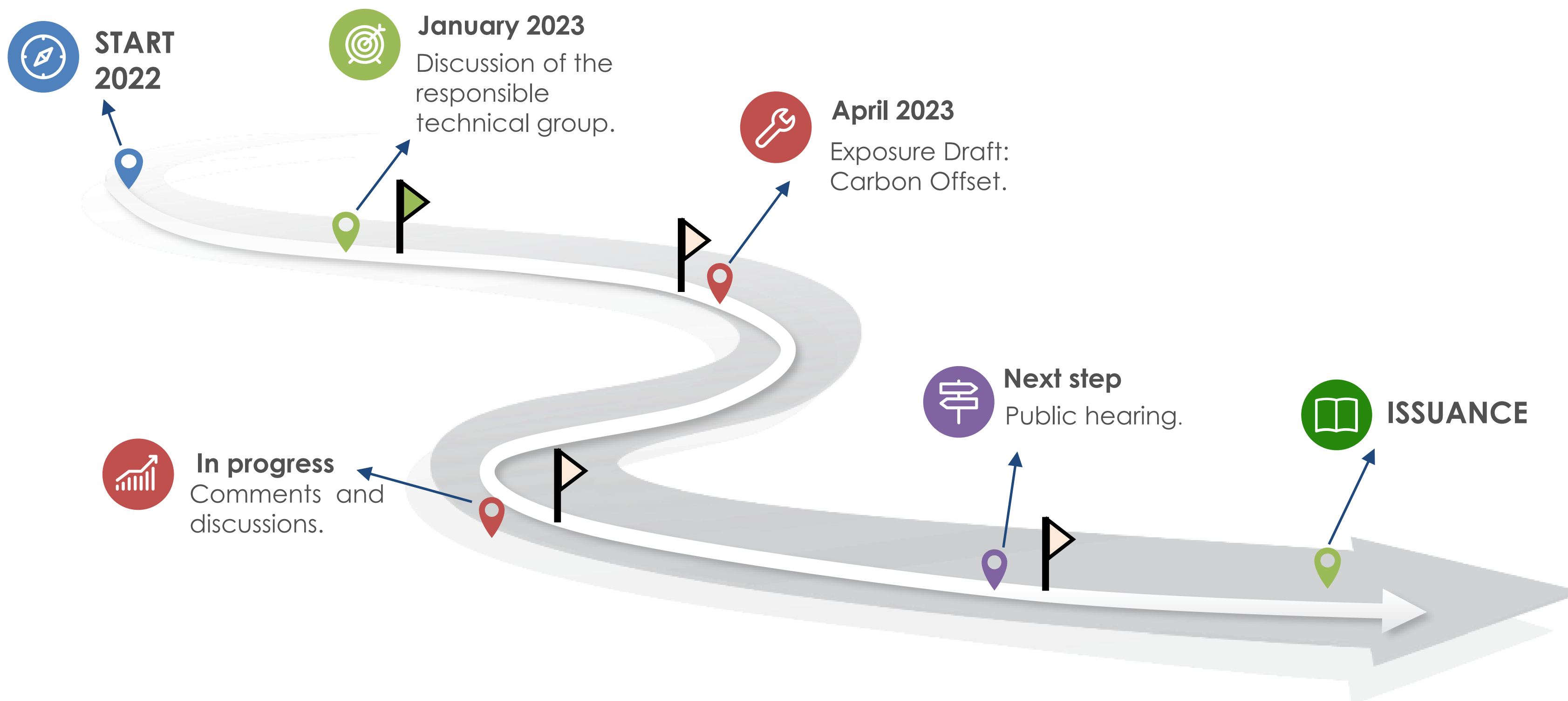
Carbon Offset

1 Timeline



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2 Main Features

Main Features	
Scope	Accounting recognition, presentation, measurement and disclosure of economic events related to the participation or performance of entities in carbon offset regulated or voluntary markets related to your origination, negotiation or retirement, as well as criteria related to any liabilities associated with carbon offset credits or arising from constructive or legal obligations.
Credit types	• General credits: Carbon credits, methane credits and other similar credits are generated by projects that reduce or avoid the emission of greenhouse gases (GHG) - voluntary market; • Brazilian Decarbonization Certificates (CBIO) - regulated market.
Economic agents (based on business model)	• Originator: controls economic resources with the potential to generate carbon offset credits and intention to sell it; • Intermediary ("Broker and Trader"): active buying and selling (negotiation) carbon offset credits with potential to earn revenues from this main operating activity (active trading); • Final User: acquires the credits to offset its GHG emissions through the retirement (offset own emissions) of such instruments.

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2 Main Features – cont.

Main Features	
Carbon offset credit characteristics	• The credit represents an asset when it stems from a certification of removal or reduction of GHG emissions originated by economic resources controlled by an entity (Conceptual Framework); • The credit is a non-financial asset in accordance with IFRS 9; • The credit is an intangible asset, without physical substance.
Disclosure	Disclosures must follow the requirements of applicable pronouncements, including material accounting policies, judgments, and critical estimates under IAS 1, among others, as well as IAS 38, IAS 2, and others applicable, based on the entity's business model and the asset classification.

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3 Presentation

Agent Economics

01

Originator - if the objective is:

- Sale: should initially recognize the credit as inventories (segregated from other inventory items);
- Retirement – should initially recognize as:

1. Intangible assets: if the credit is not considered an input in the production process;
2. Inventories: if the credit is considered an input in the production process.

02

Intermediary - if the objective is:

- Originate and sell such credits ("broker and trader"): should initially recognize the credit as inventories (segregated from other inventory items);
- Retirement: should recognize the credit in an inventory distinct line, with respect to its main activities

03

Final User - if the objective is:

- Retirement:

1. Intangible assets: if the credit is not considered an input in the production process;
2. Inventories: if the credit is considered an input in the production process.

Main related standards:
IAS 38 – Intangible Assets;
IAS 2 – Inventories.

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4 Measurement

Agent Economics

01

Originator - if the objective is:

- Sale: measured at the lower of cost and net realizable value;
- Retirement:

i) Inventories: measured at the lower of cost and net realizable value;

ii) Intangible asset: initial measurement at cost and subsequent measurement as cost less amortization or reduction to recoverable value;

iii) The expenses incurred in the certification process of the decarbonization credits must be recorded in an item of Inventory in Progress and adjusted to the net realizable value, until the end of the certification process and availability of credit for the use intended by the entity.

02

Intermediary - if the objective is:

- Originate and sell such credits ("broker and trader"): initial measurement at fair value less costs to sell;
- Retirement: measured at the lower of cost and net realizable value.

03

Final User - if the objective is:

- Retirement:

1. Intangible assets: initial measurement at cost less any loss arising from impairment;
2. Inventories: measured at the lower of cost and net realizable value.

Main related standards:
IAS 38 – Intangible Assets;
IAS 2 – Inventories;
IFRS 13 – Fair Value Measurement.

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5 Constructive Obligation

The entity must assess the existence of a legal, non-formalized or **constructive obligation** based on the carbon offset commitment assumed.

Creation of a valid expectation in third parties that it will fulfill such responsibilities.

Should be analyzed from the disclosures of commitments made, actions, positions, practices, policies and views that the reporting entity transmits to third parties and whether these events give rise to valid expectations that it will fulfill these responsibilities

Could create valid expectations:
- Publicity about the carbon offset commitments assumed;
- Cases where these commitments made make it possible to increase the "market share" of the entity

Liability Recognition

Judgment should be applied to assess whether these statements would generate a valid expectation.

The recognition of a liability or provision should occur only: there is a past event that creates a present obligation whose settlement through outflow of economic resources is probable

Commitments related to the neutralization or offset carbon should be recognized as liabilities only with respect to the past event related to GHG emissions already made up to the reporting date.

The forms of settlement of the obligation could result in an outflow of resources:
- Purchasing carbon offset credits, such as carbon credit certificates from other entities that market such assets;
- Investing resources in third-party projects that will generate carbon offset credits.

Main related standard:
IAS 37 – Provisions, contingent liabilities and contingent assets.

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6 Liability - Measurement and Retirement

1. Measurement

A liability shall be recognized in the best estimate of the disbursement required to settle the obligation present at the balance sheet date.

The best estimate is the amount that the entity would rationally pay to settle the obligation on the balance sheet date or to transfer it to a third party.

2. Measurement when entity has already acquired the carbon credits

In this case, the best estimate amount to settle the obligation on the balance sheet date is equivalent to the carrying value of the assets registered and that will be used to offset the emissions occurred.

If there are not enough carbon credits at the balance sheet date to settle the assumed neutralization obligation, the value of the liability that exceeds the carrying value of the assets should be measured in accordance with item 1. Measurement.

3. Retirement

As each certificate is individually identifiable by means of a traceable serial number and that is taken out of circulation as soon as this certificate is registered and withdrawn from the market by the entity for its benefit.

This process is referred to as "neutralization certificate retirement," a process in which the economic benefits of the certificate flow to the entity through the neutralization of its emissions and, consequently, can no longer be used by any other entity.

Main related standard:
IAS 37 – Provisions, contingent liabilities and contingent assets.

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Thank you!