

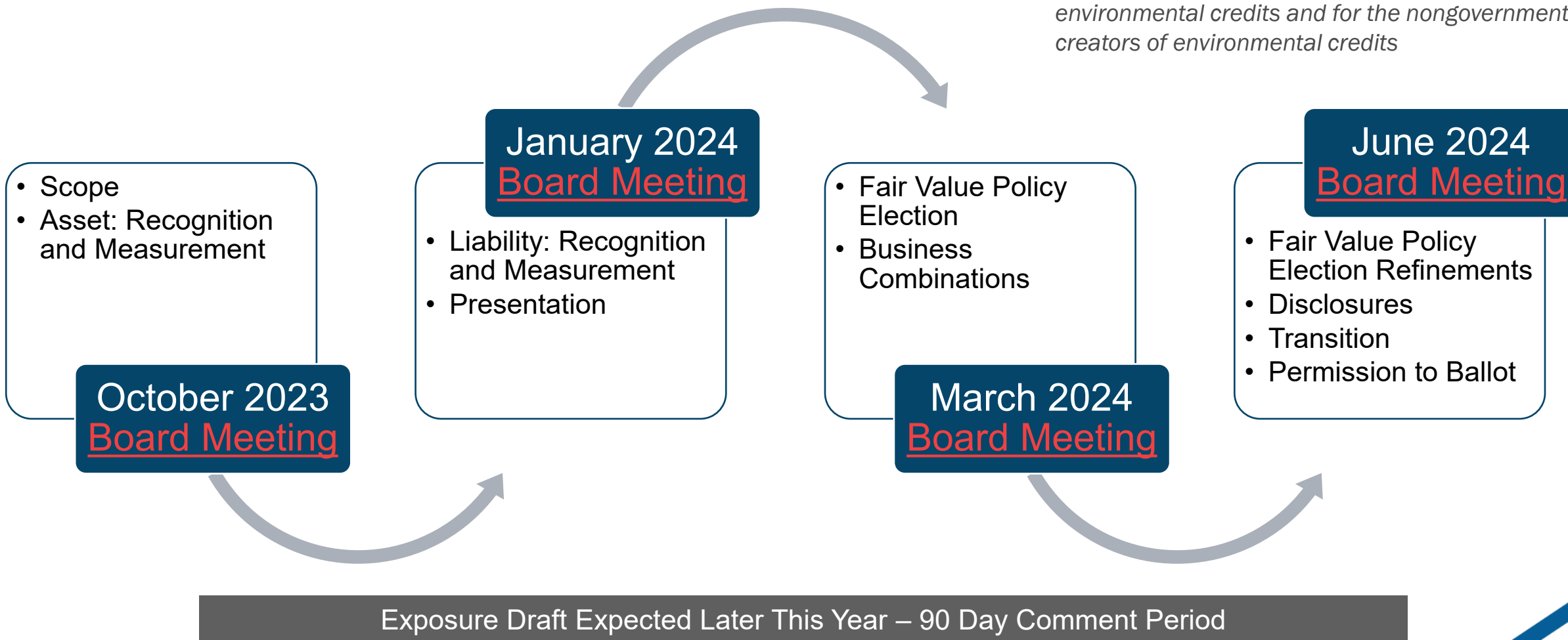
ASAF July 9, 2024



# Accounting for Environmental Credit Programs

# Project Timeline

**Project objective:** *To improve the recognition, measurement, presentation, and disclosure requirements for participants in compliance and voluntary programs that result in the creation of environmental credits and for the nongovernmental creators of environmental credits*



# Scope

## Environmental Credit

- A separately transferable right represented to prevent, control, reduce, or remove emissions or pollution that is not an income tax credit. May be represented by a variety of forms, including credits, certificates, allowances, and offsets.
- Can be purchased, granted, or internally generated.

## Environmental Credit Obligation

- An obligation arising from existing or enacted laws represented to prevent, control, reduce, or remove emissions or pollution that may be settled with environmental credits.

### Within Scope

- Carbon offsets (carbon credits)
- Renewable energy certificates (RECs)
- Renewable identification numbers (RINs)
- Cap-and-trade allowances
- Baseline program allowances
- Corporate average fuel economy credits (CAFE)
- Environmental credits received from partnerships or other equity structures that generate credits

### Not Addressed by This Project

- Tax credits (including renewable clean energy tax credits)
- Additional payments made for “carbon neutral” activities where no credit is transferred (e.g., paying more for a carbon neutral flight)
- Investments in partnerships or other equity structures that generate credits
- Environmental, social, and governance (ESG) (sustainability) reporting

# Environmental Credits – Recognition and Measurement

## Asset Recognition

- Asset recognized when it is *probable* that an entity will sell the environmental credit or use that credit to settle an environmental credit obligation.
- Cost of other credits are expensed as incurred
  - For example, the cost of credits acquired for voluntary purposes.

## Measurement

- Generally measured at cost, less impairment
  - Credits *probable* of being used to settle environmental credit obligations are not subject to impairment.
  - Accounting policy election to remeasure an eligible class of noncompliance environmental credits at *fair value* with changes in measurement recognized in earnings.

Reassess at each reporting period until environmental credit is derecognized

# Environmental Credit Obligations – Recognition and Measurement

## Liability Recognition

- Recognize a liability for the number of environmental credits that would be due to a regulator
  - Assuming the end of the reporting period is the end of the compliance period.

## Measurement

- Measurement generally depends on whether the entity owns sufficient compliance environmental credits (those probable of being used to settle ECOs):
  - Funded liabilities - measured using the carrying amount of compliance environmental credits to be derecognized upon settlement.
  - Unfunded liabilities - measured using the fair value of credits at the balance sheet date necessary to satisfy the ECO.

## Example

- June 30 202X, Entity A has emitted 1,000 tons and would be required to remit 1,000 credits if the compliance period ended on that date. Entity A owns 800 compliance environmental credits with a carrying amount of \$8,000. The fair value of a credit on June 30 is \$15. Entity A would:
  - Recognize a liability for \$11,000 ( $\$8,000 + 200 \times \$15$ )
  - Present an asset of \$8,000 and a liability of \$11,000 (gross presentation).

# Disclosures

## Qualitative Disclosures (Annual Only)

- Information about an entity's environmental credit programs, including the activities that give rise to an obligation in those programs
- Information about an entity's environmental credits, including how an entity obtains and uses environmental credits

## Quantitative Disclosures (Annual and Interim)

- Description and carrying amount of significant environmental credit holdings and ECO liabilities
- Revenues or gains/losses from sales of environmental credits
- Cost of environmental credits, including those expensed as incurred (cost of voluntary credits)
- Cash paid for purchases of environmental credits

# Transition

## Transition method

- Modified retrospective application
  - Prior periods not recast
- Additional guidance to facilitate transition
  - Assess the intended use of environmental credits at date of adoption
  - Noncompliance environmental credits – lower of carrying amount or fair value

Effective date will be based on feedback received on the proposed Update

# Next Steps

Draft and Issue Proposed Update

Comment Period – 90 Days

Consider Stakeholder Feedback

Complete Redeliberations - 2025

Questions?