



Accounting for Environmental Credit Programs

FASB | IASB Education Meeting

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Overview

Purpose

- Improve the financial accounting for and disclosure of the following:
 - Environmental credits
 - Environmental credit obligations

Who Would be Affected

- Would apply to all entities
- Would affect entities that:
 - Buy/receive transferable environmental credits
 - Generate environmental credits

Effective Date

- Public business entities - periods beginning after December 15, 2027; all other entities +1 year
- Retrospective transition, with additional requirements to enhance operability
- Early adoption permitted

Scope

Environmental Credit (EC)

- An enforceable right represented to prevent, control, reduce, or remove emissions or other pollution that is separately transferable* in an exchange transaction. May be represented by a variety of forms, including credits, certificates, allowances, and offsets.
- Can be acquired, granted as part of a regulatory compliance program, internally generated, or received in a nonreciprocal transfer.

Environmental Credit Obligation (ECOs)

- An enforceable obligation resulting from regulatory compliance programs represented to prevent, control, reduce, or remove emissions or other pollution that may be or are required to 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

Asset Recognition and Measurement

Environmental credits can be recognized one of three ways depending on how the entity intends to use the credit:

Voluntary credits

Recognize the cost of the EC as an expense as incurred if not probable of settling an ECO, selling the credit, or transferring the credit in a nonreciprocal transfer

Compliance credits

EC is initially measured at cost and is not remeasured (no impairment testing) if probable of settling an ECO

Noncompliance credits

EC is initially measured at cost and is tested for impairment

- An entity reevaluates its intent for credits at each reporting date.
- Credits that are recognized as an expense cannot be subsequently recognized as an asset.
- An entity may make an accounting policy election to remeasure noncompliance environmental credits at fair value at each reporting period with changes recognized in earnings.

Liability Recognition and Measurement

Environmental credit obligations are recognized in a funded and unfunded portion as follows:

Funded Portion

- Funded portion represents the amount of the ECO for which an entity has compliance ECs that it intends to use to settle the obligation
- Measure the funded portion of the ECO using the carrying amount of compliance environmental credits at the reporting date

Unfunded Portion

- Unfunded portion represents the amount of the ECO for which an entity does not have compliance ECs that it intends to use to settle the obligation
- Measure the unfunded portion using the fair value of the ECs necessary to settle that portion at the reporting date, unless the entity (1) intends to cash settle or (2) has an unconditional purchase commitment

In measuring the ECO, an entity assumes that the reporting date is the end of the compliance period.

Disclosures – Required for Annual Periods

Environmental Credits (ECs)

Qualitative

- How an entity obtains and uses ECs, significant estimates and judgments, and methods used for subsequent measurement

Quantitative

- Assets – amount of compliance ECs and noncompliance ECs (current and noncurrent portions)
- Expenses:
 - Total expense for voluntary ECs
 - Impairment expense and the nature of the impairment
- Applicable fair value disclosures in Topic 820 for noncompliance ECs subsequently measured at fair value
- Income statement effect of changing its use, or intended use, of its ECs and the nature of the change

Environmental Credit Obligations (ECOs)

Qualitative

- Information about the regulatory compliance programs that the entity is subject to
- Significant estimates and judgments and how the unfunded portion of an ECO liability is measured

Quantitative

- Liabilities – amount of funded and unfunded ECOs (current and noncurrent portions)
- Expenses related to ECO liabilities
- Total ECO costs included in the carrying amount of another asset (including a description of that other asset)
- Applicable fair value disclosures in Topic 820 for the unfunded portion of an ECO liability measured at fair value

Next Steps

Board Redeliberations Completed in August 2025

Drafting of a Final Update Is in Progress

Thank You