

Recognition of Intangible Assets from Climate-related Expenditure (IAS 38 *Intangible Assets*)

The Committee received a request about whether an entity's acquisitions of carbon credits and expenditure on research activities and development activities meet the requirements in IAS 38 to be recognised as intangible assets.

Fact pattern

A summary of the fact pattern described in the request is as follows:

- a. an entity made a commitment in 2020 and 2021 to other parties to reduce a percentage of its carbon emissions by 2030 (referred to as a '2030 commitment').
- b. the entity has taken 'affirmative actions' and, in its view, has created an established pattern of practice to achieve its 2030 commitment. These affirmative actions include: (i) creating a transition plan; (ii) engaging with 'net zero focused investors'; (iii) publishing its commitment and plans on its website; (iv) joining coalitions with a mission to collaborate to achieve emissions reductions; (v) stating its emission reduction targets in its financial statements and in presentations to investors and others; and (vi) allocating capital to buying carbon credits and investing in 'innovation programs' purposed to find solutions to reduce emissions to meet its 2030 commitment.
- c. the entity's innovation programs will typically involve creating teams of people with know-how, expertise and other intellectual property to create and develop solutions for emissions reductions specific to the entity or its sector and will result in the creation of intellectual capital.
- d. the entity's investors, insurers and bankers have made their own transition commitments relying on the entity's actions.
- e. the entity has concluded that its 2030 commitment and subsequent affirmative actions have created a constructive or legal obligation applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

As described in the April 2024 Agenda Decision [Climate-related Commitments \(IAS 37\)](#), if an entity has a constructive or legal obligation, the entity considers the criteria in paragraph 14 of IAS 37 in determining whether it recognises a provision for the costs of fulfilling that obligation. The Committee also observed that the entity separately assesses whether it recognises an asset or an expense.

The request asks whether, during its 2024 annual reporting period, the entity's acquisitions of carbon credits and expenditure on research activities and development activities, resulting in intellectual capital from innovation programs as described in the fact pattern, meet the requirements in IAS 38 to be recognised as intangible assets.

Additional background

The IASB has been researching and engaging with stakeholders about the prevalence and significance of pollutant pricing mechanisms (PPMs), some of which include the use of carbon credits. While a project on PPMs remains on its reserve list, the IASB expects to decide during its next agenda consultation whether to add a project on the accounting for PPMs to its work plan.

Accordingly, the Committee did not consider the question about the accounting for acquisitions of carbon credits separately from the IASB's research on PPMs. The Committee instead considered only the question about the accounting for expenditure on research activities and development activities.

Findings and conclusion

Evidence gathered by the Committee indicated no material diversity in the accounting for expenditure on research activities and development activities. Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee decided not to add a standard-setting project to the work plan.