



FASB | IASB Education Meeting

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Accounting for Environmental Credit Programs

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Project Background

- 2021 Invitation to Comment (ITC) feedback
 - Compliance programs are increasing
 - Increased investor interest in ESG activities
 - Absence of specific authoritative guidance (see slide 4 for current practice)
- Added to the technical agenda in May 2022
 - Provide recognition, measurement, presentation and disclosure requirements for:
 - Credits obtained for compliance programs
 - Credits obtained for voluntary use
 - Nongovernmental creators of environmental credits
 - Obligations arising from regulatory compliance programs

Project Scope

- Credits must be enforceable and transferable
- Common credits and compliance programs addressed by this project:
 - Renewable Energy Certificates (RECs) and Renewable Portfolio Standards (RPS)
 - Renewable Identification Numbers (RINs) and Renewable Fuel Standard (RFS)
 - Cap and Trade programs
 - EU Allowances (EUAs) and EU Emission Trading System (ETS)
 - Carbon offsets
- Outside of scope:
 - Income tax credits and tax incentives
 - Investments in renewable energy structures or entities (such as partnerships)

Compliance Participants – Current Practice

- Environmental credit (asset)

- Generally recognized at cost and non-amortizing
- Some diversity in how granted credits are initially measured (fair value or zero)
- Classify asset as an intangible or inventory, generally based on expected use
- Diversity in accounting for impairment

- Environmental credit obligation (liability)

- Accrue obligation ratably as emissions occur or only when credits on-hand are insufficient to cover obligation
- Measure liability based on carrying amount of credits on hand (linked model) or the market value of credits

Noncompliance Participants – Current Practice

- **Voluntary participants:** Largely acquiring carbon offsets and renewable energy certificates (RECs) to reduce scope 1, 2 and 3 emissions for ESG reporting
 - Diversity in practice
 - Expense at acquisition date
 - Recognize an asset and expense at the date the credits are retired
- **Creators:** Entities that operate projects that generate environmental credits
 - Expense all costs as incurred (internally developed intangible model)
 - Capitalize costs (inventory model)

Next Steps

- **Scope refinements**
 - Considering additional criteria for defining what constitutes an environmental credit or environmental credit obligation

- **Asset recognition and measurement**
 - Evaluating operability of a model based on use
 - Credit will be used to settle an environmental credit obligation, sold or traded or used for voluntary reporting purposes
 - Evaluating operability of a model that accounts for all environmental credits the same
 - Impairment and remeasurement considerations