
IASB[®] Meeting

Date	June 2024
Project	Pollutant Pricing Mechanisms
Topic	Horizon scanning activities and feedback summary
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Purpose and structure

1. This paper provides an overview of the staff's work to gather information to help the IASB assess whether to prioritise a project on Pollutant Pricing Mechanisms (horizon scanning activities) and summarises feedback received from outreach with users and regulators.
2. This paper is structured as follows:
 - (a) background (paragraphs 3-7);
 - (b) status of Pollutant Pricing Mechanisms on the IASB's work plan (paragraphs 8-11);
 - (c) observations from our horizon scanning activities (paragraphs 12-16);
 - (d) overview of horizon scanning activities performed to date (paragraphs 17-21);
 - (e) summary of feedback received from outreach with:
 - (i) users (paragraphs 22-32);
 - (ii) regulators (paragraphs 33-37);
 - (f) appendix A – background information on pollutant pricing mechanisms;
 - (g) appendix B – previous work on Pollutant Pricing Mechanisms;

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- (h) appendix C – summary of the FASB project on accounting for environmental credits program;
 - (i) appendix D – summary of work by national standard-setters and list of reports reviewed.

Background

3. Pollutant pricing mechanisms are mechanisms designed to create economic incentives for reducing emissions of greenhouse gases and other pollutants. These mechanisms can be categorized as being either compliance schemes or voluntary schemes:
 - (a) Compliance schemes are established and regulated by governing bodies who use emissions trading schemes (ETS) as a means of reducing emissions of greenhouse gases or other pollutants emissions. They operate on a mandatory basis where participation by entities covered by the ETS is compulsory.
 - (b) Voluntary schemes operate outside of the compliance market and enable carbon emitters to offset their emissions by purchasing carbon offsets on a voluntary basis. Carbon offsets are purchased from entities who generate or issue carbon offsets. Entities generate carbon offsets by developing projects that remove or reduce greenhouse gas emissions from the atmosphere through, for example, renewable energy projects or direct carbon capture technologies.
4. Appendix A includes further information on pollutant pricing mechanisms.
5. The IASB has previously carried out work on pollutant pricing mechanisms. Appendix B summarises that work.
6. In May 2022, the Financial Accounting Standards Board (FASB) added to its technical agenda a project on the accounting for environmental credits programs. Appendix C summarises the FASB’s work to date on this project.

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7. Several other national standard-setters are currently or have indicated that they plan to conduct research on pollutant pricing mechanisms. Appendix D summarises publicly available information about their research.

Status of Pollutant Pricing Mechanisms on the IASB's work plan

8. Many respondents to the Request for Information *Third Agenda Consultation*, including some users, rated a project on pollutant pricing mechanisms as a high priority.
9. Applying its criteria for adding a project to its work plan, the IASB also concluded that a project on pollutant pricing mechanisms was a high priority. However, the IASB decided not to add the project to its work plan, concluding that other projects were of higher priority. A project on pollutant pricing mechanisms was added to the reserve list. Projects on the reserve list are added to the work plan if additional capacity becomes available before the IASB's next five-yearly agenda consultation.¹
10. Since completing the *Third Agenda Consultation*, several stakeholders have suggested that the IASB should prioritise a project on pollutant pricing mechanisms. They argue that pollutant pricing mechanisms are increasing in prevalence and that deficiencies in reporting exist. More specifically, they argue that the lack of specific requirements on pollutant pricing mechanisms has resulted in diversity in practice, which impairs comparability.
11. In response to these stakeholder comments, the staff have undertaken horizon scanning activities to assess whether the situation has changed since the *Third Agenda Consultation* such that the IASB now needs to prioritise a project on pollutant pricing mechanisms.

¹ Further information is provided in the Feedback Statement [Third Agenda Consultation](#)

Observations from our horizon scanning activities

12. The prevalence of both compliance schemes and voluntary schemes is increasing.
13. Compliance markets are more mature than voluntary markets and the accounting issues are better defined.
14. There is diversity in accounting for both compliance schemes and voluntary schemes.
15. Limited outreach with users suggests that they receive insufficient information about an entity's participation in both types of schemes, although some of the requested information may be outside the scope of financial statements.
16. It is difficult to assess the materiality of these schemes to IFRS reporters. However, an increasing number of IFRS reporters are participating in these schemes, and the effects are material to some entities.

Horizon scanning activities

17. As part of our horizon scanning activities, we have performed outreach with the following stakeholders:
 - (a) National standard-setters: a questionnaire was distributed to members of the Accounting Standards Advisory Forum (ASAF) asking about the prevalence and significance of pollutant pricing mechanisms to the financial statements of IFRS reporters in their jurisdictions. We also asked about the accounting issues arising from these mechanisms, and whether respondents to the questionnaire believe that these accounting issues are adversely affecting the usefulness of information provided to users of financial statements. Agenda Paper 10B summarises the feedback received from the questionnaire.
 - (b) Users of financial statements: we developed a survey and distributed it to user groups. Questions in the survey were designed to gain an understanding from users about the prevalence of pollutant pricing mechanisms, and whether the issues created by the lack of accounting requirements are adversely affecting

the usefulness of information in the financial statements. Paragraphs 22-32 summarise feedback from this survey.

- (c) Regulators: we held meetings with two organisations representing a group of securities regulators. The purpose of the meetings was to gather information about the prevalence and significance of pollutant pricing mechanisms to the financial statements of the entities that they regulate, and what enforcement issues (if any) they are facing in relation to these mechanisms. Paragraphs 33-37 summarise feedback from these meetings.
 - (d) Emerging Economies Group (EEG): at the EEG meeting held on 28-29 May 2024 we provided members with an update on horizon scanning activities in relation to pollutant pricing mechanisms. Many EEG members said that compliance markets exist in their jurisdiction, and voluntary markets are increasing. Some members said that their jurisdictions are starting to introduce compliance markets, but they are not significant at this time. Most members said that they would like the IASB to prioritise a project on pollutant pricing mechanisms because the prevalence and significance of pollutant pricing mechanisms is increasing, there is increasing demand from regulators and stakeholders for accounting guidance, and there is diversity in accounting for these schemes. However, a few members stated that they do not see a project on pollutant pricing mechanisms as a priority at this time.
18. The outreach that we have conducted has been limited to the stakeholders listed in paragraph 17. We have not spoken directly to preparers or auditors. However, respondents to the Request for Information *Third Agenda Consultation* who rated a project on pollutant pricing mechanisms as a high priority included respondents from all groups, including preparers and auditors. In addition, in meetings on other topics, several accounting firms have commented on the increasing prevalence of pollutant pricing mechanisms and the lack of specific accounting requirements.
19. In addition, to outreach we have reviewed a limited number of reports about the carbon market and the accounting issues faced by entities participating in carbon

markets. Appendix D lists those reports. These reports appear to indicate that both compliance and voluntary schemes are increasing in prevalence and that there is diversity in accounting for these schemes.

20. In a working paper shared with the staff a group of academics sampled 50 listed entities in the extractive industries. Sixteen of those entities refer to carbon credits/allowances in their financial statements. A review of the financial statements of these 16 entities showed diversity in the classification of granted and purchased allowances and disclosures that are not always sufficient to understand the financial effect of the entity's participation in these schemes. In some entities, the financial effects of these schemes can be significant.²
21. Over the last few years, the World Bank has issued an annual report about key developments in carbon pricing. The 2024 report states that:³
 - (a) there are 75 carbon taxes and emission trading schemes operating around the world, which cover about 24% of global emissions. This is up from 7% a decade ago.⁴
 - (b) revenues from carbon policies reached USD 104 billion in 2023, and emissions trading schemes accounted for over 70% of this revenue.⁵
 - (c) the power and industrial sectors continue to account for the bulk of carbon pricing coverage. However, coverage is growing in other industries, such as aviation, shipping, and waste management.
 - (d) governments are increasingly allowing entities covered by compliance schemes to use carbon offsets generated in the voluntary market to reduce compliance obligations.

² These are staff observations based on evidence in the academic literature review: Baboukardos, D. Dionysiou D., Slack R., Tsalavoutas I., & Tsoligkas F., *Climate change risk-related disclosures in extractive industries: second follow-up study* (forthcoming), Adam Smith Business School Report

³ The full report is available here: [Open Knowledge Repository \(worldbank.org\)](https://openknowledge.worldbank.org/).

⁴ The World Bank Group, *State and Trends of Carbon Pricing 2024*, 2024, page 7.

⁵ The World Bank Group, *State and Trends of Carbon Pricing 2024*, 2024, page 28.

- (e) the integrity of voluntary carbon credits is a critical area of concern for the market.
- (f) The EU Carbon Board Adjustment Mechanism (CBAM) went into operation in 2023. CBAM is designed to apply a direct carbon price on imports that is equivalent to the EU ETS. It addresses ‘carbon leakage’ by applying a carbon price to emissions embedded in imports of covered goods. Countries like Australia, Canada and Japan are also considering the implementation of their own domestic border carbon adjustments.
- (g) Emissions trading schemes are currently under consideration and development in Brazil, India and Türkiye. Chile and Colombia are also making progress towards implementing emissions trading schemes.⁶

Summary of feedback received

Users

- 22. The survey was distributed to the following user groups:
 - (a) IASB user consultative group: Capital Markets Advisory Committee
 - (b) National standard-setter and endorsement body consultative groups:
 - (i) Australian Accounting Standards Board - User Advisory Committee
 - (ii) Canadian Accounting Standards Board - User Advisory Committee
 - (iii) EFRAG User Panel
 - (iv) UK Endorsement Board - Investor Advisory Group
 - (c) Retail investors: UK Shareholder’s Association.
- 23. We received 17 survey responses, many from individual investors, and a few from buy-side investment professionals. Most categorised their asset class as equities. Ten

⁶ The World Bank Group, *State and Trends of Carbon Pricing 2024*, 2024, page 19.

respondents indicated that they follow entities that participate in pollutant pricing mechanisms. Of these ten, most said their coverage was either global, or predominantly European listed entities. The analysis that follows has been based on these ten respondents.

24. Almost all respondents said that the information provided by entities in their financial statements about their use of carbon credits is insufficient. For example, respondents said⁷:
- (a) there is a lack of disclosures related to carbon credits including the number of credits received for free and purchases made during the year;
 - (b) investors need clearer information about the nature and quality of carbon offsets, including the quantity, types, certification, and negative emissions technologies planned for use;
 - (c) the financial statements should include information about how carbon offsets have been used including:
 - (i) the types of carbon offsets generated, purchased, sold, and retired;
 - (ii) the composition of the portfolio of carbon offsets including the number, value, type, verification body, and project; and
 - (iii) the carbon offset hedging strategy used to manage risks related to price, supply, or other factors that could affect their planned role in the entities climate strategy.
 - (d) information related to carbon markets is not being reported in the financial statements, but instead in sustainability reporting in a non-standard way;
 - (e) information reported is inconsistent, unclear, and not comparable.
25. Two respondents expressed the view that entities are providing too much information about carbon credits in an effort to ‘greenwash’ their activities.

⁷ Some of the information listed in paragraph 24 goes beyond the scope of financial statements.

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26. Many respondents indicated that the IASB should prioritise a project on pollutant pricing mechanisms, rating the project as either very important or somewhat important.

Compliance markets

27. Seven respondents stated that they follow entities that participate in compliance schemes. Most participate in a cap-and-trade scheme. Most operate in the electricity and heat generation industry and energy intensive industries.
28. Around half of those respondents that follow entities that participate in compliance schemes reported seeing diversity in accounting for these schemes and noted that this diversity results in having to make adjustments when comparing entities. The other respondents said they did not know whether there is diversity in practice.

Voluntary markets

29. Eight respondents stated that they follow entities that participate in the voluntary market. Most of the entities are purchasing carbon offsets to reduce their greenhouse gas emissions. Some are also project developers; implementing projects that reduce or remove greenhouse gas emissions. One respondent stated that an entity that they follow trades in carbon offsets.
30. When asked what industries the entities they follow operate in, many respondents said energy intensive industries and the transport industry. Some said electricity and heat generation and the aviation industry. One respondent listed financial services and private equity firms. Another said consumer staples and information technology.
31. Almost all respondents said that the information provided by entities about the costs of their participation in these schemes is insufficient.

Other comments

32. A few respondents provided additional comments about the information reported in the financial statements about pollutant pricing mechanisms. Below is a summary of comments:
- (a) Pollutant pricing mechanisms will be a key topic for preparers over the next few years as carbon prices and the effect on financial statements becomes more material.
 - (b) Existing accounting standards and concepts could be used to account for pollutant pricing mechanisms more consistently, particularly for voluntary schemes, given their similarities to financial instruments.
 - (c) Carbon credits in the compliance market could be included in the scope of IFRS 9 *Financial Instruments* as they are economically similar to financial instruments.
 - (d) The IASB should not focus on voluntary schemes because their effect is immaterial for most entities and the accounting issues for voluntary schemes are difficult to resolve.
 - (e) As entities increasingly use offsets to meet reduction targets and regulatory obligations, investors require more transparency and expect entities to disclose information about their use of offsets, the credibility of the offsets, and risks associated with the underlying projects.

Regulators

33. Some of the regulators that we met noted an increase in the prevalence of pollutant pricing mechanisms, particularly in the compliance market, as governments continue to develop compliance schemes.
34. Some highlighted diversity in accounting for pollutant pricing mechanisms. They have observed that carbon allowances and credits are typically accounted for as either

inventory or intangible assets. A few mentioned the use of the government grant approach, noting it was less common in practice.⁸

35. Most of the regulators that we met with are experiencing enforcement challenges due to the diversity in accounting for pollutant pricing mechanisms, noting that the lack of requirements leads to various measurement approaches and insufficient disclosures. One respondent noted that the difference in disclosure requirements between IAS 2 *Inventories* and IAS 38 *Intangible Assets*, particularly the limited disclosures in IAS 2, creates enforcement challenges.
36. Many of the regulators that we spoke to said that there is a need for the IASB to provide clearer guidance. They expressed a preference for the IASB to address both the compliance and voluntary market, however, if necessary, to prioritise work on compliance schemes.
37. A few indicated that inconsistencies between IFRS Accounting Standards and U.S. GAAP pose challenges, especially for entities operating in multiple jurisdictions. They suggested that the fact that neither set of standards currently has guidance on pollutant pricing mechanisms could provide an opportunity to reach a converged solution.

Questions for the IASB

1. Does the IASB have any questions or comments on:
 - (a) the horizon scanning activities conducted to date;
 - (b) the feedback summarised in paragraphs 22-37 and Agenda Paper 10B?
2. Is there any additional information that you need to help you decide whether to prioritise a project on Pollutant pricing Mechanisms?

⁸ Appendix B of Agenda Paper 10B, *Summary of feedback – national standard-setters*, provides a description of the accounting approaches observed in practice.

Appendix A – Background information on pollutant pricing mechanisms

- A1. Pollutant pricing mechanisms are mechanisms designed to create economic incentives for reducing emissions of greenhouse gases and other pollutants.
- A2. These mechanisms can be categorized as being either compliance markets or voluntary markets. Various types of mechanisms, often referred to as schemes, exist within these markets.

Compliance schemes

- A3. Compliance schemes are established and regulated by governing bodies who use emissions trading schemes (ETS) as a means of reducing emissions of greenhouse gases or other pollutants emissions.⁹ They operate on a mandatory basis where participation by entities covered by the ETS is compulsory.
- A4. The two main types of ETS's are cap-and-trade schemes and baseline and credit schemes.¹⁰

Cap-and-trade schemes

- A5. The largest cap-and-trade scheme, in terms of trading volume and value, is the European Union Emissions Trading System (EU ETS), which started in 2005.¹¹ Many of the cap-and-trade schemes around the world today have been modelled on the EU ETS. The description of a cap-and-trade scheme which follows focuses on the EU ETS.¹²
- A6. In a cap-and-trade scheme an overall cap is set on the total volume of greenhouse gas emissions that may be released during a specified 'commitment period'. Over time, the overall cap is reduced to achieve the desired reduction in overall emissions.

⁹ The World Bank Group, *State and Trends of Carbon Pricing 2023*, 2023, page 55.

¹⁰ The World Bank, 'Carbon Pricing Dashboard - Main Types of Carbon Pricing', The World Bank Group, 2024, <https://carbonpricingdashboard.worldbank.org/what-carbon-pricing>.

¹¹ The International Carbon Action Partnership, *Emissions Trading Worldwide Status Report 2024*, 2024, page 35.

¹² Further information about the EU ETS is available here: [EU Emissions Trading System](#).

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- A7. The cap is expressed in emission allowances, where one allowance gives the right to emit one tonne of carbon dioxide, and entities covered by the cap-and-trade scheme must surrender enough allowances to fully cover their emissions for a specified ‘compliance year’ (a one-year period within a multi-year commitment period).
- A8. Within the overall cap, covered entities receive or buy emissions allowances, and these allowances can be traded. Allowances are allocated on an annual basis, in line with the compliance year, but their use is not restricted to a particular year. Therefore, if a covered entity emits emissions less than its cap for the year, it can either hold the excess allowances for future periods or sell them in the compliance market. Alternatively, if an entity exceeds its emissions allowances, it can buy allowances in the compliance market, use allowances banked from previous periods (if available), or ‘borrow’ from the following compliance year.

Baseline and credit schemes

- A9. Under a baseline and credit scheme, instead of issuing emissions allowances equal to an overall cap, a baseline is established which serves as a limit on emissions. Covered entities may emit up to the level of the baseline without incurring additional costs.
- A10. Covered entities can earn emission units if they emit emissions below the baseline. These allowances can be traded. If emissions exceed the baseline, entities must purchase emissions credits to cover their excess emissions relative to the baseline.¹³

Voluntary schemes

- A11. Voluntary schemes operate outside of the compliance market and enable carbon emitters to offset their emissions by purchasing carbon offsets on a voluntary basis.¹⁴

¹³ The World Bank, ‘Carbon Pricing Dashboard - Main Types of Carbon Pricing’, The World Bank Group, 2024, [What is Carbon Pricing? | Carbon Pricing Dashboard \(worldbank.org\)](#).

¹⁴ Typically, the voluntary market operates outside of the compliance market, however there are a limited number of compliance schemes which will allow the use of carbon offsets originating in the voluntary market to settle or reduce a compliance obligation. Australia’s Safeguard Mechanism is an example of this. Further information is available here [Schemes | Clean Energy Regulator \(cer.gov.au\)](#).

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- A12. Entities purchase carbon offsets in the voluntary market to show their progress towards meeting their climate-related commitments. A project-based system is used, where carbon offsets are created through the development of projects that remove or reduce greenhouse gas emissions from the atmosphere.
- A13. The voluntary market is evolving rapidly as entities look for ways to be accountable for their carbon footprint, but the two main ways that voluntary carbon offsets are created is either through avoidance/reduction schemes or removal/sequestration schemes.¹⁵

Avoidance/reduction schemes

- A14. These projects focus on strategies to avoid or reduce greenhouse gas emissions that would otherwise have occurred.¹⁶
- A15. Examples include renewable energy projects, energy efficiency improvements and waste management initiatives.

Removal/sequestration schemes

- A16. Projects focus on actively removing greenhouse gas emissions from the atmosphere by means of afforestation, reforestation or carbon capture and storage initiatives.¹⁶
- A17. Examples include forestry projects which capture carbon and direct carbon air capture and storage technologies which use chemicals to trap carbon from the air.

¹⁵ The World Bank Group, *State and Trends of Carbon Pricing 2023*, 2023, page 55.

¹⁶ S. Favasuli, 'Voluntary carbon markets: how they work, how they're priced and who's involved', S&P Global, [Voluntary carbon markets: how they work, how they're priced and who's involved | S&P Global Commodity Insights \(spglobal.com\)](https://www.spglobal.com/commodityinsights/whitepapers/2023/voluntary-carbon-markets-how-they-work-how-theyre-priced-and-whos-involved).

Appendix B – Previous work on pollutant pricing mechanisms

- B1. The IFRS Interpretations Committee issued IFRIC 3 *Emissions Rights* in 2004, which was intended to address the accounting for cap-and-trade schemes. However, it was withdrawn in 2005 because stakeholders raised concerns about the accounting mismatches that it created between the assets and liabilities recognised applying IFRIC 3.¹⁷
- B2. After the withdrawal of IFRIC 3, the IASB began a project on emissions trading schemes, again focusing on cap-and-trade schemes. Some tentative decisions were reached about what the assets and liabilities in the scheme were, when to recognise them, and how to measure them. However, the project was suspended in 2010 to allow the IASB to focus on higher priority projects and complete its revision of the *Conceptual Framework*.¹⁸
- B3. In 2014 staff were allocated to start a research project on emissions trading schemes. In early 2015, the project was renamed pollutant pricing mechanisms to reflect the change in scope, approach, and direction of the project.
- B4. Staff carried out initial research to investigate the common economic characteristics of various pollutant pricing mechanisms and the accounting policies used to report them. The initial research identified interactions with the definition of a liability in the *Conceptual Framework*, particularly when entities received emissions allowances for free from scheme administrators. The research also identified questions about whether, and if so how, to recognise assets and liabilities arising from pollutant pricing mechanisms, some of which interacted with IFRIC 21 *Levies*.
- B5. Following feedback from the *2015 Agenda Consultation* and a review of the research findings so far, the IASB suspended the project to focus on higher priority projects.¹⁹

¹⁷ See [June 2005 IASB Update](#) for more information.

¹⁸ See [Emissions Trading Schemes](#) for more details of the project.

¹⁹ See [Pollutant Pricing Mechanisms](#) for more details of research performed.

- B6. As noted in paragraph 9, a project on pollutant pricing mechanisms was added to the reserve list in response to feedback from the *Third Agenda Consultation*.

Appendix C – Financial Accounting Standards Board: Accounting for Environmental Credits Program

C1. In May 2022, the Financial Accounting Standards Board (FASB) added to its technical agenda a project on the accounting for environmental credits programs. The objective of the project is 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 nongovernmental creators of environmental credits. The FASB intend to release an exposure draft. Timing of the exposure draft has yet to be determined. The following are key highlights from the tentative decisions reached on the project to date.²⁰

Scope

- C2. An environmental credit within the scope of the project is defined as an enforceable right that is acquired (including from related parties), internally generated, or granted by a regulatory agency or its designees that meets all of the following:
- (a) lacks physical substance and does not meet the definition of a financial asset under U.S. GAAP;
 - (b) represents the prevention, control, reduction or removal of emissions or other pollution;
 - (c) is separately transferable in an exchange transaction; and
 - (d) is not an income tax credit that can be used to settle an entity's income tax liability.
- C3. Environmental credit obligations (ECO) within the scope of the project are obligations that arise from existing or enacted laws, statues, or ordinances represented to prevent, control, reduce, or remove emissions or other pollution that may be settled with environmental credits.

²⁰ See [FASB Accounting for Environmental Credits Program](#) for more information on the project.

Asset recognition and measurement

- C4. An entity recognises an asset for an environmental credit when it is probable that the credit will be used to settle an ECO, or separately transferred in an exchange transaction (for example, sold or traded). Costs incurred to obtain all other environmental credits are recognised as an expense when incurred.
- C5. Environmental credits, other than those granted or internally generated, are initially measured at historical cost. Environmental credits granted or internally generated are initially measured at cost, limited to the transaction costs of obtaining the credit.
- C6. Environmental credits probable of being used to settle an ECO (i.e. compliance environmental credits) are not remeasured. Noncompliance environmental credits are subsequently measured at historical cost, less impairment.
- C7. The FASB tentatively decided to provide an accounting policy election to remeasure eligible noncompliance environmental credits, other than those internally generated, at fair value. Staff are conducting additional research to determine which credits would be eligible for this election.

Liability recognition and measurement

- C8. Entities recognise a liability when activities or events occurring on or before a balance sheet date indicate the existence of an ECO. The balance sheet date is considered to be the end of the compliance period when determining whether to recognise an ECO liability.
- C9. The funded portion of an ECO is measured based on the carrying amount of compliance environmental credits held at the balance sheet date using the best estimate of the credits to be derecognised upon settlement.
- C10. The unfunded portion is measured using the fair value at the balance sheet date of the environmental credits necessary to settle the liability, with two exceptions:
- (a) if the entity intends to remit cash to settle the ECO liability, it would use the cash settlement amount under the compliance program to measure the ECO liability.

- (b) if the entity intends to settle the ECO liability using environmental credits obtained through an existing commitment to purchase a fixed quantity of environmental credits at a fixed price, it would use the estimated cost basis of those credits to be obtained through that contract to measure the ECO liability.

C11. Subsequent changes are recognised in earnings, presented in the same income statement line item as the initial measurement of the ECO liability.

Presentation and classification

C12. An entity is prohibited from offsetting its ECO liabilities and associated compliance environmental credit assets, they should present them gross.

C13. An ECO liability reasonably expected to be settled within one year should be classified as a current liability, all others classified as noncurrent liabilities.

C14. An environmental credit reasonably expected to be sold, traded, or remitted to a regulator within one year should be classified as a current asset, all others classified as noncurrent assets.

Appendix D – Summary of work by national standard-setters and list of reports reviewed

Summary of work by national standard-setters

- D1. Several national standard-setters are currently or have indicated in their response to the ASAF questionnaire that they plan to conduct research on pollutant pricing mechanisms. Paragraphs D2-D7 summarise publicly available information about their research.
- D2. Autorité des normes comptables (ANC), France:
- (a) The ANC is funding an academic research project, ‘Pollutant Pricing Mechanisms’.²¹
- D3. Canadian accounting standards board (AcSB):
- (a) The AcSB is performing research to understand pollutant pricing mechanisms and the accounting for carbon credits. They intend to use this research to inform future international discussions on this topic.
 - (b) The AcSB has held discussions with their IFRS Accounting Standards Discussion Group about carbon credits.²² Topics discussed include:
 - (i) Accounting for the development of carbon credits that will ultimately be sold
 - (ii) Accounting for the development of carbon credits by a renewable energy generator
 - (iii) Revenue recognition for carbon credits.
- D4. China Accounting Standards Committee (CASC):

²¹ Further details can be found here: [Research projects \(anc.gouv.fr\)](https://anc.gouv.fr)

²² Full details of the discussions are available here:

[IFRS® Accounting Standards Discussion Group Meeting Report – May 25, 2023 \(frascanada.ca\)](https://frascanada.ca),

[IFRS® Accounting Standards Discussion Group Meeting Report – September 19, 2023 \(frascanada.ca\)](https://frascanada.ca),

[IFRS® Accounting Standards Discussion Group Meeting Report – December 12, 2023 \(frascanada.ca\)](https://frascanada.ca).

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- (a) The China Accounting Standards Committee, in collaboration with experts, has conducted preliminary research on carbon emissions trading accounting, focusing on the recognition and measurement of assets and liabilities of carbon emissions.²³
- D5. Comitê de Pronunciamentos Contábeis (CPC), Brazil:
- (a) Brazil is currently developing accounting guidance for carbon offsets. An [Exposure Draft](#) was issued in April 2023 and closed for comments in October 2023.
- D6. European Financial Reporting Advisory Group (EFRAG):
- (a) On 1 June 2022, after considering both constituents' feedback to the EFRAG joint consultation document and the IASB decisions on its workplan, the EFRAG Financial Reporting Board approved the addition of a reserve list pollutant pricing mechanism to its proactive agenda. The EFRAG Secretariat plans to start its proactive project in 2024.
- D7. Malaysian Accounting Standards Board (MASB):
- (a) In June 2021, MASB issued an article on carbon credits which discussed the accounting approaches and challenges associated with accounting for carbon credits in the absence of IFRS requirements.²⁴

List of reports reviewed

- D8. The following is a list of the reports reviewed by staff as part of our horizon scanning activities:
- (a) *Applying IFRS – Accounting for Climate Change*: a publication by Ernst & Young which discusses various accounting considerations in relation to climate change, including accounting considerations for carbon credits in both

²³ Further details can be found here: [CASC - Carbon emissions trading accounting \(casc.org.cn\)](https://casc.org.cn)

²⁴ The full article can be found here: [MASB - Carbon Credits \(masb.org.my\)](https://masb.org.my).

- the compliance and voluntary markets. [Applying IFRS Accounting for Climate Change August 2023 | EY - Global](#)
- (b) *Carbon Accounting Frequently Asked Questions*: a publication by Chartered Accountants Australia and New Zealand which responds to frequently asked questions in relation to carbon accounting. [Carbon accounting FAQs | CA ANZ \(charteredaccountantsanz.com\)](#)
- (c) *Emissions Trading Systems: The Opportunities Ahead*: a report by PricewaterhouseCoopers (PwC) which reports and comments on the results of a survey conducted between September 2020 and January 2021 of 25 large entities operating in the EU ETS. The report reviews the accounting practices entities use to account for carbon credits and sets out the three accounting approaches PwC has observed in practice. [Emissions trading systems: The opportunities ahead \(pwc.com\)](#)
- (d) *Emissions Trading Worldwide Status Report 2024*: the International Carbon Action Partnership releases an annual publication on the current state of emissions trading worldwide. The 2024 report provides detailed factsheets on every emissions system in operation, under development and under consideration. [Emissions Trading Worldwide: 2024 ICAP Status Report | International Carbon Action Partnership \(icapcarbonaction.com\)](#)
- (e) *Financial Reporting of European Companies on Climate Issues*: a study by Mazars which looks at how 80 European listed entities have communicated on climate issues in their financial statements (at 31 December 2021 and 31 March 2022), including accounting for carbon schemes. [Financial reporting of European companies on climate issues - Forvis Mazars Group](#)
- (f) *In depth: IFRS Financial Reporting Considerations for Entities Participating in the Voluntary Carbon Market*: in this article PwC New Zealand considers the accounting for offsets in the voluntary carbon market. The article discusses the accounting considerations for project developers, intermediaries, and end buyers. [in-brief-march-2023.pdf \(pwc.co.nz\)](#)

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- (g) *State and Trends of Carbon Pricing (2023 and 2024)*: the World Bank releases an annual report on carbon markets and trends in carbon pricing. The reports from 2023 and 2024 were reviewed. [Pricing Carbon \(worldbank.org\)](https://www.worldbank.org/press/2024/04/24-pricing-carbon)