
IFRS Advisory Council

Date **November 2024**

Project **Pollutant Pricing Mechanisms**

Topic **Horizon-scanning and prioritisation advice**

Contacts **Rachel Knubley** (rknubley@ifrs.org)
Vanessa Hanna (vanessa.hanna@ifrs.org)

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. This paper does not represent the views of the IFRS Advisory Council or any individual IFRS Advisory Council member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards.

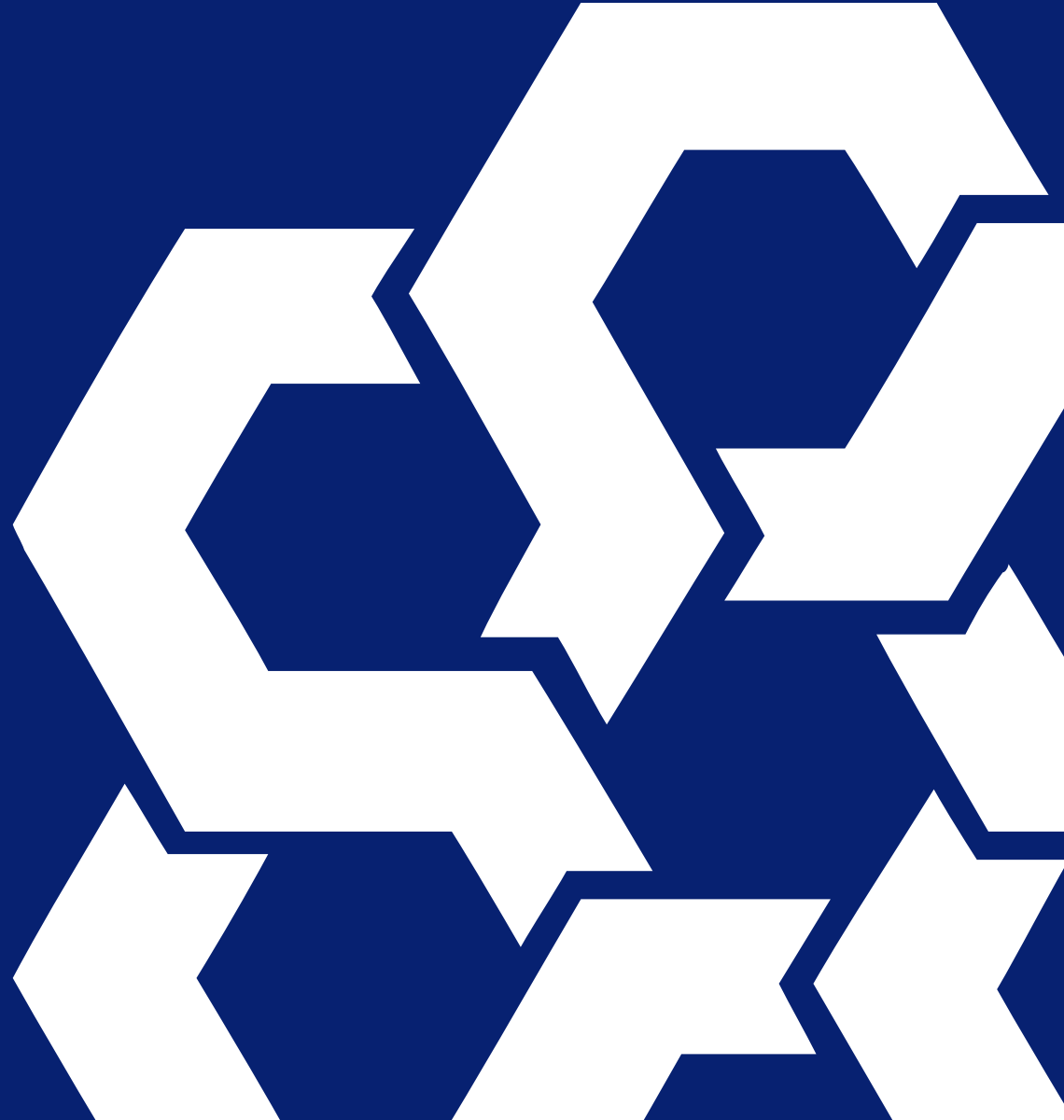
Executive summary

- The International Accounting Standards Board (IASB) conducts an agenda consultation every five years to set its work plan. The IASB also monitors financial reporting developments and practices, standing ready to add projects or change priorities between consultations in response to changing circumstances.
- Many respondents to the IASB's [Third Agenda Consultation](#) identified a project on pollutant pricing mechanisms (PPMs) as a high priority. However, the IASB concluded that there were other projects of higher priority, therefore a project on PPMs was not added to the work plan.
- Since the Third Agenda Consultation, several stakeholders have suggested that the IASB should prioritise a project on PPMs, arguing that their prevalence is increasing and there is diversity in accounting for them.
- In response to this, staff have been conducting activities (horizon-scanning) to assess whether the situation has changed since the agenda consultation such that a project on PPMs needs to be added to the work plan.
- Results of the horizon-scanning performed to date indicates that the prevalence and significance of PPMs is increasing. However, there is insufficient evidence to suggest that PPMs are currently material to a significant number of IFRS reporters. Results of our horizon-scanning are summarised on slides 12–16 and in the Appendix.
- The [Due Process Handbook](#) requires that the IASB consult with the IFRS Advisory Council and Accounting Standards Advisory Forum (ASAF) before adding a major project to the work plan if not contemplated in the previous agenda consultation.
- The IASB seeks the Advisory Council's advice on whether to:
 - start a project on PPMs before the next agenda consultation, which would have consequences for now-active projects on the IASB's agenda.
 - defer the topic to the next agenda consultation to allow stakeholders to consider the priority of such a project holistically, in relation to other priorities identified. The IASB would continue monitoring the issue and liaising with stakeholders, such as national standard-setters and academics, on any new research they undertake.
- The feedback received from the Advisory Council will help the IASB make an informed decision in Q1 2025 on whether to add a project on PPMs to the work plan.

Information for participants

	Slide
Purpose and question	5–6
Background information on pollutant pricing mechanisms	8–10
Horizon-scanning activities and feedback	12–18
Prioritisation considerations	20–25
Appendix—survey results and June IASB papers	27–29

Purpose and question



Purpose of this session

Obtain the Advisory Council's feedback on whether to start a project on PPMs within this agenda consultation cycle (2022–2026). The feedback will inform the IASB's decision in Q1 2025 on whether to add a project to the work plan

- Work on the next agenda consultation is expected to start in early 2025 and cover the period 2027 to 2031

Should the IASB:



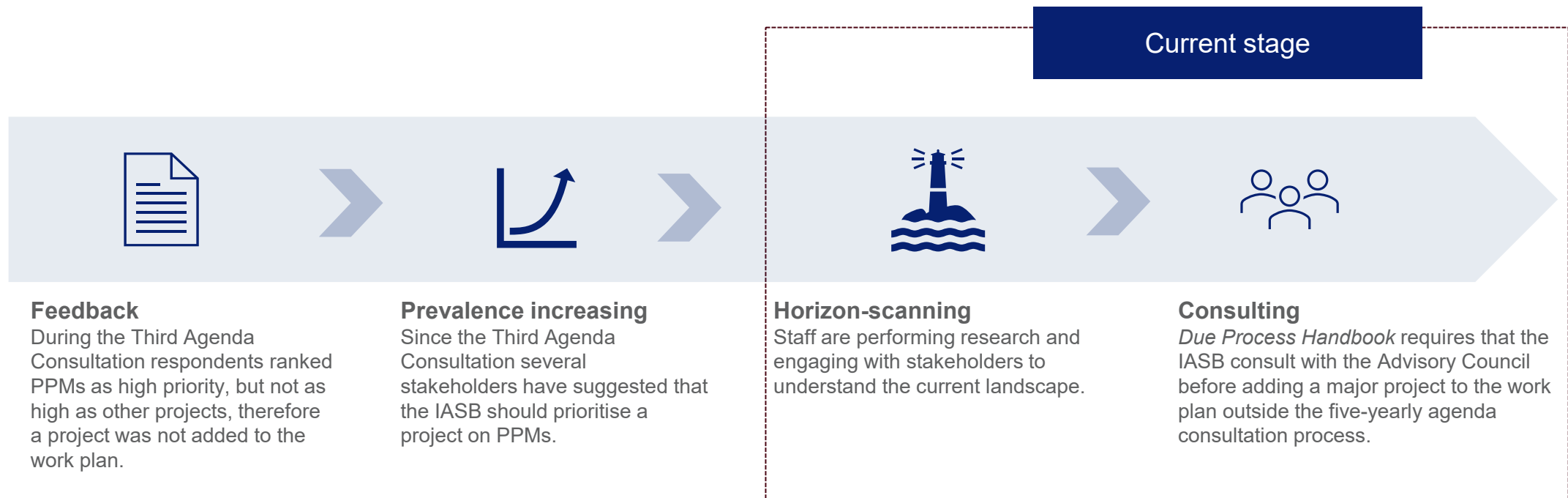
Start a project on PPMs before the next agenda consultation period, with the consequence that one or more of the now-active projects prioritised in the Third Agenda Consultation would need to be retired, paused, or progressed at a slower pace?



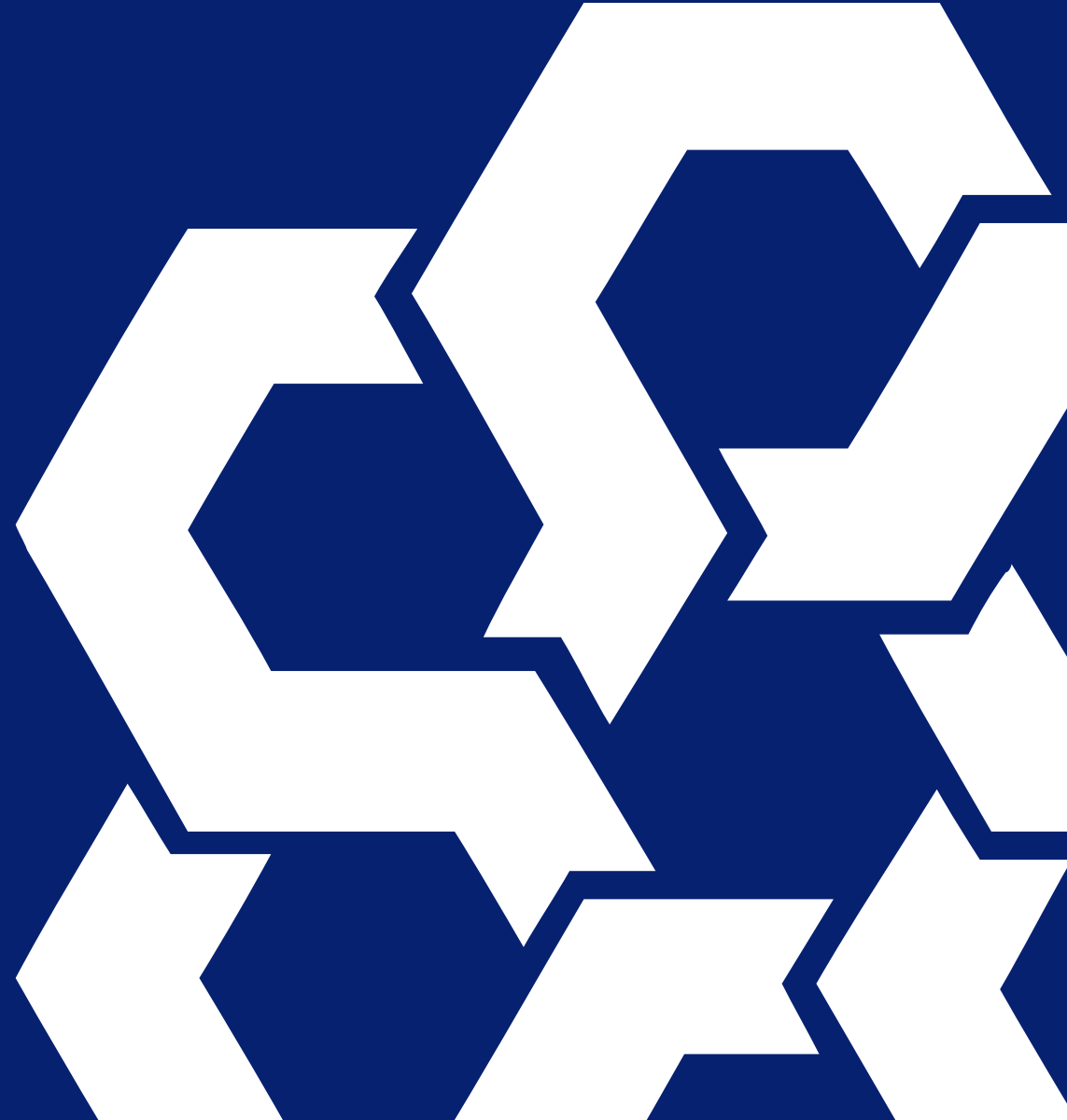
Defer the topic to the next agenda consultation to allow stakeholders to consider the priority of such a project holistically, in relation to other projects identified?

- In the meantime, the IASB would continue monitoring the issue and liaising with stakeholders, such as national standard-setters and academics, on any new research they undertake.

Status of Pollutant Pricing Mechanisms on IASB work plan



Background information on pollutant pricing mechanisms



What are pollutant pricing mechanisms?

Mechanisms, also known as 'schemes', designed to achieve a reduction of greenhouse gases (GHG) through the use of tradable emissions allowances or carbon credits



Compliance market

- Established and regulated by governments
- Emissions trading schemes (ETS) are used as a means to limit GHG emissions
- Participation is mandatory for entities covered by the ETS



Voluntary market

- Operates outside of the compliance market
- Enables carbon emitters to offset emissions by purchasing carbon offsets on a voluntary basis
- A project-based system is used, where carbon offsets are created through the development of projects that remove or reduce GHG emissions from the atmosphere

Compliance market

Two main types of compliance schemes exist:

Cap-and-trade scheme

- Overall cap set on total volume of GHG emissions that can be released during a specified commitment period
- Overall cap is then allocated across participants by distributing or selling allowances
- Over time cap is reduced
- Participants must remit allowances to cover GHG emitted

Baseline and credit scheme

- Total emissions are not fixed, instead a baseline is established that serves as a limit on the emissions for participating entities
- Participants may emit up to the level of the baseline without incurring additional costs
- Credits are issued to entities that have reduced emissions below baseline level



Voluntary market

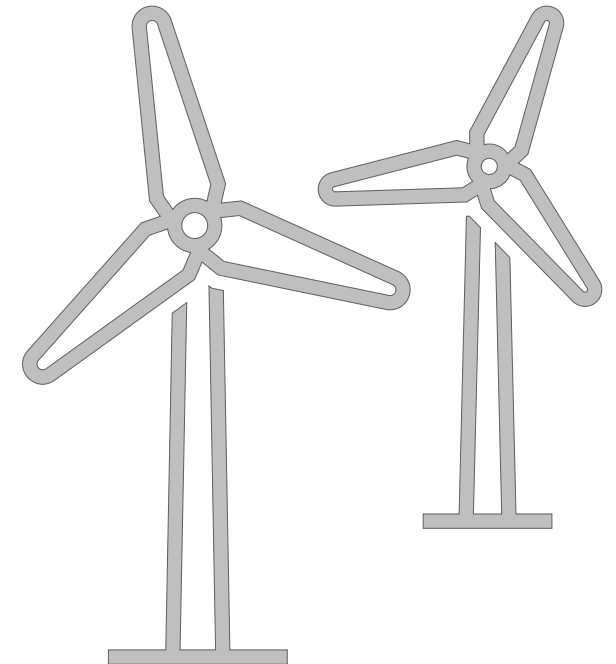
Two main types of voluntary schemes exist:

Avoidance/ Reduction

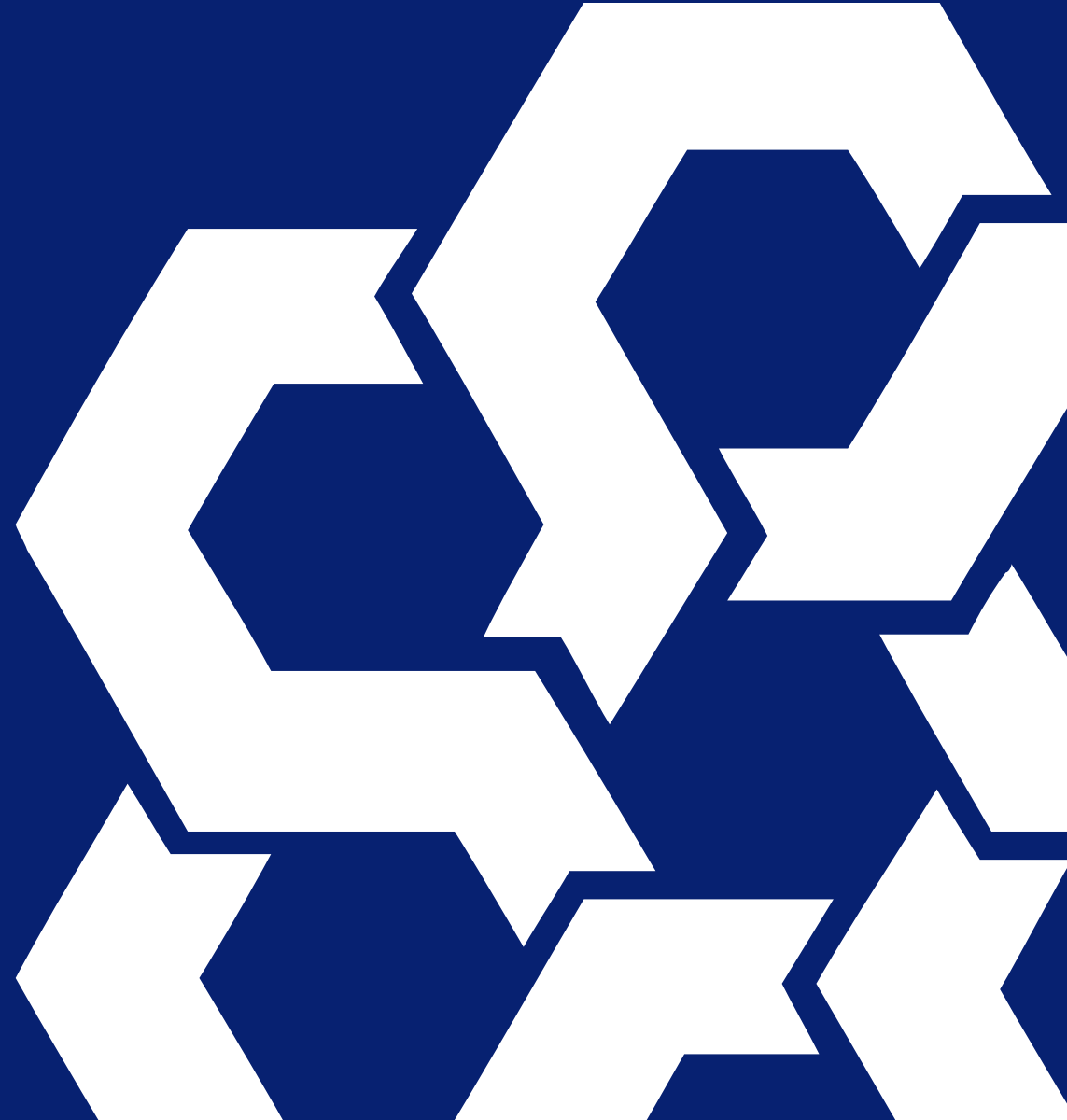
- Carbon offsets are generated by measuring GHG emissions that were avoided or reduced as a result of implementing a project
- Examples include renewable energy projects, energy efficiency improvements, waste management initiatives

Removal/ Sequestration

- Carbon offsets are generated by measuring the amount of GHG emissions removed by a project by means of afforestation, reforestation or carbon capture and storage technologies
- Examples include forestry projects which capture carbon, and direct air capture and storage technologies which use chemicals to trap carbon from the air



Horizon-scanning activities and feedback



Horizon-scanning activities

Outreach with stakeholders



Investors

Survey distributed to targeted group of investors (slide 14)



Regulators

Meetings held with securities regulators (slide 14)



National standard-setters

Meetings held (slide 15) and survey distributed to ASAF members (Appendix)



IFRS Interpretations Committee (Committee)

Session held with Committee (slide 16)



Preparers

Holding meetings with Global Preparers Forum (GPF), our consultative group comprised of preparers

Horizon-scanning activities

Key observations



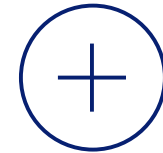
The **prevalence** of both compliance schemes and voluntary schemes is **increasing**.



Compliance markets are **more mature** than voluntary markets and the accounting **issues** are **better defined**.



There is **diversity in accounting** for both compliance and voluntary schemes.



Difficult to assess materiality of these schemes to entities, but an **increasing number** are participating, and **effects** are **material** to some.

Feedback from outreach

Investors and regulators

Investors



- Of those respondents who follow entities that participate in PPMs, **almost all** indicated that the information provided in financial statements about their use of carbon credits is insufficient.*
- **Many respondents** indicated that the IASB should prioritise a project on PPMs, rating the project as either very important or somewhat important.

Regulators



- **Some** of the regulators we met noted an increase in the prevalence of PPMs, particularly in the compliance market.
- **Many** indicated the need for the IASB to provide accounting guidance.
- **Most** are experiencing enforcement challenges due to the diversity in accounting.

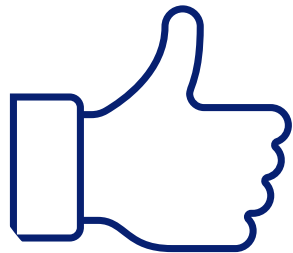
* We received a total of 17 responses. Ten indicated that they follow companies that participate in PPMs. The analysis is based on these ten respondents



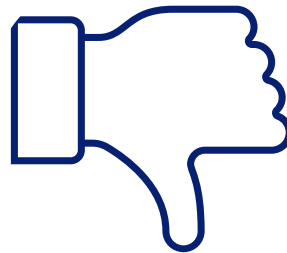
[Recording of meeting](#)

Feedback—July ASAF meeting

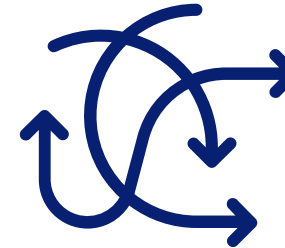
We heard mixed views from ASAF members



Some ASAF members would like the IASB to **prioritise a project** on PPMs, suggesting that their prevalence and significance is increasing and there is diversity in accounting.



Some ASAF members were **less supportive** of the IASB **prioritising a project** on PPMs, suggesting that the feedback they received from stakeholders did not indicate that the financial effects of PPMs are significant enough.



ASAF members commented on the **interaction** between a project on PPMs and **Intangible Assets**. Some suggested first progressing Intangible Assets, while others cautioned that it would be too late if the IASB waited for Intangible Assets.



[Recording of meeting](#)

Feedback—September IFRS Interpretations Committee meeting



The **prevalence** of PPMs is increasing, and although perhaps not material today, their **significance** is **increasing**.



There is **diversity in practice** for both types of schemes, and many Committee members expressed support for the IASB to **start** a project **sooner rather than later**.



Many would like a project to address **both** schemes together. Some suggested addressing **compliance** schemes **separately** and including **voluntary** schemes within the scope of the **Intangible Assets** project.



Most support addressing both **recognition and measurement**, while one Committee member suggested a **disclosure only** project would be sufficient.

Feedback—June IASB meeting

We heard mixed views from IASB members



[Recording of meeting](#)



National standard-setters

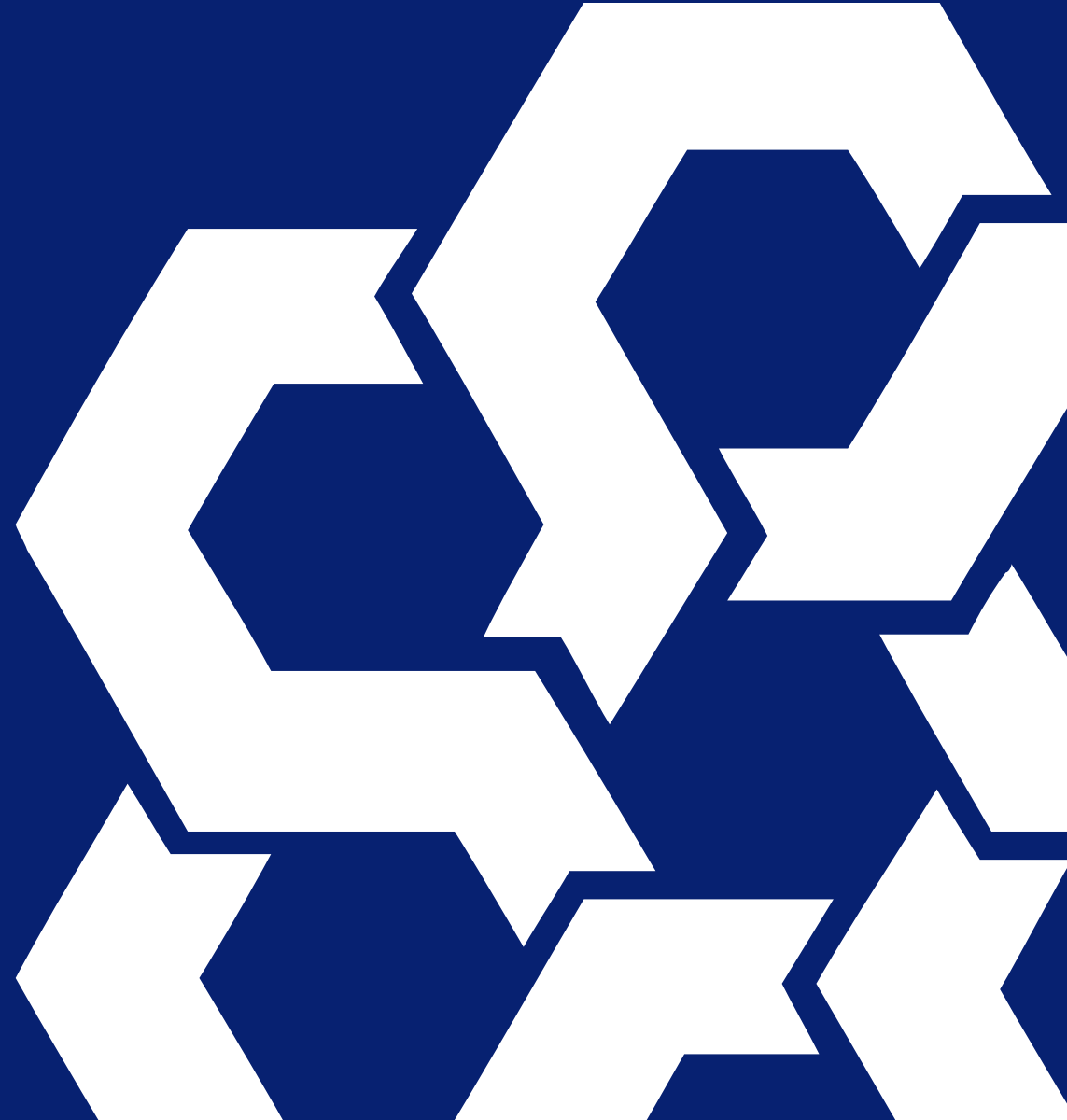
Summary of work performed

Several national standard-setters have or plan to conduct work on pollutant pricing mechanisms:

- **The Financial Accounting Standards Board (FASB) :**
 - The FASB added to its technical agenda a project on the Accounting for Environmental Credits Programs to improve the accounting requirements for schemes of this type. They expect to release an Exposure Draft shortly. At the July ASAF meeting the FASB representative provided a summary of the project—[FASB July 2024 ASAF](#).
- **The Canadian Accounting Standards Board (AcSB):**
 - The AcSB is performing research to understand pollutant pricing mechanisms and the potential approaches to accounting for carbon and other environmental credits. At the July ASAF meeting the AcSB representative presented an overview of staff research findings including feedback from users and national standard-setters—[AcSB July 2024 ASAF](#).
- Information about work performed or planned by other national standard-setters can be found in [Agenda Paper 10A–Appendix D](#)



Prioritisation considerations



Prioritisation considerations

Should the IASB:



Start a project on PPMs before the next agenda consultation period, with the consequence that one or more of the now-active projects prioritised in the Third Agenda Consultation would need to be retired, paused, or progressed at a slower pace?



Defer the topic to the next agenda consultation to allow stakeholders to consider the priority of such a project holistically, in relation to other projects identified?

- In the meantime, the IASB would continue monitoring the issue and liaising with stakeholders, such as national standard-setters and academics, on any new research they undertake.

Standard-setting projects in different stages



The expected date for the next milestone for each project is indicated in the brackets

Proposed prioritisation framework

Technical considerations

Prioritisation framework	Pollutant Pricing Mechanisms
<p>Pervasiveness—large number of entities affected or expected to be affected by the matter.</p>	<ul style="list-style-type: none"> • Not yet pervasive but prevalence is increasing. • Jurisdictions are implementing new and/or expanding the scope of existing schemes.
<p>Effects (expected financial reporting benefits exceed costs)</p>	<ul style="list-style-type: none"> • There is diversity in accounting • Feedback suggests investors receive insufficient information about an entity’s participation in carbon markets. However, some of the information needed by investors may not belong in financial statements and may be provided by sustainability-related financial disclosures. • New requirements will impose costs on preparers, and it is unclear whether the benefits from improved reporting on the effects of these schemes are sufficiently significant to justify such costs.
<p>Feasibility of standard-setting, given standard-setting investment required</p>	<ul style="list-style-type: none"> • Prior standard-setting attempts have been difficult; however, work of national standard-setters, notably the FASB, might inform the project. • Could be a large, complex project (see slide 24) • Entities have established accounting practices for compliance schemes, potentially making change more difficult.
<p>Strategic priority—such as facilitating connectivity with the ISSB, maintaining convergence where previously achieved with US GAAP, or improving understandability of IFRS Accounting Standards.</p>	<ul style="list-style-type: none"> • A project would have connections with the work of the ISSB • The FASB plans to publish an Exposure Draft on this topic which may provide opportunities for a converged solution. However, differences in Board’s definitions of a liability and the potential scope of any project may reduce these opportunities.

Proposed prioritisation framework

Operational considerations

Prioritisation framework	Pollutant Pricing Mechanisms
<p>Time-sensitivity of the need for a solution. Urgent projects are started immediately. The time-sensitivity of a matter may be related to technical considerations such as pervasiveness and effect.</p>	<ul style="list-style-type: none"> • While PPMs are growing in prevalence and significance, there is insufficient evidence to suggest that they are currently material to a significant number of IFRS reporters, calling into question the need for a time-sensitive solution. (However, developing a solution will take time – see slide 24).
<p>Synergies with other projects, including relevant research being performed by other standard-setters.</p>	<ul style="list-style-type: none"> • Some national standard-setters, such as the FASB and AcSB, are performing research on the topic which could expedite the work of the IASB. • A project on PPMs is expected to interact with projects on Intangible Assets and Provisions and while synergies are likely, it may be beneficial to advance these projects initially and draw on the lessons learned.
<p>Whether capacity (internal and stakeholder) is available to meet project needs. If capacity is not available, relative prioritisation decisions will need to be made to source capacity from active projects</p>	<ul style="list-style-type: none"> • Starting a project now would require retiring, pausing or slowing the progress of previously prioritised projects. • Aside from recently started research projects (prioritised through the Third Agenda Consultation and recently completed post-implementation review projects), all other projects are quite advanced. Retiring, pausing, or slowing their progress could be disruptive, particularly given the high level of engagement from stakeholders in recent consultations.
<p>If a project is paused, the effort to restart the project.</p>	<p><i>Not applicable</i></p>

Projected timeline

Scope considerations

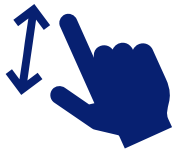
The time taken to complete a project on PPMs will depend on the scope of the project. The scope and time estimates provided here are based on our current understanding. PPMs, particularly within the voluntary market, are still an emerging area. As these markets mature, we anticipate that the scope will need to be adjusted to address the evolving nature of these schemes, potentially extending the timeline.



Narrower scope

Compliance schemes only

- A project that would be more limited in scope by focusing on compliance schemes only
- Expected to be a **medium sized** project
- Estimated to take **five to six years** to complete



Broader scope

Compliance and voluntary schemes

- A project that would be broader in scope and address compliance and voluntary schemes
- Expected to be a **large sized** project
- Estimated to take **eight years** to complete
- Consideration would also need to be given to whether the accounting for generators and issuers of carbon credits should be included within the scope of voluntary schemes

Weighing the pros and cons

Starting a project on PPMs now



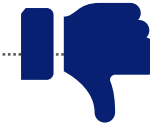
Pros

Timeliness

Starting a project now would mean guidance may be in place before PPMs become a material issue to a large number of entities.

Connectivity

A project on PPMs would likely have synergies with the ISSB.



Cons

Why Pollutant Pricing Mechanisms?

Stakeholders may question why the IASB chose to start PPMs over other projects such as Operating Segments, Cryptocurrencies, or Hyperinflation.

Emerging area

Still an emerging and evolving area, particularly in the voluntary market. The IASB runs the risk of developing requirements that in a few years may be less applicable or obsolete due to the evolving nature of PPMs.

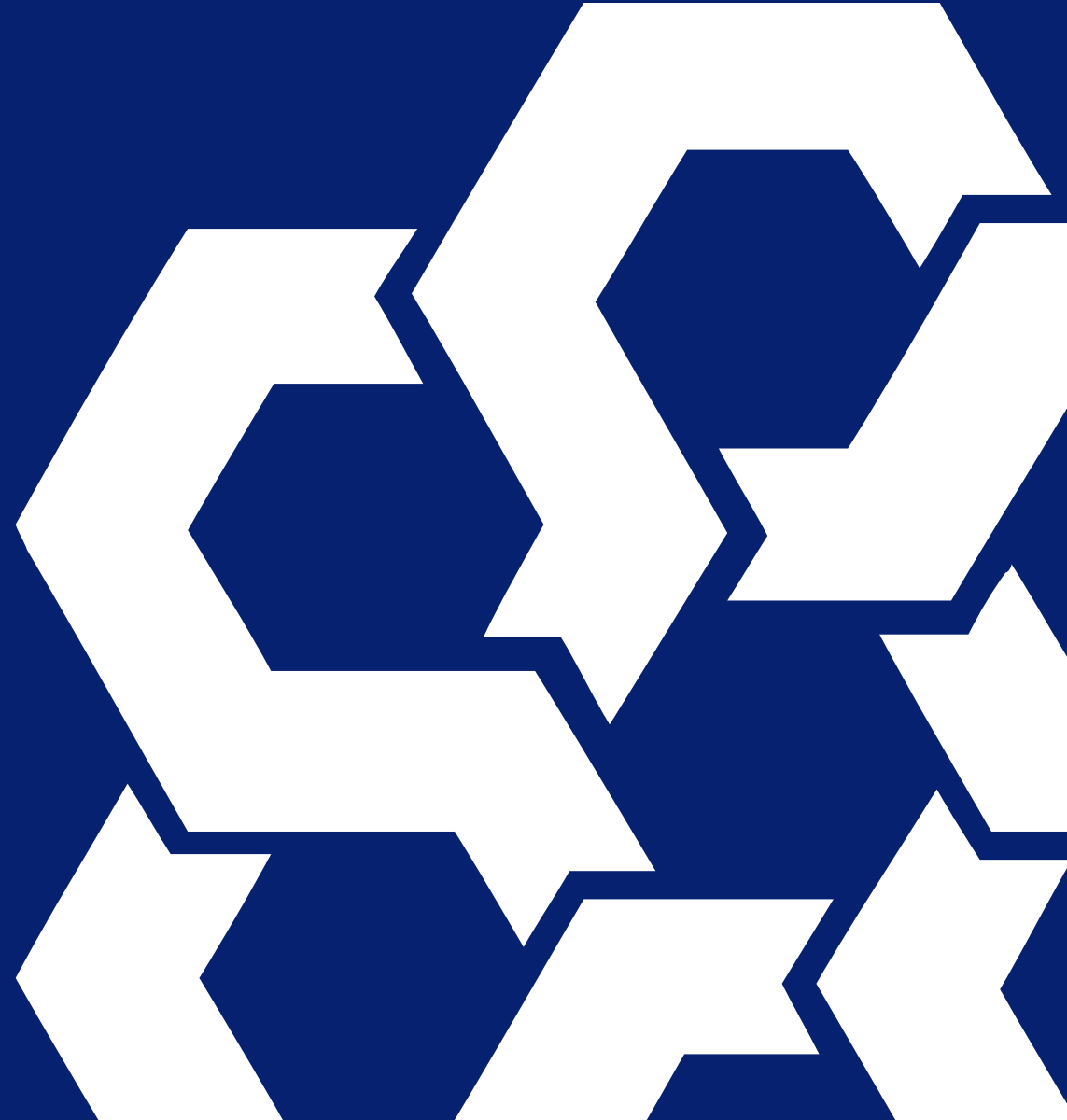
Missing the chance to use future research

Some national standard-setters have or plan to conduct research on the topic—delaying the start of PPMs would allow them to progress their research further which the IASB could leverage.

Capacity constraints

Starting a project now would mean slowing or pausing other projects.

Appendix – survey feedback and June IASB papers



Feedback from outreach—ASAF survey

Compliance schemes

Prevalence

- **Most** respondents reported that some form of compliance scheme exists in their jurisdiction.
 - **Almost all** respondents noted that there are plans to introduce new schemes or expand the scope of existing schemes.
-

Significance

- **Many** respondents reported that the financial effects of compliance schemes do not appear to be significant to entities in their jurisdiction at this time.
 - **Some** noted that the impacts can be significant, but it depends on factors such as; the size of the entity and the sector they operate in.
-

Diversity

- **Many** respondents reported observing diversity in accounting for compliance schemes.
- **Many** said it was difficult to assess whether the diversity adversely affects the usefulness of information provided to users of financial statements.



Feedback from outreach—ASAF survey

Voluntary schemes

Prevalence

- **Almost all** respondents reported that IFRS reporters in their jurisdictions participate in the voluntary market.
- **Most** respondents reported that the prevalence of voluntary schemes is increasing.

Significance

- **Many** respondents said that the financial effects of voluntary schemes do not appear to be significant to entities in their jurisdiction at this time.
- **Some** suggested that the financial effects are expected to become material as prevalence increases.

Issues

- **Most** respondents indicated that these schemes give rise to accounting issues that are difficult to resolve.
- **Some** reported observing diversity in accounting for voluntary schemes.



June 2024 IASB meeting

The IASB discussed the results of the horizon-scanning activities performed to date at its June 2024 meeting

Agenda Paper 10—Cover paper

Agenda Paper 10A—Horizon-scanning activities and feedback summary

- This paper provides an overview of horizon-scanning activities performed to date and summarises feedback received from outreach with users and regulators. It also includes additional background information on PPMs, including the different approaches to accounting for PPMs.

Agenda Paper 10B—Feedback summary—national standard-setters

- This paper summarises feedback from outreach with national standard-setters, including ASAF member responses to the questionnaire on PPMs.

Agenda Paper 10C—Survey and questionnaire

- This contains the survey distributed to users and questionnaire distributed to ASAF members.

Follow us online

 ifrs.org

 @IFRSFoundation

 IFRS Foundation

 International Accounting
Standards Board