
IFRS® Interpretations Committee meeting

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| Date | November 2024 |
| Project | Recognition of Intangible Assets Resulting from Climate-related Commitments (IAS 38) |
| Topic | Submission |
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Introduction

1. This paper reproduces the submission discussed in Agenda Paper 3 'Recognition of Intangible Assets Resulting from Climate-related Commitments (IAS 38)'.

Interpretations Committee of the International Accounting Standards Board (**'Interpretations Committee'**)

IFRS Foundation, 7 Westferry Circus, London, E14 4HD

Attention, Bruce Mackenzie, Chair of the Interpretations Committee, Riana Weisner, Joan Brown & Jawaid Dossani

Copies to Teresa Ko (Vice-Chair IFRS Foundation Trustees), Andreas Barckow (IASB Chair), Linda Mezon-Hutter (IASB Vice-Chair, Connectivity & Integration Program Lead) & Paul Munter (IOSCO observer)—each c/o Henry Rees, Head of Governance, IFRS Foundation

30th July 2024

Third Submission: Climate-Related Commitments (IAS37) and Intangible Asset Recognition (IAS38)

Fact pattern for discussion by the Interpretations Committee 10th/11th September 2024

This submission (**Third Submission**) is being made by the [Rethinking Capital](#) community. It follows from our first submission discussed by the Committee on 28th November 2023 and our second submission discussed by the Committee on 5th March 2024—and from the [IASB's Agenda Decision on 25th April 2024](#) (**Agenda Decision**).

1. Context—Tackling upside down incentives as the root cause of today's climate and natural inequities

As stated in our 6th June 2024 letter to the CEO's of the global audit firms on their [Global Public Policy Committee](#), proposing collaboration to reduce confusion and the risk of information asymmetry in the implementation of the Agenda Decision, the context for this Third Submission is:

'The portion of the world's economy that doesn't fit with the old model just keeps getting larger. That has major implications for everything from tax law to economic policy, to which cities thrive and which fall behind. But in general, the rules that govern the economy haven't kept up. This is one of the biggest trends in the global economy that isn't getting enough attention' [Bill Gates, reviewing Capitalism Without Capital: The Rise of the Intangible Economy](#)

*Accounting practice 'hasn't kept up' and has become the front line of many systemic negative 'implications'. Some in the profession privately admit that **'the purpose of financial statements today is not to represent the commercial reality, nor to be materially accurate—but to be comparable at the lowest common denominator and for tax'**.*

In the context of a just transition to a clean, green economy, the systemic negative implications include:

1. ***Upside down incentives*** applied to an emissions reduction commitment and pervading natural systems,
2. ***Material understatement of true business performance and returns*** from an emission reduction strategy and ***systemic climate risk being excluded from portfolio theory and strategic asset allocation decisions***,
3. ***A flawed premise for [Climate Action 100+](#) members leaving and [new legislation](#)***—because if their purpose is not to represent the commercial reality, then how can it be stated with certainty that returns are lower?

As such, we were delighted that the Agenda Decision confirmed the core accounting principle required to tackle these upside down incentives and root cause—that *'when a provision is recognised, investments made with the purpose of meeting the commitment can also be recognised as assets'* (the **Core Accounting Principle**).

2. Focus of this Third Submission—asset recognition under IAS38 (Intangible Assets)

This Third Submission focuses on this paragraph on [page 12 of the published the Agenda Decision](#):

If a provision is recognised, is the corresponding amount recognised as an expense or as an asset when the provision is recognised?

The Committee observed that if a provision is recognised, the corresponding amount is recognised as an expense, rather than as an asset, unless it gives rise to—or forms part of the cost of—an item that qualifies for recognition as an asset in accordance with an IFRS Accounting Standard.

Its focus is on what we call **Real World Commitments**—statements made to reduce a percentage of carbon emissions by 2030 in line with science-based targets made typically in FYs '20 and '21 and affirmed to FY'23. Thousands of listed companies across the world made Real World Commitments but, to our knowledge, none recognised a provision.

This submission relates specifically to asset treatment under IAS38 (Intangible Assets). It explains why the primary means of meeting a Real World Commitment—carbon credits and intellectual capital that results from innovation—are items that qualify for recognition as intangible assets in accordance with paragraph 8 of IAS38:

An asset is a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits expected to flow to the entity.'

And meet the subsequent principles of 'identification' 'control' and 'future economic benefits' in paragraphs 8-17 of IAS38. And also meet the recognition criteria under paragraphs 21-23 of IAS38. It then explains how specific principles and paragraphs of IAS38 would be applied to handle these intangible assets after recognition at cost.

In total, eleven new points for interpretation of IAS38 are raised—meeting the IFRIC requirement confirmed by IFRIC's chair and staff before our Second Submission—that further submissions on the same subject matter can be made if they raise new issues of interpretation or clarification.

3. Real world fact pattern and ask for discussion in September board meeting

The Agenda Decision was made in April to enable entities to consider it in FY24 year-end preparations that for most entities on capital markets is 31st December 2024. This submission puts forward the real-world fact pattern today that, following the Agenda Decision and in line with the IFRS Foundation's [Due Process Handbook \(Handbook\)](#), an entity that has previously made a Real World Commitment must now make a new decision on how to account for it.

Given that these preparations are now in progress, its real-world context is to inform those preparations and the scenario analysis that should be needed to inform that decision—assuming that this has been demanded by a board or an entity's investors or other primary users, to provide useful with which to make better decisions.

The first scenario is the accounting status quo for most all companies that made a Real World Commitment—commitments remain off-balance sheet externalities and investments into meeting the commitment remain costs.

In the second range of scenarios, the Core Accounting Principle would be applied to a Real World Commitment—meaning to recognise it as a '*constructive obligation*' under IAS37. This then enables the company to recognise each \$1 invested with the purpose of meeting the commitment as intangible assets on the balance sheet under IAS38—that create future economic benefits as the commitment is met and emissions averted.

As such we ask that this submission is put to and discussed by IFRIC in its next meeting on 10/11th September 2024.

4. Ensuring this Agenda Decision is understandable and accessible by involving Linda Mezon-Hutter & Bertrand Perrin

As the context explains, this is a 'hot topic' for the accounting profession and in tackling the climate and biodiversity crises. Despite all due process steps having been followed, the Agenda Decision is widely recognised to be confusing.

This is also a global issue. It should be noted that the Emerging Issues Taskforce of FASB has been approached by US entities [with a similar issue of how to account for environmental credits](#) acquired with the purpose of meeting a Real World Commitment—observing that these credits cannot be recognised unless a provision is also recognised.

This Third Submission also supports the integration and connectivity aims of the IASB and ISSB.

The contributions of Linda Mezon-Hutter and Bertrand Perrin as business people in the 25th April board meeting were noted—both stressing that the IASB must make its standards accessible to and understandable by those making decisions on provisions who are not accountants. Given the importance of this interpretation, we ask that both Linda and Bertrand are involved in the IASB's team to oversee this submission and ensure that this standard is achieved.

Andrew Watson,

Co-Founder, Rethinking Capital

Contents of this Third Submission

1. Definitions.
2. Real World Fact Pattern.
3. Eleven new areas of interpretation under IAS38.

1. Definitions

These definitions are used:

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| <p>2030 Commitment(s)</p> | <p>A sufficiently specific first statement (an Original Statement) by which an entity has indicated to other parties that it will reduce a percentage of its carbon emissions by 2030 and as a result has created a valid expectation that it will reduce those emissions by 2030.</p> <p>An example is ‘50% reduction in Scopes 1 and 2 emissions by 2030 in line with science-based (or similar) targets’. The 2030 date recognises the generally-accepted scientific imperative to comply with the Paris Agreement’s goal of limiting global average temperature increase to well below 2°C above pre-industrial levels, aiming for 1.5°C. What this means and why it matters is explained here by the World Economic Forum.</p> <p>An Original Statement will typically have been given in 2020 or 2021 and be made in the context of another statement to achieve a final ‘net zero’ emissions state by a date such as 2040 or 2050. These longer term targets are not the subject of this Third Submission.</p> |
| <p>Affirmative Actions</p> | <p>Actions that follow from the Original Statement by which the entity through its own actions affirms and acknowledges the Original Statement.</p> |
| <p>Carbon Credits</p> | <p>Carbon credits (also referred to by the Financial Accounting Standards Board as environmental credits and by many other names) are very simply explained here. They are a carbon trading mechanism that enables entities to compensate greenhouse gas emissions by investing in projects that reduce, avoid, or remove emissions elsewhere—representing an acknowledgment that the entity has taken responsibility to reduce those emissions.</p> <p>Picking out the main features relevant to the definition of an asset under paragraphs 8-17 of IAS38.</p> <ul style="list-style-type: none"> ○ A carbon credit is a tradable unit representing one metric ton of carbon dioxide (CO₂), or an equivalent amount of another greenhouse gas (GHG), avoided or removed from Earth's atmosphere. ○ Carbon credits are sold to buyers in carbon markets. ○ The buyer has a sole claim to the CO₂ avoided or removed, so they can claim to have offset, or compensated, the CO₂ they have emitted. ○ The buyer controls the carbon credit. Owners of carbon credits can decide what they would like to do with them. They might retire these credits, meaning they can never be sold on. Alternatively, owners might trade them through an exchange platform. ○ When a buyer purchases a carbon credit directly from a carbon project developer they are engaging in the primary market. When a buyer purchases a carbon credit from a carbon credit exchange platform, they are engaging in the secondary market. |

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| | <ul style="list-style-type: none"> o Carbon credits from different types of projects vary in price. Carbon prices are also influenced by a range of economic factors such as demand or the level of speculative trade. |
| <p>Established Pattern of Practice</p> | <p>The combination of the Original Statement and Affirmative Actions into a pattern of practice over time. Together these create one of a series of events that derive from the entity’s actions. Typically these have included a Transition Plan and allocating capital to buy Carbon Credits and into Innovation Programs.</p> <p>In combination, the 2030 Commitment can then typically be decompiled into five elements of (1) total emissions at the time of the 2030 Commitment (2) the percentage reduction in emissions from current state to a percentage reduction state by 2030 (3) Scopes 1 and 2 Emissions (4) time from the 2030 Commitment to ‘by’ 2030, meaning it could be achieved earlier and the projected annual emission reductions (5) at a high-level the way in which the entity intends to achieve the 2030 Commitment.</p> |
| <p>Innovation Programs</p> | <p>Innovation programs carried out by the entity for the purpose in whole or part of meeting its 2030 Commitment. For example this may be in programs to reduce emissions in or by its business operations and/or acquiring energy supply through renewables at a cost greater than conventional sources and/or early retirement of carbon-emitting assets.</p> <p>Innovation Programs are distinguished from research because of their purpose being to reduce emissions and meet the 2030 Commitment.</p> <p>Investments into Innovation will typically involve creating teams of people with know-how, expertise and other intellectual property to create and develop solutions for emission reductions specific to that entity or its sector—and will result in the creation of Intellectual Capital, created with the purpose of meeting the entity’s 2030 Commitment.</p> |
| <p>Intellectual Capital</p> | <p>Innovation Programs will typically create Intellectual Capital as follows, and in each case Intellectual Capital will be owned and/or controlled, and/or licensed to the entity by contract as a legal right:</p> <p>(a) Innovation Programs apply human knowledge and expertise to create solutions on how to reduce emissions to meet the 2030 Commitment— involving staff of the entity under employment and other contracts that automatically assign Intellectual Capital to the entity on creation as a right of the entity.</p> <p>(b) Innovation Programs will create a range of intangible assets that codify the outcomes into copyrighted materials that may include documents, trade secrets, confidential information, models and/or software programs, and which may be formally protected by filing patents, designs and/or trademarks—all of which activity creates intangible assets which includes intellectual property that together are collectively known as Intellectual Capital—created by staff of the entity under employment and other contracts that automatically assign Intellectual Capital to the entity on creation as a right of the entity.</p> <p>(c) That Intellectual Capital will then be used to create prototypes, models or proof of concept programs to test whether the proposed solutions have the effect of reducing emissions—creating further Intellectual Capital. And then</p> |

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| | <p>applied in new solutions, business practices or otherwise with the intention and effect of reducing Scopes 1 and 2 Emissions creating further Intellectual Capital in use—created by staff of the entity under employment and other contracts that automatically assign Intellectual Capital to the entity on creation as a right of the entity.</p> <p>(d) In some cases, the entity will engage third parties to participate in Innovation Programs and/or participate itself in other’s Innovation Programs and/or join cross sector programs to create sector pathways or sector transition plans—in each case the entity will typically contribute its Intellectual Capital into such Innovation Programs (known as background IP) and be either assigned or licensed the Intellectual Capital created by these Innovation Programs (known as foreground IP)—as a legal right of the entity.</p> <p>This definition of Intellectual Capital is consistent with the Integrated Reporting framework operated by the ISSB.</p> |
| <p>Net Zero Focused Consumers & Suppliers</p> | <p>Consumers and/or suppliers of an entity who are conscious of whether and to what extent the entity is making decisions purposed to reduce its carbon emissions and who are or may be taking into account the entity’s 2030 Commitment and its Established Pattern of Practice in their buying or supply decisions. These decisions may include paying higher prices or offering lower prices to share in the cost of the transition to net zero—thereby effectively contributing financially to the entity and improving the entity’s cashflows, creating future economic benefits.</p> |
| <p>Net Zero Focused Investors, Insurers & Bankers</p> | <p>Investors (often called asset owners and investment managers), insurers and bankers of or to an entity who are conscious of whether and to what extent the entity is making decisions purposed to reduce its carbon emissions, and who are or may be taking into account the entity’s 2030 Commitment and its Established Pattern of Practice in their decisions.</p> <p>For example, investors may be accepting lower economic returns in the short term in return for long-term growth and the lowering of economic and systemic risks to the entity from the climate crisis over time—thereby effectively contributing economically to share in the cost of the net zero transition and creating economic benefits for the entity.</p> <p>Insurers and bankers may offer more favourable terms and banks a lower cost of capital—thereby effectively contributing economically to share in the cost of the net zero transition and creating economic benefits for the entity.</p> |
| <p>Scopes 1 and 2 Emissions</p> | <p>Are explained in simple terms in this article by Deloitte:</p> <p>(a) Scope 1 Emissions— This one covers the Green House Gas (GHG) emissions that an entity makes directly — for example while running its boilers and vehicles.</p> <p>(b) Scope 2 Emissions — These are the emissions an entity makes indirectly – like when the electricity or energy it buys for heating and cooling buildings, is being produced on its behalf. In the oil and gas (fossil fuel) sector, Scope 2 includes emissions from the entity’s energy assets;</p> <p>For completeness:</p> |

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| | (c) Scope 3 Emissions —In this category go all the emissions associated, not with the entity itself, but that the organisation is indirectly responsible for, up and down its value chain. |
| Transition Plan | <p>A transition plan explaining how the 2030 Commitment will be achieved over time and typically the capital required to meet it. Typically this will be broken down into a series of emission reduction targets from the date of the Original Statement to be achieved ‘by 2030’—so a 2030 Commitment made in 2021 for example would be a series of nine annual emission reduction targets.</p> <p>The Transition Plan will typically distinguish between Scopes 1 and 2 Emissions. In many countries around the world that follow IFRS Standards as a legal requirement, a Transition Plan is or will soon become a legal obligation.</p> |

2. Real World Fact Pattern

Based on known events happening in reality:

The entity made a 2030 Commitment in 2020 and 2021—then made or took Affirmative Actions and created an Established Pattern of Practice that included any of the entity:

1. *Creating a Transition Plan detailing how the commitment will be achieved. This will include how emissions will be reduced over the time period to 2030 in a series of emission reduction targets and often the capital required. The Transition Plan may have included industry terms specific to its sector—an entity in a hard to abate sectors such as concrete or mining for example could use terminology relevant to its sector such as ‘clinker factor’, ‘embodied tonnes per building’ and ‘novel binders’ in the concrete sector, or moving away from ‘thermal coal’ and ‘increasing investments into the green minerals’ in the mining sector—indicating thought being applied to how the 2030 Commitment would be met.*
2. *The entity engaging with Net Zero Focused Investors (and often insurers, banks and other stakeholders) to explain the Transition Plan and making changes to it to reflect their amendments—in particular to balance the transition aims with acceptable returns for investors.*
3. *Publication of the Original Statement and/or its Transition Plan as amended from time to time on its website and leaving it on its website. Performance against its Original Statement and its Transition Plan may be updated from time to time.*
4. *Senior executives of the entity joining one or more coalitions with a mission to collaborate to achieve the emission reductions. Coalitions may have created sector pathways.*
5. *The entity stating the emission reduction targets in its financial statements and in investor and other presentations.*
6. *The entity actually allocating capital into reducing its emissions by buying Carbon Credits and investing into Innovation Programs purposed to find solutions to reduce emissions to meet its 2030 Commitment.*
7. *The entity’s investors and/or insurers and/or bankers making their own transition commitments relying on these actions that derive from the entity. The entity’s investors may explain to their own investors that returns expected from the entity may be lower because of the need to allocate capital into the transition.*

In its FY24 year-end preparations, directors of the entity are advised to note the Agenda Decision and that the entity must now make a new decision on how to account for its 2030 Commitment under the terms of the IFRS Foundation’s Due Process Handbook. Its Net Zero Focused Investors, Insurers or Bankers may also have asked the entity to run scenarios in making this decision because this will provide useful information with which to make better informed decisions. The board’s attention is also brought to the subsequent submission on the asset treatment under IAS38, scheduled to be discussed by the Interpretations Committee in its September meeting.

In exercising this new judgement, the entity concludes that its 2030 Commitments and Affirmative Actions taken to the end of FY23 seem already to have crossed the threshold into being a constructive or a legal obligation under IAS37. Logically, those Affirmative Actions have created one or a series of past events and meet the other criteria to be

recognised as a provision under paragraph 14 of IAS37. The other recognition criteria in paragraph 14 of IAS37 have also been met.

Concerned that this issue was not raised to the board in previous financial years, by investor and other demand for scenarios and the impact on their fiduciary duties, the board asks for a non-technical impact analysis and a review of the IFRIC and other discussions on this topic including the correspondence between [Rethinking Capital and the Due Process Oversight Committee](#). And for a ‘quick and dirty’ accounting scenario to be run assuming that the cost of Carbon Credits acquired since 2021 and the costs of Innovation Programs run since 2021 were recognised as assets. This review and scenario conclude and note:

1. The quick and dirty analysis shows that material economic benefits would have accrued to the entity since and these could have positively impacted the entity’s credit rating according to [this paper by Standard & Poors](#).
2. That the fact pattern discussed in reaching the Agenda Decision does not reflect the facts of entity’s own 2030 Commitment—meaning that the board should look back at the IFRIC process and elsewhere for further guidance to inform its decision.
3. The comment of IOSCO observer Paul Munter at the 30th November 2023 IFRIC meeting that a decision on whether to recognise a provision must be taken when the threshold to be a constructive obligation has been crossed. And the Agenda Decision’s stating that ‘any actions the entity has taken that publicly affirm its intention to fulfil the commitment’ must be considered in exercising making its judgement.
4. The comment of ISSB board member and accounting professor Richard Barker in the joint IASB-ISSB board meeting on 25th January 2024 that the system-wide non-recognition of provisions ‘just doesn’t feel right’.
5. The comment by KPMG’s Brian O’ Donovan in the 5th March IFRIC meeting that ‘affirmative actions’ are powerful evidence that the entity intended to and has created a constructive obligation.
6. The Second Submission’s logic that Affirmative Actions therefore logically something has occurred in the past that those actions were affirming.
7. The [published letter from Rethinking Capital to the audit firms through their Global Public Policy Committee](#)—noting that [KPMG’s guidance since](#) is that the accounting should be vertically integrated with the transition story is different from the narrow technical interpretations of the other audit firms.
8. The Third Submission from Rethinking Capital to the Interpretations Committee on how to meet the asset definition and treatment under IAS38 and the Interpretations Committee’s discussion of that submission on 10th/11th September 2024 and the subsequent public consultation.

The board therefore decides to run scenarios to inform its decision. The board believes that these scenarios will provide useful information to the board, the entity, its investors and others in making better informed decisions.

The first scenario is not to recognise a provision but also not to recognise investments into Carbon Credits, Intellectual Capital from Innovation or other Programs as assets. In the second set of scenarios, the entity recognises a provision because by doing so, these investments can also be recognised as assets. A full backwards-looking scenario is one.

3. Eleven new areas of interpretation of IAS38 relating to 2030 Commitments

The Agenda Decision states:

If a provision is recognised, is the corresponding amount recognised as an expense or as an asset when the provision is recognised?

‘The Committee observed that if a provision is recognised, the corresponding amount is recognised as an expense, rather than as an asset, unless it gives rise to—or forms part of the cost of—an item that qualifies for recognition as an asset in accordance with an IFRS Accounting Standard’.

High-level analysis—Carbon Credits

1. Carbon Credits meet the definition of an intangible asset in paragraphs 8 to 17 of IAS38.
2. Carbon Credits meet the recognition criteria in paragraphs 21 to 23 of IAS38. Carbon Credits can therefore be recognised at cost of creation (ie acquisition) under paragraph 24 of IAS38.
3. Management’s best estimate of the set of economic conditions that will exist over the useful life of Carbon Credits as assets can be given under paragraphs 22 and 23 of IAS38.

4. Because they are being acquired to meet this specific purpose and that purpose may be met by 2030 or earlier or later, Carbon Credits have indefinite useful life and should therefore be subject to the revaluation model and not amortisation in accordance with paragraphs 88-96 and 107-110 of IAS38.
5. Under the revaluation model, Carbon Credits can be marked to an active market value in trading these securities under paragraph 75 of IAS38, including a market in averted carbon emissions if one exists.

High-level analysis—Intellectual Capital that results from Innovation Programs

6. Intellectual Capital that results from Innovation Programs meets the definition of an intangible asset in paragraphs 8 to 17 of IAS38.
7. Intellectual Capital that results from Innovation Programs meets the recognition criteria in paragraphs 21 to 23 of IAS38. That Intellectual Capital can therefore be recognised at cost of creation under paragraph 24 of IAS38.
8. Management’s best estimate of the set of economic conditions that will exist over the useful life of Intellectual Capital that results from Innovation Programs can be given under paragraphs 22 and 23 of IAS38.
9. Because it is being created to meet this specific purpose of reducing emissions, Intellectual Capital that results from Innovation Programs should be recognised as Development as defined in paragraph 8 of IAS38.
10. Because it is being generated to meet this specific purpose and that purpose may be met by 2030 or earlier or later, Intellectual Capital that results from Innovation has indefinite useful life and should therefore be subject to revaluation and not amortisation in accordance with paragraphs 88-96 and 107-110 of IAS38.
11. Under the revaluation model, Intellectual Capital that results from Innovation could also be marked to an active market value in averted carbon emissions under paragraph 75 of IAS38 if one exists.

Explaining these eleven principles

Carbon Credits (Interpretations 1-5)

| Principle and IAS38 paragraphs | Application to Carbon Credits |
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| <p>1. Carbon Credits meet the definition of an intangible asset in paragraphs 8 to 17 of IAS38.</p> <p>Asset definition, Paragraph 8</p> <p><i>An asset is a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity.</i></p> <p>Identification, paragraph 12</p> <p><i>An asset is identifiable if it either: (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.</i></p> <p>Control, paragraph 13</p> <p><i>An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.</i></p> | <p>Carbon Credits are:</p> <p>(a) controlled by the entity as legal rights, often with regulatory approvals, having been acquired by the entity—the past event being its acquisition. Each arises from contractual and other legal rights and represents an acceptance of an impaired relationship with nature—the 2030 Commitment being a commitment to repair that relationship. The entity controls whether Carbon Credits are retained, retired or sold.</p> <p>(b) separable from the entity and capable of being sold, transferred or exchanged as tradeable securities.</p> <p>(c) give the legal right and power to obtain future economic benefits—because they are owned by the entity, they restrict the access of others to those benefits unless traded.</p> <p>(d) Net Zero Focused Consumers & Suppliers can be assumed to have and be contributing future economic benefits to the entity in return for reducing emissions.</p> <p>(e) Net Zero Focused Investors, Insurers and Bankers can be assumed to have and be</p> |

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| <p>Future economic benefits, paragraph 17</p> <p><i>The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.</i></p> | <p>contributing future economic benefits to the entity in return for reducing emissions.</p> <p>(f) It is widely predicted that further carbon taxes will be introduced which the entity would mitigate by reducing its emissions through acquiring Carbon Credits.</p> <p>(g) Carbon Credits are tradeable securities and therefore create the potential for future economic benefits.</p> <p>(h) It is known that investing into meeting a 2030 Commitment should positively impact an entity’s credit rating analysis according to this paper by Standard & Poors.</p> <p>Some ‘future economic benefits’ may have already flowed to the entity and can already be identified even though to date, Carbon Credits have not been recognised as assets.</p> |
| <p>2. Carbon Credits meet the recognition criteria in paragraphs 21 to 23 of IAS38. Carbon Credits can therefore be recognised at cost of creation (ie acquisition) under paragraph 24 of IAS38.</p> <p>Recognition criteria—paragraph 21</p> <p><i>An intangible asset shall be recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably.</i></p> <p>Recognition at cost—paragraph 24</p> <p><i>An intangible asset shall be measured initially at cost.</i></p> | <p>Applied to Carbon Credits:</p> <p>(a) See 1 above—a range of future economic benefits may have already and can be probably expected to flow to the entity from investing into Carbon Credits.</p> <p>(b) The cost of acquisition will be the price paid for the Carbon Credits and any associated costs with that transaction.</p> |
| <p>3. Management’s best estimate of the set of economic conditions that will exist over the useful life of Carbon Credits as assets can be given under paragraphs 22 and 23 of IAS38.</p> <p>Management’s best estimate, paragraphs 22-23</p> <p><i>An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.</i></p> <p><i>An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.</i></p> | <p>Applied to Carbon Credits:</p> <p>(a) See 1 above—a range of future economic benefits may have already and can be probably expected to flow to the entity from investing into Carbon Credits.</p> <p>(b) Much external evidence exists to support the degree of certainty and estimates of these benefits to enable management to express a best estimate. As with the Agenda Decision’s conclusion on estimates in paragraph 14 (c) of IAS37, it seems consistent to conclude that:</p> <p><i>The final criterion for recognising a provision is that a reliable estimate can be made of the amount of the obligation. Paragraph 25 of IAS 37 states that ‘except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation</i></p> |

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| | <p><i>that is sufficiently reliable to use in recognising a provision’. The Committee concluded that in the fact pattern described, it is likely that the entity would be able to make a reliable estimate of the amount of a constructive obligation that satisfies the other recognition criteria.</i></p> |
| <p>4. Because they are being acquired to meet this specific purpose and that purpose may be met by 2030 or earlier or later, Carbon Credits have indefinite useful life and should therefore be subject to the revaluation model and not amortisation in accordance with paragraphs 88-96 and 107-110 of IAS38.</p> <p>Useful life, paragraph 8</p> <p><i>Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.</i></p> <p>Indefinite life, paragraphs 88-94 and 107-110</p> <p><i>An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised (see paragraphs 97–106), and an intangible asset with an indefinite useful life is not (see paragraphs 107–110).</i></p> <p><i>The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.</i></p> <p><i>An intangible asset with an indefinite useful life shall not be amortised (paragraph 107)</i></p> | <p>Carbon Credits:</p> <p>(a) have a useful life for as long as they are mitigating carbon emissions of the entity and go towards meeting its 2030 Commitment.</p> <p>(b) have indefinite life because they have been or are being acquired to meet the commitment—which may be achieved through Innovation Programs or other means and which may be achieved early or late. Or may need to be carried over into meeting a longer term net zero commitment beyond 2030.</p> <p>(c) in some cases have indefinite life as a contract term.</p> <p>(d) can be tradeable securities and therefore capable of being valued by reference to an active market.</p> |
| <p>5. Under the revaluation model, Carbon Credits can be marked to an active market value in trading these securities under paragraph 75 of IAS38, including a market in averted carbon emissions if one exists.</p> <p>Revaluation model, paragraph 75</p> <p>Fair Value and revaluation by reference to active market (paragraph 75)</p> | <p>Carbon Credits</p> <p>(a) can be fairly valued as tradeable securities;</p> <p>(b) can be marked to an active market value in trading these securities,</p> <p>It also seems prudent to expect that current efforts to create an active market in averted carbon</p> |

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| <p>Fair Value, paragraph 8</p> <p><i>Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 Fair Value Measurement.)</i></p> <p>Revaluation, paragraph 75</p> <p><i>After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.</i></p> | <p>emissions will be established if entities begin to recognise Carbon Credits as assets.</p> |
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Intellectual Capital that results from Innovation Programs (Interpretations 6-11)

| Principle and IAS38 paragraphs | Application to Intellectual Capital that results from Innovation |
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| <p>6. Intellectual Capital that results from Innovation meets the definition of an intangible asset in paragraphs 8 to 17 of IAS38.</p> <p>Asset definition, paragraph 8</p> <p><i>An asset is a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity.</i></p> <p>Identification, paragraph 12</p> <p><i>An asset is identifiable if it either: (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.</i></p> <p>Control, paragraph 13</p> <p><i>An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.</i></p> | <p>Innovation Programs use existing owned and/or controlled Intellectual Capital of the entity and are designed to create new Intellectual Capital which will be owned, controlled or licensed to the entity under legal contracts.</p> <p>As such Intellectual Capital that results from Innovation is:</p> <p>(a) owned and/or controlled by the entity by assigned legal rights—a past event. Each arises from contractual and other legal rights.</p> <p>(b) separable and capable of being sold, transferred or exchanged—evidence will typically show that it is already shared or exchanged for value in cross sector or sector-specific Innovation Programs to find common solutions to the sector (known as sector pathways or sector transition plans) set up with the purpose of reducing emissions.</p> <p>(c) gives the legal right and power to obtain future economic benefits—because it is owned by the entity, the entity has the legal right to restrict the access of others to those benefits.</p> <p>(d) Net Zero Focused Consumers & Suppliers can be assumed to have and be contributing future</p> |

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| <p>Future economic benefits, paragraph 17</p> <p><i>The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.</i></p> | <p>economic benefits to the entity in return for reducing emissions.</p> <p>(e) Net Zero Focused Investors, Insurers and Bankers can be assumed to have and be contributing future economic benefits to the entity in return for reducing emissions.</p> <p>(f) It is widely predicted that further carbon taxes will be introduced which the entity would mitigate by reducing its emissions through Intellectual Capital resulting from Innovation Programs.</p> <p>(g) It is known that investing into meeting a 2030 Commitment should positively impact an entity’s credit rating analysis according to this paper by Standard & Poors.</p> <p>(h) Some ‘future economic benefits’ may have already flowed to the entity and can already be identified even though to date, Intellectual Capital that results from Innovation Programs has not been recognised as assets.</p> |
| <p>7. Intellectual Capital that results from Innovation Programs meets the recognition criteria in paragraphs 21 to 23 of IAS38. That Intellectual Capital can therefore be recognised at cost of creation under paragraph 24 of IAS38.</p> <p>Recognition, paragraph 20</p> <p><i>An intangible asset shall be recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably.</i></p> <p>Recognition at cost—paragraph 24</p> <p><i>An intangible asset shall be measured initially at cost.</i></p> | <p>With Intellectual Capital that results from Innovation Programs:</p> <p>(a) See 6 above—a range of future economic benefits have and are expected to flow to the entity</p> <p>(b) The cost of acquisition will begin with the wages of the staff that bring Intellectual Capital into the Innovation Program and/or the costs of solutions commissioned with 3rd parties—the results of which will typically be owned by or licensed to the entity. Further costs associated with these Innovation programs and for example the costs of filing Intellectual property protection are or have been typically captured in internal accounting and/or can be recoded.</p> |
| <p>8. Management’s best estimate of the set of economic conditions that will exist over the useful life of Intellectual Capital that results from Innovation can be given under paragraphs 22 and 23 of IAS38.</p> <p>Management’s best estimate, paragraphs 22-23</p> <p><i>An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.</i></p> <p><i>An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on</i></p> | <p>In relation to Intellectual Capital that results from Innovation:</p> <p>(a) See 6 above—a range of future economic benefits either have already or can be reasonably expected to flow to the entity.</p> <p>(b) Much external evidence exists to support the degree of certainty and estimates of benefits.</p> <p>As with the Agenda Decision’s conclusion on estimates in paragraph 14 (c) of IAS37, it seems consistent to conclude that:</p> <p><i>The final criterion for recognising a provision is that a reliable estimate can be made of the amount of</i></p> |

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| <p><i>the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.</i></p> | <p><i>the obligation. Paragraph 25 of IAS 37 states that 'except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision'. The Committee concluded that in the fact pattern described, it is likely that the entity would be able to make a reliable estimate of the amount of a constructive obligation that satisfies the other recognition criteria.</i></p> |
| <p>9. Because it is being created to meet this specific purpose of reducing emissions, Intellectual Capital that results from Innovation Programs should be recognised as Development as defined in paragraph 8 not Research.</p> <p>Distinction between research and development (paragraph 8)</p> <p><i>Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.</i></p> <p><i>Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.</i></p> | <p>Innovation Programs carried out with the purpose of meeting a 2030 Commitment, should be recognised as Development as defined in paragraph 8 and not Research.</p> <p>Research is commissioned to create new original knowledge. Innovation Programs on the other hand will use existing Intellectual Capital and will apply existing research findings—how to reduce emissions is already generally known and even codified in many sectors through what are called sector pathways.</p> <p>The Oil & Gas Decarbonization Charter at COP28 being an example. The Mission Possible Partnership being another.</p> |
| <p>10. Because it is being generated to meet this specific purpose and that purpose may be met by 2030 or earlier or later, Intellectual Capital that results from Innovation has indefinite useful life and should therefore be subject to revaluation and not amortisation in accordance with paragraphs 88-96 and 107-110 of IAS38.</p> <p>Useful life, paragraph 8</p> <p><i>Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.</i></p> <p>Indefinite life, paragraph 89</p> <p><i>An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised (see paragraphs 97–106), and an intangible</i></p> | <p>Intellectual Capital that results from Innovation Programs:</p> <p>(a) has a useful life for as long as these programs are mitigating carbon emissions of the entity and go towards meeting its 2030 Commitment.</p> <p>(b) have indefinite life because Innovation Programs are purposed to meet the commitment—which may be achieved through Carbon Credits or other means and which may be achieved early or late. Or may need to be carried over into meeting a longer term net zero commitment beyond 2030.</p> |

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| <p><i>asset with an indefinite useful life is not (see paragraphs 107–110).</i></p> <p><i>The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.</i></p> <p><i>An intangible asset with an indefinite useful life shall not be amortised (paragraph 107)</i></p> | |
| <p>11. Under the revaluation model, Intellectual Capital that results from Innovation could also be marked to an active market value in averted carbon emissions under paragraph 75 of IAS38 if one exists.</p> <p>Fair Value, paragraph 8</p> <p><i>Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 Fair Value Measurement.)</i></p> <p>Revaluation, paragraph 75</p> <p><i>After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.</i></p> | <p>In principle using the revaluation model, Intellectual Capital that results from Innovation Programs could be valued using internal and external estimates of the economic benefits that flow from the value of averted emissions.</p> <p>It also seems prudent to expect that current efforts to create an active market in averted carbon emissions will be established if entities begin to recognise provisions for 2030 Commitments and Carbon Credits as assets.</p> |