

Staff paper

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IASB[®] meeting

Date	January 2025
Project	Pollutant Pricing Mechanisms
Topic	Horizon-scanning activities and prioritisation considerations
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Objective

1. The purpose of this paper is to:
 - (a) provide the International Accounting Standards Board (IASB) with an update on the horizon-scanning activities performed in relation to Pollutant Pricing Mechanisms (PPMs) since the IASB's June 2024 meeting;
 - (b) assess the priority of PPMs using the draft prioritisation framework presented in Agenda Paper 8; and
 - (c) ask the IASB to decide whether to start a project on PPMs before the next agenda consultation or defer a decision to add a project on PPMs to the IASB's work plan to the next agenda consultation. Work on the IASB's Fourth Agenda Consultation is expected to start in 2025 and will cover the period 2027 to 2031.

Staff recommendation

2. We recommend that the IASB defer a decision to add a project on PPMs to the IASB's work plan to the next agenda consultation to allow the IASB and its

stakeholders to consider the priority of such a project in relation to other possible projects.

Structure of the paper

3. The structure of this paper is as follows:
 - (a) status of PPMs on the IASB’s work plan (paragraphs 4–7);
 - (b) horizon-scanning activities and feedback:
 - (i) horizon-scanning—June 2024 (paragraphs 8–15);
 - (ii) feedback since June 2024 (paragraphs 16–34);
 - (iii) summary of work performed by others (paragraphs 35–36);
 - (c) prioritisation considerations (paragraphs 37–52); and
 - (d) staff recommendation (paragraphs 53–55).

Status of pollutant pricing mechanisms on the IASB’s work plan

4. Many respondents to the IASB’s Third Agenda Consultation, including some users, rated a project on PPMs as a high priority. However, the IASB decided not to add a project on PPMs to its work plan, concluding that other projects were of higher priority.
5. Instead, a project on PPMs 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
6. Since completing the Third Agenda Consultation, several stakeholders have suggested that the IASB should prioritise a project on PPMs. They argue that PPMs are increasing in prevalence and that deficiencies in reporting exist. More specifically,

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

they argue that the lack of specific requirements on PPMs has resulted in diversity in practice, which impairs comparability.

7. 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 PPMs.

Horizon-scanning activities and feedback

Horizon-scanning—June 2024

8. We presented the results of the horizon-scanning activities performed, including a summary of the feedback from outreach with stakeholders, to the IASB in June 2024. [Agenda Paper 10A](#) and [Agenda Paper 10B](#) from the June 2024 IASB meeting provide further information on PPMs and a detailed summary of the feedback from outreach with stakeholders conducted up until the June meeting.
9. Paragraphs 10–15 summarise the discussion at the June 2024 IASB meeting.

Feedback from the June IASB meeting

10. At the June 2024 meeting, the IASB was not asked to make any decisions. However, IASB members commented on the priority of a project on PPMs, and the views from IASB members were mixed.
11. Some IASB members expressed reservations about starting a project on PPMs before the next agenda consultation. They suggested that feedback from outreach with stakeholders did not indicate that the prevalence and significance of PPMs had reached a level that required prioritising a PPMs project over other projects.
12. A few members commented that the IASB should consider starting a project before PPMs become a material accounting issue to a significant number of entities. New requirements will take time to develop, leaving entities with no specific accounting

requirements for material transactions. In addition, if the IASB delays starting a project, practice may already be set, making it more difficult to drive change.

13. Conversely, some cautioned that this is still an emerging area and, as markets continue to mature, the project scope would likely need to be adjusted to address the evolving nature of these schemes, potentially extending the time needed to complete a project. If the project scope is not adjusted, the IASB risks developing guidance that may become less applicable or even obsolete in a few years. In addition, some IASB members suggested that work on the Intangible Assets and Provisions projects may inform any project on PPMs.
14. Some IASB members said they would need additional information on how a decision to start the project would affect both existing and potential projects before they could decide on whether to prioritise PPMs. Some IASB members said that it was unclear to them why a project on PPMs should be prioritised ahead of other potential projects such as projects on operating segments or cryptocurrencies.
15. A few IASB members noted that any project on PPMs would have connections with the work of the International Sustainability Standards Board (ISSB), particularly IFRS S2 *Climate-related Disclosures*.

Feedback since June 2024

16. Since the IASB's June 2024 meeting we have sought feedback from several IFRS consultative groups:²
 - (a) Accounting Standards Advisory Forum (paragraphs 18–22);
 - (b) IFRS Interpretations Committee (paragraphs 23–27); and

² Further details of these public meetings are available on the IFRS Foundation website:

[Accounting Standards Advisory Forum's July 2024 meeting](#)

[Accounting Standards Advisory Forum's September 2024 meeting](#)

[IFRS Interpretations Committee's September 2024 meeting](#)

[IFRS Advisory Council's November 2024 meeting](#)

(c) IFRS Advisory Council (paragraphs 47–52).

17. We have also held one-to-one meetings with several preparers. Feedback from this outreach and other sources is summarised in paragraphs (28–34). Feedback from outreach with investors was presented to the IASB in June 2024 and summarised in [Agenda Paper 10A](#).

Accounting Standards Advisory Forum

18. At the July 2024 Accounting Standards Advisory Forum (ASAF) meeting we received mixed feedback on whether the IASB should prioritise a project on PPMs.
19. Some ASAF members expressed support for the IASB prioritising a project. They suggested that the prevalence and significance of PPMs is increasing and there is diversity in the accounting for these schemes. A few members said that a project on PPMs is important given users of financial statements increased focus on climate and its connections with sustainability-related disclosures, particularly IFRS S2.
20. Other members were less supportive of the IASB prioritising a project. They suggested that stakeholder feedback from their jurisdictions did not indicate that the financial effects of PPMs are significant enough to warrant prioritising a project.
21. A few ASAF members commented on the relationship between a possible project on PPMs and intangible assets. Some members suggested the IASB should first focus on progressing the Intangible Assets project and draw on lessons learned from that project for a project on PPMs. Conversely, one member expressed the view that the IASB should not wait for progress on the Intangible Assets project before starting a project on PPMs, saying that PPMs may be significant in many jurisdictions before sufficient progress has been made.
22. We also provided a brief verbal update at the September 2024 ASAF meeting. Members asked clarifying questions and shared their perspectives on the priority of a project on PPMs, with a few expressing their continued support for the IASB prioritising a project.

IFRS Interpretations Committee

23. We held a session with the IFRS Interpretations Committee (Committee) at their meeting in September 2024 to ask for their input on the prevalence and significance of PPMs and whether they have observed deficiencies in the accounting for these schemes.
24. Most Committee members believe that the prevalence of PPMs is increasing, and although perhaps not material today, their significance to entities is increasing.
25. Many members said they have observed diversity in practice for compliance and voluntary schemes and expressed support for the IASB to start a project on PPMs sooner rather than later.
26. When asked why the IASB would prioritise PPMs over other projects, they pointed to the diversity in practice, the growing complexity of PPMs, and opportunities for connectivity with the work of the ISSB.
27. Committee members also provided input on the scope of the project if it were added to the IASB's work plan:
 - (a) Many said they would like a project that addresses both compliance and voluntary schemes.
 - (b) A few members suggested addressing compliance schemes and including voluntary schemes within the scope of the Intangible Assets project.
 - (c) Most support a project that addresses both recognition and measurement in addition to disclosure.

Other feedback

28. Four members of the Global Preparers Forum (GPF) responded to our request for a one-to-one meeting to discuss their views on a potential project on PPMs. Those GPF members were from entities with global operations in the oil and gas, steel, pharmaceutical, and consumer goods industry. We asked for their input on the

prevalence and significance of PPMs, diversity in accounting, and scope of the project.

29. The GPF members we spoke to believe that the prevalence and significance of PPMs is increasing and that there is diversity in accounting for these mechanisms.
30. Some provided examples of the diversity they have observed, including diversity in the accounting for climate-related commitments in the voluntary market, accounting for carbon allowances granted for free, and the treatment of costs incurred for carbon capture and storage facilities.
31. When asked about the scope, almost all said the project should include compliance and voluntary schemes, and address recognition and measurement in addition to disclosure. One GPF member expressed concern that new recognition and measurement requirements for PPMs might require them to change their existing accounting policy for carbon credits. However, they acknowledged that a disclosure only project would be unlikely to address the current diversity in practice.
32. While they all expressed support for the IASB starting a project on PPMs, they also emphasised that projects on Intangible Assets and Statement of Cash Flows should take priority.
33. In addition to meetings with GPF members, we also met with users from a global asset management firm. They expressed concerns about the lack of transparency and comparability amongst entities participating in PPMs. They also said that the effect of PPMs might currently appear immaterial because in many compliance schemes allowances are granted for free. However, as compliance schemes, such as the EU Emissions Trading System (EU ETS), reduce the number of allowances granted for free, the financial effects may suddenly become more material.
34. In their comment letters, a few respondents to the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*—mainly standard-setters and regulators—said that the IASB should develop specific requirements to address the

diversity in practice related to PPMs, some urging the IASB to add a project to its work plan.³ A few other respondents suggested that the IASB expand the examples in the Exposure Draft to illustrate how carbon credits could affect the financial statements.⁴

Summary of work by performed by others⁵

35. In October 2024, the European Securities and Markets Authority (ESMA) released a statement titled ‘Clearing the smog; Accounting for Carbon Allowances in Financial Statements’, which aims to improve financial reporting for issuers participating in carbon allowance programmes. The statement focuses on carbon allowances issued in the compliance market and provides an overview of the most common accounting approaches observed in the financial statements of European listed issuers. Additionally, ESMA offers disclosure recommendations to enhance transparency regarding issuers’ participation in carbon markets.⁶
36. In December 2024, the Financial Accounting Standards Board (FASB) published for public comment the exposure draft ‘Environmental Credits and Environmental Credit Obligations’. The proposed Accounting Standards Update provides recognition, measurement, presentation, and disclosure requirements for all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits.⁷

³ Refers to comment letter numbers: 20, 81, 83, 112, 122, and 129 available [here](#)

⁴ Refers to comment letter numbers: 60 and 109 available [here](#)

⁵ [Agenda Paper 10A](#) from the June IASB meeting provides a summary of the research being conducted by national standard-setters on PPMs

⁶ The full statement can be found here: [ESMA Statement](#)

⁷ See [FASB Accounting for Environmental Credits Program](#) for more information on the project and exposure draft

Prioritisation considerations

37. In this section, we discuss whether the IASB should start a project on PPMs now or defer a decision to the next agenda consultation. In this section we:
- (a) use the draft prioritisation framework to assess the priority of a project on PPMs (paragraph 38);
 - (b) discuss the implications of starting a PPMs project now for current and potential projects (paragraphs 39–43);
 - (c) discuss the implications of deferring a decision to the next agenda consultation (paragraphs 44–46); and
 - (d) summarise feedback from the IFRS Advisory Council on whether to start a project on PPMs before the next agenda consultation (paragraphs 47–52).

Draft prioritisation framework

38. As discussed in Agenda Paper 8, the IASB is developing a prioritisation framework to assist with making prioritisation decisions about technical projects in between agenda consultations. We have assessed the priority of a project on PPMs using the draft prioritisation framework. The table below sets out this assessment.⁸

⁸ The prioritisation criteria presented in the table have been condensed—see Agenda Paper 8 for a detailed description of the criteria.

Prioritisation framework—technical considerations	Pollutant Pricing Mechanisms
<p>Pervasiveness—a large number of entities are affected or expected to be affected by the matter</p>	<ul style="list-style-type: none"> • There is insufficient evidence to suggest that many IFRS reporters are currently affected by PPMs. However, the prevalence of PPMs is increasing, particularly as jurisdictions continue to implement new compliance schemes or expand the scope of existing schemes. There is also growth in the numbers of entities participating in voluntary schemes. • Entities in carbon intensive industries, such as oil and gas and aviation, are more affected by PPMs than other entities. • For many entities the effect of PPMs is currently immaterial, but this is projected to change as carbon prices increase and compliance schemes reduce or phase out free carbon allowances.
<p>Effects (expected financial reporting benefits exceed costs)</p>	<ul style="list-style-type: none"> • There is diversity in accounting for both compliance and voluntary schemes. Introducing specific accounting requirements for PPMs will decrease that diversity, improving comparability between entities. • Feedback suggests that users receive insufficient information about an entity’s participation in PPMs. Introducing specific accounting requirements may provide users with the information they want. However, the perceived lack of information may, in part, be because the schemes are not yet qualitatively material for many entities. In addition, some of the requested information may be outside of the scope of financial statements but might instead be provided by sustainability-related financial disclosures. • New requirements will impose initial costs on preparers as they implement the new requirements. They will also incur ongoing compliance costs. As there is currently diversity in practice, some entities will incur costs associated with changing their accounting policies, including the need to educate their users about the change.

Prioritisation framework—technical considerations	Pollutant Pricing Mechanisms
<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. • A project to improve disclosures about PPMs would be a small project. However, feedback suggests that the scope of the project should include compliance and voluntary schemes and address recognition and measurement in addition to disclosures. Any project to develop recognition and measurement requirements would be large and complex, requiring significant time and resources to complete. • Given the current diversity in practice, it may be difficult to achieve consensus on any new requirements.
<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 have published an exposure draft on the topic which may provide opportunities for a converged solution. However, differences in the Board’s definitions of a liability and the potential scope of any project may reduce these opportunities.

Prioritisation framework—operational considerations	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, and that a time-sensitive solution is needed. • However, as noted above, a project on PPMs is expected to be large and complex, therefore developing a solution will take time. There is a risk that PPMs will become material to a large number of entities before new requirements are finalised.
<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 inform and 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 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. Paragraphs 39–40 discuss this further. • Aside from recently started projects, prioritised through the Third Agenda Consultation and required 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. Paragraphs 41–43 discuss this further.
<p>If a project is paused, the effort to restart the project.</p>	<p><i>Not applicable</i></p>

Implications of starting a project now for current and potential projects

39. Starting a project on PPMs now would have implications for active projects. Specifically, one or more active projects would need to be retired, paused, or progressed at a slower pace.
40. The IASB's active projects can be grouped into the following broad categories based on their current stages of completion:
- (a) *Projects near completion*: projects that are in the final stages of standard-setting, where the formal deliberation process is complete, and new requirements are expected to be issued.
 - (b) *Projects in the consultation phase*: projects that have exposure drafts out for public consultation (or plan to publish in the near term), or projects for which the comment period has recently ended and feedback is being analysed.
 - (c) *Early-stage projects*: projects in the research phase where work has recently started.
 - (d) *Post-implementation reviews*: a post-implementation review (PIR) of each new IFRS Standard or major amendment is required by the *Due Process Handbook*.⁹

⁹ [Due Process Handbook](#) paragraph 6.48

Project status	Projects in this stage ¹⁰	Observations
(a) Near completion	<ul style="list-style-type: none"> • Management Commentary • Rate-regulated Activities • Second Comprehensive Review of the IFRS for SMEs Accounting Standard 	It would be inefficient for the IASB to retire, pause, or slow down the progress of these projects given how advanced they are.
(b) Consultation phase—incl. approaching or recently completed	<ul style="list-style-type: none"> • Business Combinations—Disclosures, Goodwill and Impairment • Climate-related and Other Uncertainties in the Financial Statements • Dynamic Risk Management • Equity Method • Financial Instruments with Characteristics of Equity • Provisions—Targeted Improvements • Translation to a Hyperinflationary Presentation Currency • Updating IFRS 19 Subsidiaries without Public Accountability: Disclosures 	<p>The direction of these projects has been or will soon be determined by the feedback from these consultations.</p> <p>It would be inefficient to pause these projects given the internal and external resources already invested—restarting work would require time to familiarise the staff, the IASB and stakeholders with previously completed work.</p>
(c) Early-stage	<ul style="list-style-type: none"> • Amortised Cost Measurement • Intangible Assets • Statement of Cash Flows 	Given the early stage of these projects, they are best suited to be paused or progressed slower. However, Intangible Assets and Statement of Cash Flows were rated as a high priority during the Third Agenda Consultation and added to the IASB’s work plan ahead of PPMs. Amortised Cost Measurement was added to the work plan in response to feedback on the PIR for IFRS 9—Impairment. Prioritising PPMs over these projects would not reflect the priorities expressed by stakeholders.
(d) PIR’s	<ul style="list-style-type: none"> • IFRS 16 Leases 	Required by the <i>Due Process Handbook</i> .

¹⁰ The table does not include current Taxonomy projects and IFRS Interpretations Committee application questions. For a full list of projects see [IFRS - IFRS Foundation work plan](#)

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41. In addition to the projects on the current work plan, some stakeholders have requested that the IASB start work on other potential projects such as operating segments, cryptocurrencies and hyperinflation.
 42. The IASB added operating segments to its reserve list in response to stakeholder feedback, including users who rated it as a high priority during the Third Agenda Consultation. In addition, stakeholders continue to call for the IASB to start a project on cryptocurrencies and there have also been an increasing number of stakeholders urging the IASB to start a project on hyperinflation.
 43. If the IASB decides to start a project on PPMs before the next agenda consultation, stakeholders may question why it chose PPMs over these projects.

Implications of deferring a decision to the next agenda consultation

44. Work on the IASB's Fourth Agenda Consultation is expected to start in 2025 and will cover the period 2027 to 2031.
45. Deferring a decision on whether to add a project to the IASB's work plan to the next agenda consultation would allow stakeholders and the IASB to consider the priority of a project on PPMs holistically, in relation to other projects identified during the consultation process.
46. In the meantime, the IASB could continue to monitor the issue, liaising with stakeholders, including national standard-setters and academics, on any new research they undertake.

Feedback from the IFRS Advisory Council

47. We consulted with the Advisory Council in November 2024 to gather feedback on whether the IASB should start a project on PPMs before the next agenda consultation or defer a decision to add a project to the work plan to the next agenda consultation.

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48. A few Council members expressed support for the IASB starting a project on PPMs before the next agenda consultation, pointing to their increasing prevalence and significance, and the lack of comparability due to diversity in practice.
49. However, many other Council members suggested that the IASB should defer a project on PPMs to the next agenda consultation. Comments from these Council members included:
- (a) Although PPMs are increasing in prevalence, they have not yet reached a level that warrants starting a project before the next agenda consultation, particularly if that is at the expense of a previously prioritised project such as Intangibles or the Statement of Cash Flows.
 - (b) Although there is diversity in the accounting for PPMs, the principles in IFRS Accounting Standards are sufficient to allow entities to establish appropriate accounting policies.
 - (c) There should be a high hurdle for adding a large project to the work plan between agenda consultations—unless circumstances change significantly between agenda consultations a new large project should not be added to the IASB’s work plan. Some Council members said there is insufficient evidence that PPMs have reached that hurdle.
50. A few Council members said it was difficult to comment on the priority of a project without having more information about which projects the IASB would need to deprioritise in favour of PPMs, while a few said they would assign a higher priority to projects such as hyperinflation and operating segments than to PPMs.
51. Council members noted that any project on PPMs would have connections with the work of the ISSB, with a few suggesting that the disclosures required by IFRS S2 might provide some of the information that investors need in relation to these mechanisms. Other Council members suggested that encouraging entities to provide more disclosures about PPMs might also improve the information available to investors.

52. A few Council members said that the IASB should seek to use the work of other national standard-setters, particularly the FASB, to expedite its work on this topic. Council members also suggested that there are synergies between a project on PPMs and the IASB’s projects on Intangibles Assets and Provisions.

Staff recommendation

53. The staff acknowledge:
- (a) there is diversity in accounting practice for PPMs that reduces the usefulness of the information provided to users of financial statements; and
 - (b) the prevalence and significance of PPMs is increasing—there is a risk that PPMs could become a material issue to a significant number of IFRS reporters before the IASB has completed a project on PPMs.
54. However, starting a new project before the next agenda consultation would require us to retire, pause or slow the progress of active projects. Although our horizon-scanning activities suggests that the prevalence and significance of PPMs is increasing, there is insufficient evidence to suggest that the issue is sufficiently time-sensitive to justify disrupting active projects.
55. Consequently, we recommend that the IASB defer a decision to add a project on PPMs to the IASB’s work plan to the next agenda consultation. Doing so will allow stakeholders and the IASB to consider the priority of PPMs in relation to other projects identified during the consultation process and avoid affecting the progress of active projects.

Question for the IASB

1. Does the IASB agree with the staff recommendation in paragraph 55?