IFRS Accounting

Staff paper

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IFRS® Interpretations Committee meeting

Date	**March 2025**
Project	**Recognition of Intangible Assets Resulting from Climate-related Expenditure (IAS 38)**
Topic	**Comment letters on tentative agenda decision**
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Introduction

1. In November 2024 the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission about whether an entity's investments in carbon credits and expenditure on research activities and development activities meet the requirements in IAS 38 *Intangible Assets* to be recognised as intangible assets.

2. The tentative agenda decision included a summary of the fact pattern described in the request[1]:

    (a) an entity made a commitment in 2020 and 2021 to other parties to reduce a percentage of its carbon emissions by 2030 (referred to as a '2030 commitment');

    (b) the entity has taken 'affirmative actions' and, in its view, has created an established pattern of practice to achieve its 2030 commitment. These affirmative actions include: (i) creating a transition plan; (ii) engaging with

[1] The submission is reproduced in Agenda Paper 3A for the November 2024 Committee meeting.

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'net zero focused investors'; (iii) publishing its commitment and plans on its website; (iv) joining coalitions with a mission to collaborate to achieve emissions reductions; (v) stating its emission reduction targets in its financial statements and in presentations to investors and others; and (vi) allocating capital to buying carbon credits and investing in 'innovation programs' purposed to find solutions to reduce emissions to meet its 2030 commitment.

(c) the entity's innovation programs will typically involve creating teams of people with know-how, expertise and other intellectual property to create and develop solutions for emissions reductions specific to the entity or its sector and will result in the creation of intellectual capital.

(d) the entity's investors, insurers and bankers have made their own transition commitments relying on the entity's actions.

(e) the entity has concluded that its 2030 commitment and subsequent affirmative actions have created a constructive or legal obligation applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

3. As described in the April 2024 Agenda Decision *Climate-related Commitments* (IAS 37), if an entity has a constructive or legal obligation, the entity considers the criteria in paragraph 14 of IAS 37 in determining whether it recognises a provision for the costs of fulfilling that obligation.

4. The request asked whether, during its 2024 annual reporting period, the entity's investments in carbon credits and expenditure on research activities and development activities, resulting in intellectual capital from innovation programs as described in the fact pattern, meet the requirements in IAS 38 to be recognised as intangible assets.

5. The Committee observed that:

(a) it did not consider the question about the accounting for carbon credits because the International Accounting Standards Board (IASB) has been performing research to assess the prevalence and significance of pollutant pricing mechanisms (PPMs), some of which include the use of carbon credits; and

(b) evidence it gathered until the publication date of the tentative agenda decision indicated no material diversity in the accounting for expenditure on research activities and development activities.

6. Based on its findings, the Committee concluded that the matter described in the request about the accounting for expenditure on research activities and development activities does not have widespread effect. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan.

7. The objective of this paper is:

(a) to summarise and analyse comments on the tentative agenda decision; and

(b) to ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

8. The appendix to this paper sets out the proposed wording of the agenda decision.

Comment letter summary

9. We received 13 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our website.[2] This agenda paper includes analysis of only the comment letters received by the comment letter deadline.

10. By the comment letter deadline, we received comments from:

(a) five national accounting standard-setters—the Accounting Standards Board of Canada (AcSB), the Financial Accounting Standards Board of the Institute of

[2] At the date of posting this agenda paper, there was one late comment letter.

Indonesia Chartered Accountants (DSAK IAI), the Organismo Italiano di Contabilità (the Italian Standard Setter or OIC), the Malaysian Accounting Standards Board (MASB) and the Saudi Organization for Chartered and Professional Accountants (SOCPA);

(b) four accounting practitioners—three international accounting firms (Deloitte Touche Tohmatsu Limited, Forvis Mazars and RSM International) and one other firm (Mo Chartered Accountants (Zimbabwe));

(c) two individuals—one accounting academic (Qingmei Xue) and one other (Dr. Prachi Ugle);

(d) one accountancy professional body—CPA Australia and Chartered Accountants Australia and New Zealand (CPA Australia / CA ANZ); and

(e) one organisation involved in sustainability or impacts-related policy and reporting—Rethinking Capital.

11. We separately present comments on the tentative agenda decision related to (a) carbon credits; and (b) research activities and development activities.

Carbon credits

12. Seven respondents agree with the Committee's conclusion to not consider the question about the accounting for carbon credits separately from the IASB's research on PPMs. These respondents are the three international accounting firms, two of the five national accounting standard-setters, CPA Australia / CA ANZ and Qingmei Xue.

13. Qingmei Xue, while agreeing with the Committee's conclusion, suggests that if the IASB decides to delay the PPMs project, the Committee could consider providing clarification on this issue in the interim 'given the urgency of addressing carbon credit accounting—particularly with 2030 fast approaching'.

14. Two respondents state or imply that they disagree with the Committee's conclusion not to engage in a technical discussion about the accounting for carbon credits:

    (a) Rethinking Capital says the Committee's discussion at its November 2024 meeting was disappointing, in part because of the Committee's 'refusal to even discuss carbon credits when the IASB has yet to begin its process to discuss' PPMs. This respondent says existing requirements in IAS 38 are sufficient to determine whether investments in carbon credits should be recognised as intangible assets.

    (b) Dr. Prachi Ugle suggests the Committee revoke its tentative agenda decision and 'recognize climate related expenditures as intangible assets' because they are 'intellectual capital' with long-term future benefits.

15. The remaining four respondents do not comment on the Committee's conclusion to not consider the question about the accounting for carbon credits.

16. Other comments are set out in paragraph 28 of this paper.

Research activities and development activities

17. Six respondents agree with the Committee's findings that there is no material diversity in the accounting for expenditure on research activities and development activities and that the matter described in the request does not have widespread effect. These respondents are the three international accounting firms and three of the four national accounting standard-setters. Some of these respondents provide observations about the accounting for expenditure on research activities and development activities applying IAS 38. For example:

    (a) the AcSB says the fact pattern in the submission is not exclusive to climate-related expenditures, and innovation programs are common in many industries including the automotive and original equipment manufacturer industries. This respondent says it is common for an entity in these industries to engage in process engineering or re-engineering to improve manufacturing efficiency, and they have not observed material diversity in the accounting for research and development activities in these or other industries.

(b) RSM International says there is currently no specific guidance in IAS 38 on research and development expenses for any industry or activity in particular, and, in their view, there is no reason to develop specific guidance pertaining to climate-related expenditure. This respondent says any necessary amendment or implementation examples would best be considered as part of the IASB's ongoing intangibles project.

(c) the DSAK IAI says any differences in accounting practice for expenditure on research and development activities likely arise from entities' judgment based on their specific situations and practices in their industries. This respondent says existing requirements in IAS 38 provide a sufficient basis for an entity to determine whether expenditures are to be recognised as intangible assets.

18. The remaining seven respondents do not comment on the Committee's findings that there is no material diversity in the accounting for expenditure on research activities and development activities. One of these respondents, Rethinking Capital, says existing requirements in IAS 38 are sufficient to determine whether investments in particular research and development activities should be recognised as intangible assets. Other respondents provide comments:

(a) to highlight the possibility of diversity in practice arising in future (see paragraph 19 of this paper); and

(b) to ask the IASB to address this matter in its research project on intangible assets[3] and through educational materials in the interim (see paragraphs 20–21 of this paper).

19. Two respondents say diversity in applying IAS 38 might arise in future:

(a) Qingmei Xue says there is uncertainty about the potential impact of incorporating carbon-related innovation programs into the existing framework of IAS 38, which might affect financial statement comparability across entities. This respondent says more evidence might be needed to assess whether this trend (in future) introduces significant divergence in practice.

(b) CPA Australia / CA ANZ says that while currently there might not be much diversity in practice, as more entities begin to make climate-related commitments, 'the accounting implications are likely to come to the fore and we foresee a critical tipping point on this topic not being too far off into the future.'

20. Two respondents ask the IASB to address the accounting for climate-related expenditure on research activities and development activities in its intangible assets project. In particular:

(a) the OIC says:

> We disagree with the IFRS IC TAD because it could be misinterpreted as meaning that there is no need for the IASB to address the issue of distinguishing between research and development costs, particularly in the context of climate change. Our stakeholders, in different occasions, called for a review of the criteria in IAS 38 … because the distinction between research

[3] The IASB has a research project on its work plan to comprehensively review the accounting requirements for intangible assets.

> phase and development phase is very judgmental. We note that some entities are incurring significant costs in order to reduce their emissions (eg Carbon Capture and Storage projects) and it is not clear whether these costs qualify for recognition. …
>
> We support the IASB's decision to add the Intangible Assets project to its workplan, because the current requirements of IAS 38 were developed in a different economic context … and could penalise companies that are investing in research and development to reduce their CO2 emissions. In our view, the IFRS IC should not finalise its tentative agenda decision and should recommend that the IASB address this issue in the IAS 38 project.
>
> …

(b) SOCPA asks the IASB, as part of its intangible assets project, to at least develop illustrative examples focusing on the application of the development-phase capitalisation criteria in the context of climate-related expenditures. SOCPA says examples would help ensure consistency in how entities account for such expenditures, thereby avoiding potential diversity in practice.

21. CPA Australia / CA ANZ says that while it supports addressing this matter in the IASB's research project on intangible assets, it recommends that the IASB take action in the interim to assist preparers that are beginning to consider the impacts of their climate-related commitments and expenditures on their financial statements. This respondent recommends that the IASB develop examples—in the form of educational materials—illustrating how current IFRS Accounting Standards apply to these emerging matters.

22. Other comments are set out in paragraph 28 of this paper.

Staff analysis

Carbon credits

23. At its January 2025 meeting, the IASB discussed the results of its research and stakeholder engagement on PPMs. Although the results of the IASB's research provided evidence of diversity in accounting for PPMs, there is insufficient evidence to suggest those arrangements are currently material to a significant number of entities such that a time-sensitive solution in IFRS Accounting Standards is needed.[4] In addition, a project on PPMs is expected to be large and complex. The IASB expects to decide whether to add a project on PPMs to its work plan during its next agenda consultation. A project on PPMs remains on the IASB's reserve list, and the IASB will continue to monitor the topic. In the light of this IASB decision, we suggest wording changes to the agenda decision as set out in the appendix to this paper.

24. Accordingly, notwithstanding suggestions from a few respondents for further work by the Committee on this topic, we continue to be of the view that the accounting for carbon credits is not sufficiently narrow in scope for it to be addressed efficiently by the Committee.[5]

Research activities and development activities

25. In our view, the comment letters on the tentative agenda decision confirm the Committee's initial findings that there is no material diversity in the accounting for expenditure on research activities and development activities and, consequently, the matter described in the request does not have widespread effect.[6] Therefore, notwithstanding comments from the OIC, we continue to think it is appropriate for the

[4] Agenda Paper 10 for the IASB's January 2025 meeting summarises research on PPMs up to the date of the posting of that paper.

[5] Paragraph 5.16(d) of the *Due Process Handbook*.

[6] Paragraph 5.16(a) of the *Due Process Handbook*.

Committee to finalise its agenda decision in accordance with paragraph 5.19 of the *Due Process Handbook.*

26. We acknowledge that diversity in accounting for expenditure on research activities and development activities applying IAS 38 might arise in future. Stakeholders may submit questions in future in the light of any new evidence about potential diversity that could be expected to have a material effect on entities' financial statements.

27. We will report to the IASB the suggestions for it (a) to address the accounting for climate-related expenditure on research activities and development activities in its research project on intangible assets; and (b) to develop illustrative examples in the interim while the intangible assets project is in process.

Other comments

28. The following table summarises other comments raised by respondents, together with our analysis of those comments.

Respondents' comments	Staff analysis and conclusions
1. Technical analysis of the accounting for intangible assets A few respondents provide either a technical analysis of the fact pattern or of intangible assets more generally: a) Mo Chartered Accountants says 'carbon offsets' should not be classified as intangible assets and suggests factors for an entity to consider in evaluating intangible assets for impairment.	*We recommend no changes.* We continue to agree with the Committee's decision, for the reasons set out in paragraph 5 of this paper, to not perform a technical analysis of the accounting for investments in carbon credits or expenditure on research activities and development activities applying IAS 38 or other IFRS Accounting

Respondents' comments	Staff analysis and conclusions
b) Dr. Prachi Ugle provides an analysis of the fact pattern and concludes that the entity's investments in carbon credits and innovation programs should be considered as intangible assets. c) Rethinking Capital says an argument that 'intangibles are too uncertain to recognise as assets and to value' is flawed.	Standards. We have therefore not analysed these comments further.
2. Recognition of a provision applying IAS 37 Rethinking Capital says investments in carbon credits and net-zero related innovation programs can be recognised as assets under IAS 38 if 'the entity also chooses to recognise a provision for an emission reduction commitment as a constructive obligation under IAS 37'. Qingmei Xue says it is not common for entities to recognise a liability for climate-related obligations applying IAS 37. This respondent says additional guidance on the application of IAS 37 to climate commitments would be beneficial in ensuring consistency in financial reporting	*We recommend no changes.* See item 1 in this table; we have not analysed comments that provide a technical analysis of the application of IAS 38. As set out in the April 2024 Agenda Decision *Climate-related Commitments* (IAS 37), an entity recognises a provision only if all three of the recognition criteria in paragraph 14 of IAS 37 are met. Therefore, recognition of a provision is not a matter of choice. Further, an entity's determination of whether it recognises a provision is separate from its determination of

Respondents’ comments	Staff analysis and conclusions
and asks that the Provisions—Targeted Improvements project provide further clarification on this matter.	whether it recognises the corresponding amount as an expense or as an asset.
3. Need for alignment between financial statements, sustainability reports and other reports CPA Australia / CA ANZ say there is a growing need for alignment between financial statements, sustainability reports and other reports related to climate reporting.[7] This respondent suggests the IASB and the International Sustainability Standards Board (ISSB) undertake a more detailed assessment of their respective standards in due course to address this need.	*We recommend no changes.* These comments are outside the scope of the tentative agenda decision discussed in this paper. We note this respondent has previously provided similar comments to the IASB that will be considered in other projects. Further, in its research project on intangible assets, the IASB plans to consider connections between its work and the work of the ISSB.[8]

Staff recommendation

29. Based on our analysis in paragraphs 23–28 of this paper, we recommend finalising the agenda decision as published in IFRIC *Update* in November 2024, with changes to the wording of the tentative agenda decision as explained in paragraph 23 of this paper and marked in the appendix to this paper. Suggested wording changes include

[7] This respondent says it previously provided comments to the IASB on the *Exposure Draft: Climate-Related and Other Uncertainties in the Financial Statements (Proposed Illustrative Examples)* and to the IFRIC on its *Tentative Agenda Decision: Climate-related Commitments (IAS 37).*

[8] The Intangible Assets project page provides further details about the project plans.

those made to improve the internal consistency of the agenda decision. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee
1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 29? 2. Do Committee members have any comments on the wording of the agenda decision in the appendix to this paper?

Appendix—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Recognition of Intangible Assets Resulting from Climate-related Expenditure (IAS 38 *Intangible Assets*)

The Committee received a request about whether an entity's investments in ~~expenditures for~~ carbon credits and expenditure on research activities and development activities meet the requirements in IAS 38 to be recognised as intangible assets.

Fact pattern

A summary of the fact pattern described in the request ~~submission~~ is as follows:

(a) an entity made a commitment in 2020 and 2021 to other parties to reduce a percentage of its carbon emissions by 2030 (referred to as a '2030 commitment').

(b) the entity has taken 'affirmative actions' and, in its view, has created an established pattern of practice to achieve its 2030 commitment. These affirmative actions include: (i) creating a transition plan; (ii) engaging with 'net zero focused investors'; (iii) publishing its commitment and plans on its website; (iv) joining coalitions with a mission to collaborate to achieve emissions reductions; (v) stating its emission reduction targets in its financial statements and in presentations to investors and others; and (vi) allocating capital to buying carbon credits and investing in 'innovation programs' purposed to find solutions to reduce emissions to meet its 2030 commitment.

(c) the entity's innovation programs will typically involve creating teams of people with know-how, expertise and other intellectual property to create and develop solutions for emissions reductions specific to the entity or its sector and will result in the creation of intellectual capital.

(d) the entity's investors, insurers and bankers have made their own transition commitments relying on the entity's actions.

(e) the entity has concluded that its 2030 commitment and subsequent affirmative actions have created a constructive or legal obligation applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

As described in the April 2024 Agenda Decision *Climate-related Commitments* (IAS 37), if an entity has a constructive or legal obligation, the entity considers the criteria in paragraph 14 of IAS 37 in determining whether it recognises a provision for the costs of fulfilling that obligation.

The request asks whether, during its 2024 annual reporting period, the entity's investments in carbon credits and expenditure on ~~expenditures for~~ research activities and development activities, resulting in intellectual capital from innovation programs as described in the fact pattern, meet the requirements in IAS 38 to be recognised as intangible assets.

Additional background

~~In response to its Third Agenda Consultation, the~~The International Accounting Standards Board (IASB) has on ~~added to~~ its reserve list a project on pollutant pricing mechanisms (PPMs), some of which include the use of carbon credits. The IASB has been performing research, including engaging with stakeholders, to assess the prevalence and significance of PPMs. The IASB expects ~~to consider at a future meeting the results of its research and~~ to decide whether to add ~~start~~ a project on the accounting for PPMs to its work plan during its ~~before the~~ next agenda consultation.

Accordingly, the Committee did not consider the ~~submission's~~ question about the accounting for investments in carbon credits separately from the IASB's research on

PPMs. The Committee instead considered only the ~~submission's~~ question about the accounting for expenditure on research activities and development activities.

Findings and conclusion

Evidence gathered by the Committee indicated ~~[to date] indicates~~ no material diversity in the accounting for expenditure on research activities and development activities. Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee ~~[~~decided~~]~~ not to add a standard-setting project to the work plan.