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#DeloitteESGNow — FASB Makes Tentative Decisions Related to the Accounting for Environmental Credit Programs

Background

At its October 11, 2023, meeting, the FASB continued deliberating its project on the accounting for environmental credit programs. The project was added to the Board's research agenda in December 2021 and is intended to improve the recognition, measurement, presentation, and disclosure requirements for environmental credits. Because the treatment of such credits is not explicitly addressed in U.S. GAAP, entities have used different approaches, and questions have emerged, related to how to account for them. The [tentative decisions](#) reached at the FASB's meeting are discussed below.

Project Scope

The Board discussed and made several tentative decisions related to the project's scope.

Assets

The FASB tentatively decided that the following criteria must be met for an environmental credit to be within the scope of the project:

- Credits must:
 - Be enforceable but can take many forms, including credits, certificates, allowances, and offsets.
 - Be separately transferable in an exchange transaction.

- Lack physical substance and not meet the definition of a financial asset under U.S. GAAP.
- Represent the prevention, control, reduction, or removal of emissions or other pollution.
- Credits may:
 - Include those from related parties.
 - Be acquired, granted by a regulatory agency (including those in return for performance), or internally generated.

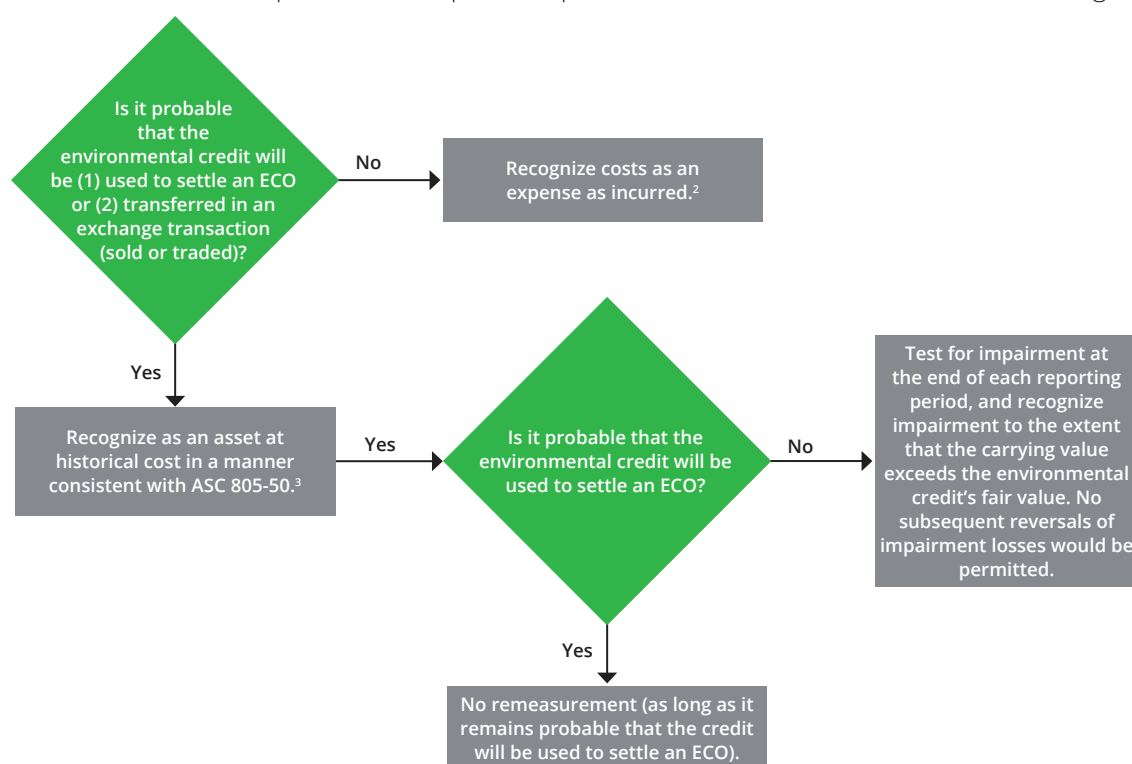
The Board also clarified that tax credits used to settle an entity's income tax liability would be outside the project's scope because they are already addressed by other U.S. GAAP.

Liabilities

The FASB tentatively decided that environmental credit obligations (ECOs), which are obligations that arise "from existing or enacted laws, statutes, or ordinances represented to prevent, control, reduce, or remove emissions or other pollution that may be settled with environmental credits," would be within the scope of the project. Obligations that are within the scope of ASC 410-30¹ are not ECOs.

Recognition, Initial Measurement, and Subsequent Measurement

At the meeting, the FASB discussed a model under which an entity would make an initial assessment of the probable use of an environmental credit, which would then govern the credit's initial recognition and measurement as well as its subsequent measurement. The decision tree below represents a simplified depiction of the model discussed at the meeting.



¹ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

² This applies unless the costs are included in the carrying amount of another asset in accordance with other U.S. GAAP. Further, costs for credits that are granted from a regulator or internally generated are limited to transaction costs directly associated with obtaining the environmental credit (e.g., application fees) and thus could be zero.

³ This applies unless the environmental credits were obtained as part of a transaction subject to other U.S. GAAP.

The FASB also discussed different costing methods for environmental credits and tentatively decided to allow entities to use an average cost and first-in, first-out (FIFO) approach as well as specific identification costing methods. An entity would be required to consistently apply its chosen method to all similar environmental credits. Further, the Board tentatively decided to allow an entity to elect, as an accounting policy choice, to use a portfolio approach for similar environmental credits when applying the recognition and measurement considerations.

Derecognition

Environmental credits would be derecognized in accordance with ASC 610-20 unless a scope exception applied. For example, the Board tentatively decided that “for a transfer of an environmental credit in a contract with a customer, an entity would derecognize an environmental credit in accordance with [ASC] 606.”

Reassessment

In each reporting period, an entity would reassess whether it is probable that an environmental credit recognized as an asset would be used to settle an ECO (i.e., a “compliance environment credit”) or transferred in an exchange transaction (i.e., sold or traded). If an entity determined that it was no longer probable that an environmental credit could be used to settle an ECO or transferred in an exchange transaction, the entity would derecognize it through earnings.

If, upon reassessment, an entity reclassified a compliance environmental credit as a noncompliance environmental credit, or vice versa, the entity would be required to test the credit for impairment before applying the subsequent measurement guidance.

Next Steps

The Board plans to continue its outreach to stakeholders.

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