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

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Tentative Agenda Decision and comment letters: Recognition of Intangible Assets Resulting from Climate- related Expenditure (IAS 38)

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The IFRS Interpretations Committee (Committee) discussed the following matter and tentatively decided not to add a standard-setting project to the work plan. The Committee will reconsider this tentative decision, including the reasons for not adding a standard-setting project, at a future meeting. The Committee invites comments on the tentative agenda decision. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by good reason, for example, commercial confidence.

Tentative Agenda Decision

Open for comment until 3 February 2025

The Committee received a request about whether an entity's expenditures for carbon credits and 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 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 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 International Accounting Standards Board (IASB) 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 start a project on the accounting for PPMs before the next agenda consultation.

Accordingly, the Committee did not consider the submission's question about the accounting for 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 [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.

The deadline for commenting on the tentative agenda decision is **3 February 2025**. The Committee will consider all comments received in writing by that date; agenda papers analysing comments received will include analysis only of comments received by that date.

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