



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

Western India Regional Council

WIRC/ICAI/ 10982 /2025

6 January 2025

The Secretariat
Accounting Standards Board
The Institute of Chartered Accountants of India
ICAI Bhawan, P.B. No.7100, Indraprastha Marg,
New Delhi- 110 002, India.

Dear Sir/Madam,

Please find attached **Comment on Recognition of Intangible Assets Resulting from Climate-related Expenditure (IAS 38)**, issued by the IASB for comments.

Kindly take the same on record.

Regards,

CA. Ankit Rathi
Chairman - WIRC of ICAI



Feedback on Tentative Agenda Decision – Recognition of Intangible Assets Resulting from Climate-Related Expenditure (IAS 38)

We are writing to provide feedback on the tentative agenda decision regarding the recognition of intangible assets resulting from climate-related expenditures under IAS 38, as discussed in your recent publication. We appreciate the opportunity to engage in this important dialogue and commend the Committee for addressing this critical topic.

Key Points of Feedback:

1. Substantial Impact of Climate-Related Expenditures on Profit or Loss

Climate-related expenditures, particularly those incurred to achieve long-term targets like carbon neutrality or compliance with Sustainable Development Goals (SDGs), are often substantial. When such costs are expensed in a single reporting period, they can materially distort the financial performance of that year, leading to a mismatch between the timing of costs and the realization of their long-term benefits.

For example, investments in carbon credits, innovation programs, and research to achieve net-zero commitments create benefits that extend beyond the immediate reporting period. However, under existing standards, these costs are largely expensed as incurred, failing to reflect their true economic substance.

2. Recognition of SDG Compliance as an Intangible Asset

Compliance with SDGs and climate commitments contributes to significant long-term value creation for entities. These expenditures often result in:

- Enhanced reputation and brand equity.
- Improved access to sustainable financing.
- Mitigation of regulatory risks and penalties.
- Cost efficiencies from sustainable resource use.

Under IAS 38, such expenditures may meet the criteria for intangible assets if their future economic benefits are identifiable, controlled, and measurable. However, the current guidance lacks clarity on whether and how SDG-related initiatives can be accounted for as intangible assets.

3. Need for Standard-Setting or Enhanced Guidance

In light of the increasing importance of sustainability and the scale of climate-related investments, we strongly recommend that the IFRS Foundation and the Committee consider a dedicated standard-setting project or enhanced guidance for:

- Capitalizing expenditures that generate long-term economic benefits linked to sustainability and SDG compliance.
- Defining specific criteria for recognizing climate-related intangible assets.
- Establishing a framework for amortizing such assets over the period during which benefits accrue.



4. Alignment with Emerging Sustainability Standards

As the IFRS Foundation progresses its work through the International Sustainability Standards Board (ISSB), it is essential to ensure alignment between financial and sustainability reporting. Recognizing SDG compliance expenditures as assets would bridge the gap between these reporting frameworks and provide a more comprehensive view of an entity's financial health and sustainability performance.

Conclusion

While we acknowledge the Committee's conclusion that there is no widespread diversity in practice currently, we believe this issue warrants further exploration given the growing significance of sustainability-related expenditures. By providing clear guidance or initiating a standard-setting project, the Committee can ensure that financial reporting reflects the economic realities of climate and SDG-related investments.

We respectfully urge the Committee to reconsider its tentative decision and provide preparers with tools to better account for the economic benefits of these expenditures.