



The Association of  
Accountants and  
Financial Professionals  
in Business

May 6, 2025

Mr. Jackson Day, Technical Director  
Financial Accounting Standards Board  
801 Main Avenue  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 2024-ED910 *Environmental Credits and Environmental Credit Obligations (Topic 818)***

Dear Mr. Day:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update *Environmental Credits and Environmental Credit Obligations (Topic 818)* (Proposed Update).

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts and accounting consultants. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

Overall, the Committee is supportive of the FASB providing guidance on the accounting for environmental credits and environmental credit obligations. The Committee has mixed views on the accounting for credits purchased to meet voluntary environmental initiatives and the measurement of credits that a reporting entity generates as a by-product of its ongoing activities. We have concerns that under the Proposed Update environmental credit obligations that are payable when a specified threshold is exceeded would not be recognized until that threshold has been met. In addition, we believe the proposed disclosures of revenues or gains on sales of environmental credits not recognized as an asset under the Proposed Update are excessive. The remainder of this letter addresses each of these issues.

Accounting for purchased environmental credits

The Committee has mixed views on the accounting for credits purchased for voluntary environmental initiatives under the Proposed Update. Most of the Committee agrees with the guidance in the Proposed Update and note that credits purchased for voluntary environmental initiatives are generally used immediately. Some members analogize to the accounting for advertising costs in deciding to expense purchased credits immediately. Reporting entities do not normally purchase credits that will be used under voluntary environmental initiatives over an extended period. Expensing those credits immediately does not result in a significant disconnect between the timing of expense recognition and the use of the credits. Other Committee members believe that the Proposed Update should require reporting entities to capitalize credits purchased for any purpose and reflect the expense when those credits are used for the intended purchase. Those Committee members note that credits purchased for voluntary initiatives satisfy the definition of an asset under Concepts Statement No. 8, as noted in paragraphs BC39 and BC40 of the Proposed Update. However, the Board superimposes a probability threshold over the definition of an asset in paragraph E16 of Chapter 4 of Concepts Statement No. 8 even though the Board amended the prior definition of “asset” to remove the “probable” threshold in that definition. If the Board retains this guidance, we recommend providing an explanation of why credits purchased for voluntary purposes do not represent present economic benefits. Committee members favoring recognition of voluntary credits as an asset note that even barter credits are recognized as assets until they are used.

Cost of environmental credits

We disagree with the requirement in proposed paragraph 818-20-30-1 that internally generated credits and credits received from a regulator or its designee be initially measured at the transaction costs incurred. For internally generated credits, the Committee believes that the reporting entity should allocate the costs incurred in providing services or manufacturing products that generate credits between the services provided or the product manufactured and the credits generated by those activities. We believe credits received from a regulator or its designee should be recognized at fair value, like the accounting recently proposed for government grants.

Allocating the costs incurred by a reporting entity to credits generated by its primary activity will result in reporting that better reflects the economics when the reporting entity sells the credits. Rather than reporting a gross margin equal to or approximating the proceeds from the sale, the entity will recognize a gross margin that reflects an allocation of the costs of manufacturing or providing services to the outputs of those activities (credits as well as the product or service) and therefore is more aligned with the entity’s economic activities.

Disclosures

We believe the disclosure requirements in paragraph 818-20-50-5(c) and (d) are excessive. If the Board believes expensing environmental credits that meet the definition of an asset but are not probable of being sold or used to settle an obligation, why is the revenue or gain recorded if the entity subsequently sells the credit relevant information? Requiring a reporting entity to disclose the revenue or gain on a subsequent sale will result in an entity incurring costs to track the disposition of credits, even though the

Board decided those credits did not represent assets. We do not see the benefits of the disclosure exceeding the costs, particularly if reporting entities that purchase credits for voluntary programs do not typically sell those credits (and the Board has not suggested that reporting entities sell credits purchased for voluntary programs). Further, why is the expense recognized for those credits important information? The Basis for Conclusions does not provide any insight into why the Board believes that information is important.

#### Environmental credit obligations

The Committee disagrees with the guidance in proposed paragraphs 818-30-25-1 and 818-30-55-3 and -4 and believes the proposed accounting diverges from the accounting that would apply under ASC 450. If a reporting entity is obligated to satisfy an environmental credit obligation if its emissions exceed a specified threshold and it is probable the entity's operations will exceed the threshold, we believe each unit of emissions produced from the point exceeding the threshold becomes probable should result in the recognition of a liability. Deferring the recognition of a liability until the threshold is exceeded results in a misleading picture of a reporting entity's liabilities at reporting dates prior to the period in which the threshold is exceeded. Under the Board's approach, the first 999 metric tons of emissions in the example in paragraph 818-30-55-3 have no cost, while the next metric ton has a significant cost. We think that would result in providing misleading information to users of financial statements.

We note there are many areas of accounting where a reporting entity is obligated to account for obligations triggered by achieving a specified threshold from the time the achievement of the threshold is considered probable until the threshold is exceeded (for example, incentives granted to customers for purchasing a specified level of goods from the reporting entity).

We also disagree with the guidance in paragraph 818-30-30-2 of the Proposed Update. If a reporting entity purchased environmental credits for a voluntary program and subsequently concludes it will use them to settle an environmental credit obligation, recognizing a liability for the portion of the obligation that will be settled using those credits presents a misleading picture of the entity's financial condition. The environmental credit obligation is presented as if it was unfunded when in fact the entity has credits that did not qualify for recognition as an asset that it can use to satisfy that obligation.

#### Other comments

Proposed paragraph 818-20-35-4 requires a reporting entity to test noncompliance environmental credits for impairment at each reporting date. However, the Proposed Update does not specify what framework applies in testing for impairment. Should a reporting entity apply the impairment model in ASC 330 *Inventory*, ASC 350 *Intangibles – Goodwill and Other*, or ASC 360 *Property, Plant, and Equipment*? We assume reporting entities to test credits for impairment in accordance with ASC 350 because the credits are an intangible asset, but environmental credits that can be sold have characteristics of inventory (other than being intangible).

Paragraph 818-20-35-8 of the Proposed Update indicates that an entity "may elect an accounting policy to subsequently measure a class of eligible ... noncompliance environmental credits at fair value" but does

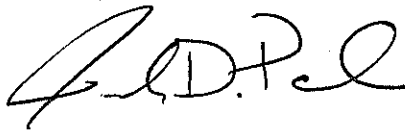
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not provide guidance on what would constitute a "class". We recommend that the Board provide implementation guidance on what groupings, if any, of credits could qualify as a class.

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We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "J. D. Paul", written in a cursive style.

Josh Paul  
Chair, Financial Reporting Committee  
Institute of Management Accountants  
jpaul@paloaltonetworks.com