

UKEB Research Project Initiation Plan: Environmental Credits Descriptive Research

Executive Summary

Project Stage								
IASB	Research / Pipeline	Discussion Paper	Redeliberation	Exposure Draft	Redeliberation	Final Standard	Post Implementation Review	
UKEB	Research / Influencing	Research / Influencing	Monitoring	Influencing	Monitoring	Endorsement	Influencing	UKEB Post Implementation Review
Project Type								
Research Project								
Project Scope								
Moderate								
Purpose of the paper								
The purpose of this paper is to seek approval from the Board for a proposed Project Initiation Plan (PIP) for a research project on environmental credits in the UK.								
Summary of the Issue								
In July 2026, the Board approved its Research Strategy 2026/27. That strategy identified areas where the UKEB could provide thought leadership, consistent with its statutory role to contribute to the development of high-quality international accounting standards and to influence the work of the IASB. Stakeholders were particularly supportive of research around intangibles and carbon and other environmental credits. The appendix to this paper proposes a PIP consistent with this feedback. The aim of the research is to support future engagement with the IASB and wider international standard-setting discussions on the prevalence, nature and reporting of environmental credits among UK listed companies. It also responds to IASB's identification of pollutant pricing mechanisms as a topic within its research pipeline.								
Decisions for the Board								
Subject to any suggested amendments, does the Board approve the PIP for environmental credits descriptive research presented in Appendix A?								

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Recommendation
That the Board agrees the attached PIP.
Appendices
Appendix A Project Initiation Plan: Environmental credits descriptive research

Background

1. In July 2026, the UKEB approved its research strategy for the remainder of the 2026/27 financial year. The strategy was developed following consultation on the Regulatory Strategy 2026/27. Stakeholder feedback demonstrated strong support for a focused research programme in areas where the UKEB could make a meaningful contribution to international standard-setting and thought leadership.
2. Environmental credits emerged as one of the priority research themes. Respondents highlighted the growing economic significance of environmental credit markets in supporting net-zero and wider environmental policy objectives, together with the increasing prevalence of such instruments across both voluntary and regulatory schemes. Stakeholders also noted significant diversity in current accounting practices and called for greater clarity and consistency in financial reporting.
3. In approving the research strategy, the Board recognised that environmental credits raise important accounting questions that extend beyond asset recognition and measurement. The topic intersects with wider issues relating to liabilities, revenue recognition, disclosure, and the connectivity between financial reporting and sustainability-related reporting. The Board also noted that the research builds on the UKEB's previous work on climate-related matters and aligns with areas identified by the IASB as potential future research priorities.
4. The approved strategy envisaged an initial research phase focused on understanding the prevalence and nature of environmental credit schemes, which:
 - a) assesses current accounting treatments and disclosures,
 - b) identifies areas of diversity in practice, and
 - c) explores potential principles-based approaches to accounting.
5. The Board agreed that this research should provide an evidence base to support future UKEB positions and enable effective engagement with any future IASB standard-setting activity in this area.

Questions for the Board

1. Subject to any suggested amendments, does the Board approve the PIP for environmental credits descriptive research presented in Appendix A?

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Appendix A: Project Initiation Plan: Environmental Credits Descriptive Research

Purpose

- A1. The International Accounting Standards Board (IASB) has identified pollutant pricing mechanisms as a research pipeline project and is considering whether further standard-setting activity may be required in this area. Environmental credits, including carbon credits, emissions allowances, biodiversity credits, nature-based credits and other emerging environmental market instruments, have become increasingly important features of the transition to a lower-carbon economy. However, questions remain regarding their recognition, measurement and disclosure in financial statements.
- A2. The UKEB's extensive previous research on climate-related financial reporting, intangible assets and broader reporting challenges has highlighted the importance of understanding how emerging assets, obligations and regulatory mechanisms are reflected in financial reporting.
- A3. To support future engagement with the IASB and wider international standard-setting discussions, the UKEB will commission targeted research into the prevalence, nature and reporting of carbon credits, emissions schemes and related environmental credits among UK listed companies.
- A4. While the IASB's current interest is focused on pollutant pricing mechanisms, the proposed research will consider a broader population of environmental credit arrangements in order to understand emerging market developments and identify potential implications for future standard-setting.
- A5. For the purposes of this research, environmental credits refer to tradable instruments linked to environmental outcomes, including carbon credits, emissions allowances and other emerging environmental market instruments. The exact scope will be refined during the desk-based research phase.
- A6. This PIP sets out a plan for an outsourced research project that will strengthen the UKEB's evidence base on environmental credits and support future engagement with the IASB's developing work on pollutant pricing mechanisms and climate-related financial reporting.

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Background

- A7. Environmental credits represent an important area for further investigation because:
- a) there is currently no dedicated IFRS Accounting Standard addressing many aspects of accounting for environmental credits including carbon credits and emissions schemes;
 - b) the accounting treatment under existing accounting standards, including IAS 38 *Intangible Assets* and IAS 37 *Provisions* has been an area of concern for stakeholders and lead questions going to the IFRS Interpretations Committee for consideration¹;
 - c) environmental credits and related obligations are increasing in significance as governments, regulators and businesses pursue decarbonisation objectives;
 - d) accounting practices have developed in diverse ways in response to the withdrawal of IFRIC 3 *Emission Rights* and the absence of comprehensive accounting requirements;
 - e) stakeholder interest in the financial reporting implications of climate-related assets and liabilities continues to grow;
 - f) the IASB has identified pollutant pricing mechanisms as an area warranting further research and consideration; and
 - g) environmental credits raise important questions regarding the interaction between financial reporting, sustainability reporting and regulatory frameworks.
- A8. By responding to these concerns, this project will support the UKEB's strategic objective of proactively contributing evidence and thought leadership to international accounting standard-setting.
- A9. The research will:
- a) strengthen the UKEB evidence base on environmental credit schemes;
 - b) support future engagement with the IASB's research on pollutant pricing mechanisms;
 - c) enhance understanding of UK reporting practices;

¹ [IFRS - Tentative Agenda Decision and comment letters: Climate-related Commitments \(IAS 37\)](#)
IFRIC 3 Emission Rights (withdrawn)

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- d) identify areas where accounting challenges and diversity in practice exist;
- e) improve understanding of the relationship between financial reporting and climate-related obligations; and
- f) position the UKEB to respond effectively to future IASB consultations and research activities.

Project Plan

Proportionality Assessment

Significance and Size

IASB Project Scope

- A10. The proposed UKEB research is intended to provide a robust evidence base, within the UK listed environment, regarding the prevalence, nature, accounting treatment and disclosure of carbon credits, emissions schemes and related environmental credits (identified by the IASB as in scope of their pipeline project). This evidence is aimed at helping inform future UKEB and IASB deliberations concerning pollutant pricing mechanisms and climate-related financial reporting.

Entities Affected by the Proposals

- A11. The research will focus on UK listed companies preparing financial statements in accordance with IFRS Accounting Standards.
- A12. While environmental credits are expected to be concentrated in industries with significant carbon exposure, including energy, utilities, manufacturing, transportation, aviation and extractive industries. The research will seek to understand both direct participation in emissions trading schemes and broader exposure to environmental credit markets and climate-related regulatory obligations.

Complexity

- A13. The project is expected to be of moderate to high complexity.
- A14. Environmental credits encompass a wide range of arrangements, including compliance markets, voluntary carbon markets, allowances, offsets and other environmental instruments. Entities may account for these items using differing approaches, creating potential diversity in practice.
- A15. In addition, the research will need to consider:
- a) recognition and measurement approaches (current and possible);

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- b) interaction with government and regulatory frameworks;
- c) emissions-related liabilities and provisions;
- d) links between sustainability commitments and financial reporting outcomes; and
- e) evolving market practices and business models.

A16. Stakeholder outreach will therefore be required to understand both practical application challenges and the broader economic rationale for holding or participating in environmental credit schemes.

Expected Timeline / Urgency

A17. There is no indication of an immediate requirement for accelerated standard-setting activity in the UK. However, completion of the research during 2026/27 would allow the UKEB to establish an evidence base at an early stage of the IASB's work on pollutant pricing mechanisms and contribute proactively to future international discussions.

Expected Interest / Sensitivity

- A18. Stakeholder interest in environmental credit schemes continues to increase due to:
- a) growing regulatory focus on climate commitments;
 - b) the expansion of emissions trading systems and voluntary carbon markets;
 - c) increasing investor interest in climate-related risks and opportunities; and
 - d) ongoing public policy debates concerning decarbonisation.
- A19. Given the climate-related nature of the topic, the research is expected to attract interest from preparers, investors, sustainability professionals, regulators and standard setters.

Feedback on the Proposals from Desk-based Research / Initial Outreach

- A20. Previous UKEB work on climate-related financial reporting has identified increasing stakeholder interest in the financial reporting consequences of climate change and climate-related regulation.
- A21. Preliminary review indicates that environmental credits continue to generate diversity in accounting practice, particularly regarding:
- a) asset recognition;

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- b) liability measurement;
- c) treatment of emissions obligations;
- d) disclosure requirements; and
- e) interactions between financial reporting and sustainability reporting.

A22. The IASB's identification of pollutant pricing mechanisms as a pipeline project further supports the importance of developing an evidence base in this area.

Connectivity

A23. As part of the development of the PIP, potential overlaps between IASB Accounting Standards and ISSB Sustainability Disclosure Standards have been considered.

A24. Environmental credits have clear connectivity implications.

A25. The research will primarily focus on financial reporting matters, including the recognition, measurement and disclosure of environmental credits and emissions obligations. However, the project will also seek to understand the relationship between:

- a) financial statement reporting;
- b) sustainability-related disclosures;
- c) climate-transition strategies; and
- d) regulatory reporting frameworks.

A26. Understanding these interactions may provide useful evidence for future discussions regarding connectivity between financial and sustainability reporting.

Recommended UKEB Project Scope

A27. Based on the proportionality assessment above, we recommend a “moderate” project scope. The approach described in this document reflects is proportionate to this scope.

Questions to be addressed by the research

Prevalence

A28. How common is participation in environmental credit schemes among UK listed entities?

A29. Which sectors have the greatest exposure to environmental credits?

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- A30. How significant are environmental credits and associated obligations to reporting entities in quantitative and qualitative terms?

Nature of Holdings

- A31. What types of environmental credits are held?
- A32. Which compliance and voluntary schemes are most frequently used?
- A33. For what purposes are environmental credits held (compliance, trading, investment, risk management, net-zero commitments or other purposes)?

Financial Reporting

- A34. How are environmental credits recognised and measured?
- A35. How are emissions-related obligations recognised and measured?
- A36. To what extent do environmental credits affect reported profit, net assets, cash flows and disclosures?
- A37. Which accounting policies are being applied?
- A38. What disclosures are currently provided?
- A39. How consistent are reporting practices across entities and sectors?

Market Developments

- A40. What are preparers' motivations for participating in environmental credit markets?
- A41. What challenges do preparers experience when applying current accounting requirements?
- A42. How are environmental credit markets evolving?
- A43. What future developments do market participants anticipate?

Major elements of the research.

Desk-Based Research

- A44. A literature review covering:
- a) IFRS Accounting Standards relevant to environmental credits and emissions obligations;
 - b) previous accounting and academic research;
 - c) regulatory publications and guidance;

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- d) sustainability reporting developments;
- e) investor, auditor and user perspectives; and
- f) international developments relating to pollutant pricing mechanisms.

A45. **Deliverable:** A concise review of existing evidence and identification of key research themes.

Financial Statement Analysis

A46. A sample of UK listed company annual reports would be analysed to identify:

- a) prevalence of environmental credit holdings;
- b) emissions scheme participation;
- c) recognised assets and liabilities;
- d) accounting policies adopted;
- e) disclosures provided;
- f) sectoral trends; and
- g) changes over time where relevant.

A47. The research should seek to identify both direct participation in environmental credit schemes and material exposure arising from climate-related regulatory obligations.

A48. **Deliverable:** A quantitative analysis including summary statistics, sectoral observations and examples of reporting approaches.

Stakeholder Engagement

A49. A limited number of targeted interviews with preparers, investors, auditors and market participants would be conducted.

A50. The objective would be to understand:

- a) business motivations;
- b) reporting challenges;
- c) investor information needs;
- d) practical application issues;

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- e) perceived strengths and weaknesses of existing accounting requirements; and
- f) anticipated market developments.

A51. **Deliverable:** A report including a summary of key themes and observations from this research.

A52. No other national standards setters are undertaking research in this areas, therefore there are no opportunities to work collectively on this project.

A53. The project will be considered successful if it:

- a) provides a credible evidence base on environmental credits and emissions schemes in the UK listed environment;
- b) identifies current reporting practices and emerging trends;
- c) informs future UKEB work on environmental-related financial reporting;
- d) supports future engagement with the IASB and international standard setters; and
- e) produces findings that can be used in consultation responses, research activities and thought leadership publications.

Project - Key Activities

Table 1:	
Key activities	Due Process Handbook
Identification of issues for research (September 2026 UKEB Meeting Agenda Paper X)	7.15 Mandatory
Creation of a Project Initiation Plan (this document)	7.16–7.21 Mandatory
Desk-based research to support the proportionality assessment including: Previous UKEB research	7.22 Optional
Outreach activities As described above, the UKEB would undertake a limited number of targeted interviews with preparers and market participants. In addition, there would be engagement with UKEB Advisory Groups.	7.23–7.24 Optional

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Key activities	Due Process Handbook
Publication of a research paper: The research paper would be published on the UKEB website. An announcement of the publication of the paper would be made via the UKEB News Alert publication and LinkedIn posts.	7.25 Mandatory

Resources Allocated

- A54. The UKEB currently has limited Secretariat capacity and continues to prioritise ongoing technical projects and stakeholder engagement activities, leaving limited capacity to undertake a research exercise of this nature. However, given the importance of obtaining this evidence we propose outsourcing to a third party.
- A55. Outsourcing is therefore proposed because:
- the project requires dedicated research capacity;
 - specialist expertise is required in climate-related financial reporting and environmental markets;
 - the work is largely self-contained and suitable for external delivery; and
 - academic researchers can provide strong empirical and analytical capabilities.
- A56. The preferred approach is to commission a UK academic institution or individual academic researchers with expertise in:
- financial reporting;
 - climate-related and sustainability reporting;
 - capital markets research;
 - environmental economics and carbon markets;
 - financial statement analysis; and
 - empirical research methodologies.
- A57. The work would be overseen by an SPD and the Technical Director. The required resources and funds are allowed for in the 2026/27 UKEB plan and budget.

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Setting up an Ad-hoc Advisory Body

- A58. The UKEB will not require a separate ad-hoc advisory body for this project. Existing UKEB advisory and working groups have the necessary skills and expertise to support this project and will be consulted, as outlined in the project plan.

Project Timeline

- A59. The proposed high-level project timeline is shown below. This provides a best estimate based on information known at this time. If necessary, a revised PIP will be presented to the Board, to reflect any major changes, as the project progresses.

Table 2:	
September 2026	Project Initiation Plan for board approval
Q4 2026	Procurement and appointment of researchers
Q1 2027	Desk-based research including financial statement analysis
March 2027	Preliminary Report
Q2 2027	Interviews
June 2027	Draft Final Report
July 2027	Final Report