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Project Initiation Plan: Environmental Credits Descriptive Research

Purpose

1. 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.

2. 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.

3. 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 environmental credits among UK listed companies.

4. 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.

5. For the purposes of this research, environmental credits refer to tradable instruments created by, or arising within, regulatory, compliance or market-based mechanisms designed to incentivise environmental outcomes. These include emissions allowances, carbon credits, biodiversity credits, nature-based credits and similar instruments. The research will focus primarily on environmental credits associated with government-sponsored, government-regulated or government-incentivised schemes, while also considering relevant voluntary market arrangements where they are significant to financial reporting. The exact scope will be refined during the desk-based research phase.

6. This PIP sets out a plan for an outsourced research project to be undertaken by external researchers in partnership with the UKEB. The project 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

7. Environmental credits represent an important area for further investigation because:

   a) there is currently no dedicated IFRS Accounting Standard that specifically addresses many aspects of accounting for environmental credits, requiring entities to apply existing IFRS Accounting Standards;;

   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 has led to questions going to the IFRS Interpretations Committee for consideration[1];

   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.

8. 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.

9. 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;

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IFRIC 3 Emission Rights (withdrawn)

d) identify areas where accounting challenges and diversity in practice exist, and if so the nature and extent of that diversity;

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

10. 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 environmental credits. 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

11. The research will focus on UK listed companies preparing financial statements in accordance with IFRS Accounting Standards.

12. 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

13. The project is expected to be of moderate to high complexity.

14. 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.

15. In addition, the research will need to consider:

a) recognition and measurement approaches (current and possible);

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.

16. 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

17. 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

18. 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.

19. 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

20. 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.

21. Preliminary review indicates that environmental credits continue to generate diversity in accounting practice, particularly regarding:

a) asset recognition;

b) liability/provision recognition and measurement;

c) treatment of emissions obligations;

d) disclosure requirements; and

e) interactions between financial reporting and sustainability reporting.

22. 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

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

24. Environmental credits have clear connectivity implications.

25. 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.

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

Recommended UKEB Project Scope

27. 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

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

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

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

Nature of Holdings

31. What types of environmental credits are held?

32. Which compliance and voluntary schemes are most frequently used?

33. For what purposes are environmental credits held (compliance, trading, investment, risk management, net-zero commitments or other purposes)?

34. Who are the principal counterparties involved in environmental credit arrangements and what role do they play within the relevant markets?

Financial Reporting

35. How are environmental credits recognised and measured?

36. How are emissions-related obligations recognised and measured?

37. To what extent do environmental credits affect reported profit, net assets, cash flows and disclosures?

38. Which accounting policies are being applied?

39. What disclosures are currently provided?

40. How consistent are reporting practices across entities and sectors?

Market Developments

41. What are preparers' motivations for participating in environmental credit markets?

42. What challenges do preparers experience when applying current accounting requirements?

43. How are environmental credit markets evolving?

44. What future developments do market participants anticipate?

Major elements of the research.

Desk-Based Research

45. 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;

d) sustainability reporting developments;

e) investor, auditor and user perspectives;

f) international developments relating to pollutant pricing mechanisms, including how selected jurisdictions have addressed the financial reporting implications of environmental credits; and

g) relevant work undertaken by national standard setters, regulators and academic researchers in other jurisdictions.

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

Financial Statement Analysis

47. 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.

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

49. The research may include one or more sector-specific case studies where this would provide insight into reporting practices and economic drivers.

50. **Deliverable**: A quantitative analysis including summary statistics, sectoral observations and examples of reporting approaches, including the extent of any diversity in reporting approaches.

Stakeholder Engagement

51. A programme of targeted interviews with preparers, investors, auditors, market participants and other relevant stakeholders would be conducted. UKEB team members would participate in selected interviews.

52. The objective would be to understand:

a) business motivations;

b) reporting challenges;

c) investor information needs;

d) practical application issues;

e) perceived strengths and weaknesses of existing accounting requirements;

f) anticipated market developments; and

g) the role of counterparties within environmental credit markets.

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

Report

54. The deliverables will be presented in the form of a final report comprising three sections: (i) literature review and international developments; (ii) financial statement analysis; and (iii) stakeholder outreach findings, together with overall observations and implications.

55. As far as we are aware, no other national standards setters are undertaking research in this area, therefore there are no opportunities to work collectively on this project.

56. The project will be considered successful if it:

a) provides a credible evidence base on environmental credits and associated obligations 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
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

57. 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 commissioning external researchers to undertake the project in partnership with the UKEB Secretariat.

58. Outsourcing is proposed because:

    a) the project requires dedicated research capacity;

    b) specialist expertise is required in climate-related financial reporting and environmental markets;

c) the work is largely self-contained and suitable for external delivery; and

d) academic researchers can provide strong empirical and analytical capabilities.

59. The preferred approach is to commission a UK academic institution or individual academic researchers with expertise in:

a) financial reporting;

b) climate-related and sustainability reporting;

c) capital markets research;

d) environmental economics and carbon markets;

e) financial statement analysis; and

f) empirical research methodologies.

60. 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.

Setting up an Ad-hoc Advisory Body

61. 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

62. 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

April 2027	Board discussion of preliminary findings and feedback to researchers
Q2 2027	Interviews
June 2027	Draft Final Report
July 2027	Presentation and delivery of Final Report