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Accounting and Reporting Considerations for Environmental Credits

Background

An increasing number of entities in different sectors and industries aim to reduce global greenhouse-gas (GHG) emissions. While many are taking steps to reduce their own carbon emissions, these efforts may not be sufficient to achieve required or voluntary emission commitments.

Environmental credits can help entities accomplish their carbon emission reduction targets and goals. The popularity of such credits has grown; however, questions have emerged regarding the accounting and reporting for them since the treatment of environmental credits is not explicitly addressed in U.S. GAAP. The FASB therefore added to its agenda a project (see discussion [below](#)) on this topic in May 2022. The SEC also included disclosure requirements related to environmental credits in its March 2022 proposed rule (see discussion [below](#)) on climate-related disclosures.

This *Accounting Spotlight* examines environmental credits and certain current U.S. accounting practices, regulatory developments, and other accounting issues associated with them.

What Are Environmental Credits?

Within this publication, the term “environmental credits” encompasses products such as carbon credits (both allowances and offsets) as well as renewable energy certificates (RECs) and other climate- or emission-related credits.

In the most basic sense, a carbon credit is a market-based or legal instrument (or both) that represents the ownership of one metric ton of carbon dioxide equivalent (MTCO₂e) that can be held, sold, or retired to meet a mandatory emissions cap or a voluntary emissions reduction target. Carbon credits are primarily distinguished on the basis of whether they are allowances or offsets.

Allowances (also known as “permits”) are initially issued by regulatory agencies in carbon compliance programs (e.g., cap-and-trade programs or emissions trading schemes). One allowance gives the holder the legal right to emit one MTCO₂e. Typically, a carbon compliance program establishes a total volume of emissions permitted by all of its regulated entities in a given year and a corresponding volume of allowances. Regulating agencies then allocate (free of charge) or auction off allowances to the regulated entities. If an entity wishes to emit more or less MTCO₂e, it can purchase allowances from, or sell them to, other entities. These allowances are often also referred to as “carbon credits” since each allowance represents a tradable MTCO₂e.

Offsets are generated from projects in which the objective is to produce and sell verified carbon credits for every MTCO₂e reduced, avoided, or removed from the atmosphere by the projects. Carbon credits from these projects are ultimately used by the final entity that purchases and retires the credits to “offset” its emissions, so they are often called “carbon offsets.” “Voluntary carbon offsets” are used to help meet an entity’s voluntary emissions reduction targets to compensate for emissions that it has not yet been able to abate. Many carbon compliance programs allow regulated entities to use credits generated from approved offset projects to compensate for a portion of their emissions (in addition to using allowances or permits); these are often called “compliance offsets.”

In addition to carbon credits, numerous other “credits” exist. One of the more common examples is a REC, which is issued when one megawatt-hour (MWh) of electricity is generated and delivered to the electricity grid from a renewable energy resource. See further discussion of RECs in the next section.

The Role of Environmental Credits

Along with investing in carbon abatement projects that directly reduce their emissions (e.g., energy efficiency upgrades, electric vehicle fleets), entities are showing increased interest in purchasing carbon credits generated by projects outside their operations and value chain to offset their unabated emissions. Such projects may involve renewable energy initiatives in developing countries, improved forest management and reforestation, lower-carbon agriculture or grazing practices, direct air capture and sequestration, and many other efforts.

RECs can also play an important role for entities seeking to reduce their carbon footprint. Owners of renewable energy sources may be entitled to receive RECs. The number of RECs awarded is typically linked to a power production formula. By purchasing RECs, buyers help finance and promote renewable energy generation and, in return, are allowed to use the RECs to report lower Scope 2¹ emissions from purchased electricity.

Acquiring Environmental Credits — Trending Transactions

While there are many ways entities can obtain environmental credits, three of the more common methods are discussed below.

Carbon Markets

Global markets for carbon offsets are growing rapidly to enable the generation, acquisition, trade, and tracking of environmental credits. These markets predominantly provide (1) voluntary environmental credits that have been certified by leading standards such as

¹ See the [EPA's Web site](#) for a discussion of Scope 1, 2, and 3 inventory guidance.

Verra's Verified Carbon Standard (VCS) Program or (2) credits for carbon compliance offset programs that are operated by the relevant regulatory agency. In addition, the markets act as a mechanism through which entities can actively trade and convert their environmental credits to cash.

Key types of participants in these ecosystems include:

- Regulatory agencies or nonprofit or for-profit organizations that set certification standards and methods as well as manage the registries to track environmental credit generation, ownership, and credit status (active or retired). The top voluntary standards and registries include Verra, the Climate Action Reserve, the American Carbon Registry, and Gold Standard. Each carbon compliance program that allows offsets specifies a set of rules regarding acceptable project methods; certification requirements; and credit registration, trading, or retirement processes.
- Project owners and developers that secure or provide financing, or implement and generate environmental credits, for initial sale. There is a growing number of very large project development firms.
- Buyers and sellers of environmental credits, which could include entities that need such credits to meet their emissions reduction goals, clean energy or fuel requirements, or mandated emissions limits. Note that a buyer of environmental credits can have various intended uses for its environmental credits. For example, an entity may plan to:
 - Hold environmental credits and remit or retire them to the relevant agency in subsequent years.
 - Immediately retire the credits to the relevant agency.
 - Trade its environmental credits.

Further, it is possible for the entity's intended uses to change during the period over which it holds them.

- A complex web of brokers and marketplace platforms to match buyers and sellers or arrange spot trades, financing, or offtake agreements.
- An emerging array of fund managers and financial intermediaries that are creating investment vehicles or secondary markets for environmental credits.

PPAs and VPPAs

A power purchase agreement (PPA) is a contract between two parties: the developer of a renewable energy project and a buyer. Under a PPA, the developer will typically receive a fixed price for each MWh of renewable energy produced and the buyer will receive the associated RECs over time as the project produces and sells electricity. The recipient of the RECs (the buyer) will be able to use them to reduce its gross Scope 2 emissions from purchased electricity. In a PPA contract, physical energy must also be delivered to the buyer.

By contrast, in a virtual PPA (VPPA), the buyer does not take physical delivery of the power produced by the renewable energy source; instead, the power component of the transaction is financially settled while the buyer receives all, or a predetermined amount, of the generated RECs for each year of the contract term for an agreed-upon price.

Directly From the Regulator

A regulator issues several categories of environmental credits, including RECs. Cap-and-trade programs may also be established in which, for example, (1) total annual GHG emissions from regulated entities in the program are capped and (2) the cap (i.e., emissions limit) is reduced over time. Each year, a volume of allowances or permits equivalent to that year's cap are auctioned or allocated (for free) to the regulated entities. As noted previously, each allowance gives its owner the right to emit one MTCO₂e. The entity can then trade allowances until it has the volume needed to match its emissions for the year.

Accounting Practices Under Existing GAAP

As previously noted, the treatment of environmental credits is not explicitly addressed in U.S. GAAP; consequently, entities have used different approaches, and questions have emerged about how to account and report for them. The sections below describe certain approaches that exist today in practice as well as observations regarding such approaches. Note that entities should carefully consider all relevant facts and circumstances when selecting an appropriate accounting model to use. They should then apply such model consistently and, if material, disclose their selection.

Environmental Credits as Assets

When accounting for environmental credits, entities should determine whether such credits represent assets.

Chapter 4 of FASB Concepts Statement 8² defines an asset, in part, as “a present right of an entity to an economic benefit.” It also describes an economic benefit as “the capacity to provide services or benefits to the entities that use them” and notes that “[g]enerally, in a business entity, that economic benefit eventually results in potential net cash inflows to the entity. . . . The relationship between the economic benefit of an entity's assets and net cash inflows to that entity can be indirect.” Typically, an entity's ability to sell, transfer, or exchange an environmental credit provides evidence that the right to do so presently exists, the entity controls access to that right, and the right applies to an economic benefit.



Connecting the Dots

Entities must consider all relevant facts and circumstances when assessing whether their acquired or created environmental credits meet the definition of an asset. For instance, we believe that enhanced marketing, public claims regarding environmental activities, and the potential reduction of the entity's net emissions do not, by themselves, represent an economic benefit as described in Chapter 4 of Concepts Statement 8; therefore, costs incurred solely from obtaining these benefits would not qualify as assets.

Although still relatively new, environmental credit markets are continuing to grow regionally, nationally, and internationally. We do not believe that to qualify as an asset, an environmental credit necessarily needs to be actively traded on an exchange. However, we believe that the ability to place the environmental credit on an exchange where it can be bought and sold, resulting in net cash inflows, supports a conclusion that such credit meets the definition of an asset.

Entities will need to carefully evaluate the nature of costs incurred in connection with environmental objectives to determine whether such costs meet the GAAP requirements to be capitalized and recorded as an asset.

² Chapter 4, *Elements of Financial Statements*, of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*.

Classification as Either Inventory or an Intangible Asset

The methods used in practice for accounting for environmental credits stem predominately from the accounting for emissions allowances. In informal and industry-related discussions that took place a number of years ago, the FASB and SEC have indicated that two methods of accounting for emission allowances are acceptable: (1) an inventory model by analogy to ASC 330³ and (2) an intangible asset model by analogy to ASC 350.

An entity's use of an accounting model will also vary on the basis of its role within the market.



Connecting the Dots

In practice, entities generally select an accounting model on the basis of the intended use for the environmental credits. For instance, when an entity plans to actively trade its environmental credits, it often accounts for them under an inventory model. Entities need to consider the facts and circumstances of the underlying arrangements and their business objectives related to environmental credits to determine which accounting model is more appropriate to apply.

Entities also need to consider the treatment of such credits in the income statement and statement of cash flows. For example, we would generally expect that environmental credits accounted for as inventory would be expensed as a cost of goods sold when “used” or traded. Further, under an inventory model, we would usually expect the activity related to environmental credits to be reflected as cash flows from operations within the statement of cash flows.

If an entity uses the inventory model, it also needs to consider the cost capitalization process. ASC 330-10-30-1 states:

The primary basis of accounting for inventories is cost, which has been defined generally as the price paid or consideration given to acquire an asset. As applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location. It is understood to mean acquisition and production cost, and its determination involves many considerations.

Buyers of environmental credits need to use judgment to determine which costs associated with obtaining the credits should be capitalized.

Amortization Under an Intangible Asset Model

While entities that participate in compliance and voluntary programs may use an intangible asset model to account for environmental credits, some may not strictly apply the recognition and measurement guidance under that model. For instance, entities that use an intangible asset model may or may not record subsequent amortization for the environmental credits.



Connecting the Dots

Environmental credits can be finite-lived (e.g., RECs typically have a useful life of 18 months) or infinite-lived (e.g., carbon offsets have a “vintage year” that represents the year in which the emissions were offset; however, they do not have an expiration date). Strictly speaking, under an intangible asset model, an amortization expense is required for finite-lived assets. However, some have observed that environmental credits are nonwasting assets. That is, if an environmental credit represents the removal of one MTCO_{2e}, regardless of the credit's age or market value, an entity can use it to offset one MTCO_{2e} to satisfy voluntary or compliance goals. Accordingly, entities will need to evaluate whether amortization of certain environmental credits is appropriate and, if so, the amortization method to use.

³ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification.](#)”

Note that we have observed that a number of entities do not record amortization for finite-lived environmental credits. We believe that such an approach is acceptable in certain circumstances.

Impairment Considerations

While some entities may subject environmental credits to the appropriate impairment or lower-of-cost-or-market evaluation, others may believe that an evaluation of impairment is not necessary. Entities in the latter group may believe that their approach is justified because the intended benefits of the environmental credits do not diminish until the credits are consumed (e.g., used to offset emissions). Therefore, these entities may believe that it is appropriate to expense the full cost of their environmental credits upon use (e.g., retirement with the relevant regulatory agency or registry).

However, other entities believe that the fact that buyers are willing to pay different amounts for different types of credits indicates that the credits' value is not based solely on the ability to offset a fixed quantity of emissions. Such entities note that characteristics such as, but not limited to, the type of project from which the credit was generated, the location of the project, the vintage year of the credit, and the registry verifying the credit may affect the value of credits, both at the time of acquisition and subsequently.



Connecting the Dots

We believe that under both the inventory and intangible asset models, entities should subject environmental credits to the applicable impairment method. The recognition of impairment adjustments under these models is intended to reflect changes in the utility and expected recoverability of the underlying asset.

In a manner similar to the concerns about amortization, some may believe that there are challenges associated with implementing an impairment model. These challenges stem from an entity's intended use for environmental credits and the credits' "nonwasting" characteristic. For example, if an entity intends to retire its environmental credits, some may argue that impairment write-downs may not appropriately reflect the utility of the asset because, regardless of market value declines, an environmental credit can be used to offset one MTCO_{2e}. However, as previously noted, an entity's intent related to its environmental credits may change over time.

The decision to record an asset for an environmental credit is, as discussed above, based on the guidance in Chapter 4 of Concepts Statement 8 and specifically on the potential for generating net cash inflows. Entities should consider projected cash inflows, market values, and other factors, as applicable, when determining an appropriate impairment method.

In preparing an impairment analysis, entities should consider whether the environmental credits are part of a buffer pool. In general terms, a buffer pool is composed of a percentage or fixed number of environmental credits that are held in a "reserve." Such a reserve can give the buyer/holder assurance that any loss or damage to the project that produces the credits (e.g., because of a fire related to a forestation project) will not destroy the credits' value because the losses will be "covered" by retiring credits in the buffer pool. The number of environmental credits put aside as "buffer credits," if any, is often determined by the project risk or a set percentage required by the certification body or registry. If a loss or damage event occurs, the existence of buffer credits may eliminate or reduce the actual loss for the holder of the environmental credits and, therefore, impairment might not be immediately necessary or may be mitigated.

Entities should monitor such indicators, when available, to apply the appropriate impairment model. In addition, market intelligence reports may also represent a useful data point for assessing macroeconomic factors that may affect the fair value of environmental credits in certain markets, geographies, or project types.

Entities should consider all relevant data and characteristics, when available, in determining the appropriate impairment model.

Producers of Environmental Credits

Generally, in a manner similar to that of a user, a producer applies either the inventory or intangible asset model when accounting for environmental credits; however, there is diversity in practice. In some circumstances, environmental credits can be an output from a producer's operations to generate clean energy or produce sustainable goods. Producers that elect to account for environmental credits under an inventory model sometimes allocate a portion of production costs to the environmental credits. Other producers conclude that no incremental costs are incurred for generating such environmental credits and, thus, do not allocate any costs to them.



Connecting the Dots

ASC 330 defines the cost of inventory as “expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location.” Producers that elect to account for environmental credits under an intangible asset model generally expense all associated production costs as incurred because they consider the environmental credits to be internally developed intangible assets. In determining which, if any, costs to allocate and capitalize, entities need to consider the accounting model they selected for environmental credits, the nature of the costs incurred related to the creation of the credits, and their own specific facts and circumstances.

Liabilities for Environmental Credits

Some entities participating in a compliance program only record a liability associated with their emissions if the actual emissions for a given period exceed the environmental credits an entity holds (i.e., an entity would need to acquire more environmental credits to satisfy its obligation). However, some compliance program participants may use a model in which a liability is recorded on the basis of an entity's total emissions. Under such a model, the “gross” liability associated with an entity's carbon emissions is based on the cost of acquiring the required allowances and an asset is recorded for the environmental credits held by the entity on the basis of the acquisition cost of any allowances purchased.

Investment in Carbon Credit Projects

Entities frequently enter into agreements with carbon-offset project developers before a project is fully developed or has generated verified carbon offsets available for purchase on a registry. In such scenarios, the investing entity often provides an up-front cash payment to a carbon credit developer and, as a return for the payment, obtains the right to receive and resell a defined portion of the future carbon credits generated yearly by the project. When such credits are issued, the entity can then resell the carbon credits received to other third parties looking to offset their emissions or buy carbon credits for other purposes. The investing entity may also share a portion (determined by the contract) of the consideration it receives with the project developer, and any difference between the total consideration received and the amount shared with the project developer is often retained by those entities and will reduce the up-front payment balance that the project establisher “owes” to the investing entity. In these types of arrangements, the project developer is often not required to deliver a minimum number of carbon credits; however, if, by the end of the contract term, there are not enough carbon credits generated and resold by the entity to fully offset

the up-front payment balance, the remaining portion of the up-front payment is returned to the investing entity without interest. There are different variations for these types of arrangements, and terms and conditions can differ on a case-by-case basis.



Connecting the Dots

When entering into an agreement involving a carbon-offset project, the investing entity needs to carefully evaluate the facts and circumstances of the arrangement and consider the accounting implications — such as how any up-front payment should be accounted for, whether there is a financial instrument, whether there is a derivative, what are the consolidation implications, whether revenue guidance would apply and, if so, whether the revenue should be recorded gross or net.

Revenue — ASC 606 Versus ASC 610

Because there is currently no accounting model that specifically applies to environmental credits, entities that sell such credits may have different approaches to classifying the sales. Some entities may classify the proceeds obtained from the sale of environmental credits as revenue, while others may not.



Connecting the Dots

ASC 606 applies to all contracts with customers as defined by the standard, except those that are within the scope of other topics in the FASB Codification. Entities should evaluate whether the sale of an environmental credit is to a customer to determine whether the transaction should be accounted for as revenue under ASC 606 or as a sale of a nonfinancial asset under ASC 610-20. In ASC 606, a customer is defined as a “party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.” Therefore, an entity that enters into a transaction to sell an environmental credit will need to determine whether it is doing so as part of its ordinary activities and, if so, required to record such transaction as revenue. An important part of the analysis will be how the entity initially recorded the asset and why it chose the applicable model, as described further below. For example, an entity may anticipate a growing demand for carbon offsets and stockpile credits for potential profits. Because the entity intends to sell the credits in the future as part of its ordinary activities, it elects to record them under the inventory model; therefore, the sale of such credits is likely to be within the scope of ASC 606 and should be recorded as revenue. By contrast, if an entity does not intend to resell credits for profit and instead elects to record the credits as intangible assets, the sale of such credits may not be in the ordinary course of business and may not meet the criteria to be recorded as revenue.

Principal-Versus-Agent Considerations

An entity may engage with third parties, such as brokers, to assist the execution of transactions to acquire environmental credits or to provide a matchmaking service between buyers and sellers. In such situations, the entity facilitating the sale of the credits must consider whether it is acting as a principal or an agent with respect to the underlying credit being transferred. For environmental credit transactions involving multiple parties, an entity should evaluate the factors in ASC 606-10-55-36 through 55-40 in the same manner as it would evaluate other contracts with customers. Because environmental credit brokers (1) often do not take legal title or control of the underlying environmental credit before transferring it to the buyer and (2) facilitate purchases on the basis of the buyer’s instructions, many such entities that facilitate the sale and purchase of credits are acting as agents in the transaction rather than as principals. However, an entity facilitating the sale or purchase (or both) of environmental credits should evaluate the nature and terms of the specific arrangement to determine whether it has the “ability to direct the use of, and obtain substantially all of the remaining benefits from,” the credit, in accordance with ASC

606-10-25-25. For example, an entity may be a principal if it has arrangements with carbon-offset projects or developers to purchase a minimum number of credits that can be used to fulfill agreements with any buyer or an entity may be a principal in the arrangement if the buyer requires the entity to procure a sufficient number of environmental credits to offset a percentage of a buyer's emissions, and the entity has the discretion to choose from which source or project to obtain those credits and is primarily responsible for fulfilling the credits with the buyer.

Note that the determination of whether an entity is acting as principal or agent depends on the specific facts and circumstance and requires judgement in consideration of the guidance in ASC 606-10-55-36 through 55-40.

Environmentally Friendly Products and Services

Entities may enter into revenue arrangements for environmentally friendly or bundled products and services. These arrangements may involve the transfer of a "green" or "clean" good or service and can come in a variety of forms, such as a claim that the product or service is carbon neutral, or involve the purchase, transfer, or retirement of a credit to offset the emissions generated during the lifecycle of the good or service. In some instances, the seller may have already purchased environmental credits and offer potential customers the opportunity to retire such credits on their behalf or to transfer the credits to customers along with the transfer of other goods or services. In other instances, the seller may purchase environmental credits in connection with transactions.

A product or service for which the related carbon emissions have already been offset by the seller may be identical to the "dirty" version of that product or service, and the only distinction may be that its climate impact was offset by the seller. In the absence of accounting guidance for environmental credits (let alone for environmental credits bundled with other products and services), entities have raised questions about the appropriate accounting model for these types of transactions.



Connecting the Dots

When entering into agreements involving environmentally friendly products and services, entities should determine whether they are (1) buying or selling a separate asset in addition to the underlying good or service or (2) buying or selling a single good or service, perhaps at a higher cost in light of environmentally friendly activities. In addition, sellers of environmentally friendly bundled products or services should determine whether they have performance obligations for promises to their customers as part of their environmental strategies. If so, the entities should assess such performance obligations to determine whether they are distinct from other performance obligations in the contract. Performance obligations related to environmentally friendly activities may present questions regarding the timing of revenue recognition, regardless of whether such performance obligations are distinct from other performance obligations in the contract.

Timing of Expense

Some entities immediately retire environmental credits upon purchase and therefore do not record such credits as assets. Other entities may announce their intention to use or offset their environmental credits for sustainability reporting purposes but not formally retire them, giving rise to questions regarding the appropriate time at which they should expense assets recorded for environmental credits.



Connecting the Dots

Generally, an entity derecognizes an environmental credit once that credit is officially retired with the applicable agency or registry and used to offset the entity's current emissions to demonstrate compliance with mandatory or internally set goals.

Although an entity may publicly announce its intention to use an environmental credit, the credit is not considered officially "retired" until a request is submitted to the applicable agency or registry and subsequently marked as retired and restricted from further trading. Further, since an entity's intent related to its environmental credits can change over time, until an environmental credit is irrevocably retired, it still represents a legal right that can be transferred.

We believe that the guidance in ASC 606 that describes the circumstances in which an asset has been transferred may be helpful in an entity's evaluation of when to derecognize an environmental credit.

FASB Project on Environmental Credits

While the FASB has considered addressing the accounting for environmental credits on several occasions beginning in 2003, it has yet to finalize a project on this topic.

In June 2021, the Board issued an [invitation to comment](#) (ITC) to seek broad stakeholder feedback on its future standard-setting agenda, particularly pertaining to emerging areas of financial reporting. In the invitation to comment, the FASB specifically requested input on the accounting requirements for transactions related to environmental, social, and governance (ESG) matters and whether they were unclear or needed improvement. Respondents commented on the accounting for environmental credits and highlighted concerns related to the lack of specific authoritative guidance on the accounting and disclosure requirements for environmental credit programs. Overall, the responding stakeholders expressed concerns about the expanded use of environmental credits under both compliance and voluntary programs and noted that the FASB should prioritize improving clarity related to the appropriate accounting for environmental credits to prevent further diversity in practice, particularly as the focus on ESG-related matters increases.

In addition to issuing the ITC, the Board performed outreach to better understand how various entities currently account for environmental credits. Through this outreach, the Board observed significant diversity in practice among users and producers of environmental credits as well among entities operating in voluntary and compliance programs.

In response to stakeholder feedback on the ITC and the results of its outreach, the FASB decided in May 2022 to add a [project](#) to its technical agenda to address the recognition, measurement, presentation, and disclosure of environmental credits that are legally enforceable and tradable. The project is also expected to address the accounting for users and producers of environmental credits and participants operating in compliance and voluntary programs. Board members noted that financial statement consistency will benefit users and that activity within the environmental credit market will only continue to increase, making this an opportune time for standard setting.

The FASB staff expressed a desire to explore other potential models that would be more representative of the unique nature of environmental credits and the underlying economics of transactions involving them. Such models could include fair value accounting or the creation of a new accounting model that may reside outside of existing GAAP.

SEC's Proposed Rule on Climate-Related Disclosures

In March 2022, the SEC issued a [proposed rule](#) that would require registrants to disclose in their annual audited financial statements certain climate-related financial impacts and expenditure metrics as well as a discussion of such impacts on their financial estimates and assumptions. Further, registrants would have to disclose Scope 1 and Scope 2 GHG emissions irrespective of the impact of offsets; their climate risk management processes, targets, and goals; and their governance and oversight of climate-related risks. Registrants (other than smaller reporting companies) would also need to disclose Scope 3 GHG emissions if (1) they are material or (2) the registrants have established a reduction target or goal that includes Scope 3 GHG emissions.

Entities that use environmental credits, particularly carbon offsets or RECs, in their plan to achieve climate-related goals or targets would have to disclose information about such use. In the proposed rule, the SEC defines a carbon offset as “an emissions reduction or removal of greenhouse gases in a manner calculated and traced for the purpose of offsetting an entity’s GHG emissions.”

Registrants would also be required to disclose how much of their progress toward climate targets or goals has been attributable to environmental credits, the source and cost of such credits, a description of the related underlying projects, and any registry or other authentication of the environmental credits. The disclosures would reflect the short-term and long-term risks associated with such progress, including the risks that the availability or value of carbon offsets or RECs could be curtailed by regulations or changes in the market. See Deloitte’s March 29, 2022, [Heads Up](#) for a comprehensive discussion of the SEC’s proposed rule.

Contacts

If you have questions about the accounting and reporting requirements for environmental credits, please contact any of the following Deloitte professionals:



Eric Knachel
Partner
Deloitte & Touche LLP
+1 203 761 3625
eknachel@deloitte.com



Zachary Poncik
Senior Manager
Deloitte & Touche LLP
+1 713 982 4104
zponcik@deloitte.com



Katherine Donzella
Manager
Deloitte & Touche LLP
+1 773 364 0279
kdonzella@deloitte.com

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