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April 14, 2025

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

Via Email to [director@fasb.org](mailto:director@fasb.org)

**Re: File Reference No. 2024-ED910**

Dear Mr. Day:

Grant Thornton LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update (ASU), *Environmental Credits and Environmental Credit Obligations (Topic 818)*. We support the proposal and believe that it provides much-needed guidance in U.S. GAAP on the recognition and measurement of environmental credits and obligations that result from regulatory compliance programs. We agree that the proposed guidance would improve comparability and provide enhanced disclosures of environmental credits and environmental credit obligations. Our comments on specific questions included in the proposal are as follows.

**Environmental Credits**

**Question 1: Is the proposed definition of environmental credit clear and operable? Does the proposed definition of environmental credit capture the population of items that require specific accounting guidance? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed definition of *environmental credit* is operable and would capture the population of items that currently lack specific accounting guidance; however, we ask the Board to clarify why a credit that can *only* be used to settle an environmental credit obligation is not eligible to be recognized as an asset. We acknowledge the discussion in paragraph 31 of the Basis for Conclusions (BC31), which suggests that the decision to require such credits to be immediately expensed

is because any credit that can be used to settle an environmental credit obligation is almost always separately transferable. To prevent reopening the standard at a later date if such credits become prevalent, we ask the Board to consider, as part of this current project, whether a credit that can *only* be used by an entity to settle an environmental credit obligation should be recognized as an asset; if not, perhaps the Board could clarify in the Basis for Conclusions why an immediate expensing is required for such credits.

In addition, we would like the final guidance to provide examples of environmental credits that an entity would receive in a *nonreciprocal transfer* that is not a grant from a regulator or its designee (for example, whether a transfer between entities under common control should be considered a nonreciprocal transfer).

**Question 2: The proposed amendments would require that an entity recognize an environmental credit as an asset when it is probable that the entity will use the environmental credit to settle an environmental credit obligation or transfer that credit in an exchange transaction. Costs incurred to obtain all other environmental credits would be recognized as an expense when incurred.**

- a. Do you agree with those proposed amendments, including the probability threshold? Should the costs incurred to obtain all other environmental credits be recognized as an expense when incurred? Please explain why or why not.**
- b. Are the recognition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that a reporting entity should recognize an environmental credit as an asset only when it is probable that the reporting entity will either utilize the credit by settling an environmental credit obligation or transfer the credit in an exchange transaction. We agree that other credits obtained by the entity should be expensed because the economic benefits of obtaining those credits would be immediately consumed by the reporting entity's ongoing operations.

While we agree that the recognition requirements are operable, it is unclear to us why an environmental credit that an entity will *transfer* in a nonreciprocal transfer would not be recognized as an asset by the entity. For example, an investee that generates environmental credits, and is required by its operating agreement to transfer those credits on an annual basis to its investors, would not be able to recognize the environmental credits it generates as assets in its standalone financial statements. In contrast, an investor that receives such credits would recognize them as assets in their financial statements if the criterion in ASC 818-20-25-1 is met. Further, if the investee is a subsidiary of an investor, it seems that the parent investor would be eligible to recognize the assets in its *consolidated* financial statements as soon as the investee subsidiary generates the credits, even though the investee subsidiary would not have transferred the credits to the parent; however, the investee subsidiary would not be eligible to recognize the asset in its *standalone* financial statements.

**Question 3: The proposed amendments would require that an entity initially measure environmental credits recognized as assets at cost unless received in a nonreciprocal transfer that is not a grant from a regulator or its designee(s). For environmental credits received as a grant from a regulator or internally generated, cost would be limited to the transaction costs to obtain those environmental credits, if any. Are the proposed initial measurement requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed initial measurement requirements are operable, but would like the Board to clarify the guidance in ASC 818-20-55-6 about whether a transaction that is considered to be a nonreciprocal transaction between entities under common control is subject to the guidance in ASC 805-50-30-5 through 30-6 (also see our response to Question 1 above).

**Question 4: The proposed amendments would require that an entity subsequently measure an environmental credit based on whether it is determined to be a compliance or noncompliance environmental credit at the reporting date using a costing method (specific identification; first-in, first-out; or average cost). The subsequent measurement requirements in the proposed Update include:**

- a. For a compliance environmental credit, an entity would subsequently measure the environmental credit at cost and would not test the environmental credit for impairment at each interim and annual reporting date.
- b. For a noncompliance environmental credit, an entity would be required to evaluate the environmental credit for impairment at each interim and annual reporting date.

**An entity would be permitted to use a portfolio approach when applying the proposed subsequent measurement requirements to similar types of environmental credits. Are those proposed subsequent requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the subsequent measurement requirements are clear and operable. However, we believe the guidance should include an example that discusses how a qualitative assessment may be used when applying the portfolio approach. The proposal currently only provides guidance for using a quantitative approach.

**Question 5: The proposed amendments would permit an entity to make an accounting policy election to subsequently measure a class of eligible noncompliance environmental credit assets at fair value at the reporting date, with changes recognized in earnings. Is the proposed fair value measurement accounting policy election clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed fair value measurement policy election requirements are clear and operable.

**Question 6: The proposed amendments would require qualitative disclosures for annual reporting periods and quantitative disclosures for interim and annual reporting periods in accordance with paragraphs 818-20-50-1 through 50-7. Are the proposed disclosure requirements for interim and annual reporting periods clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed disclosure requirements for interim and annual reporting periods are clear and operable.

#### **Environmental Credit Obligations**

**Question 8: Is the proposed definition of environmental credit obligation clear and operable? Does the proposed definition of environmental credit obligation capture the population of obligations that require specific accounting guidance? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed definition of *environmental credit obligation* is clear and operable and captures the population of obligations that require specific accounting guidance. These obligations do not fall within the scope of ASC 410-20, forcing reporting entities to analogize to other areas of U.S. GAAP, including ASC 410-20, to account for such obligations. The proposal would provide clear guidance to entities for the recognition, measurement, presentation, and disclosure of such liabilities and thus reduce diversity in practice. We suggest that the Board consider whether an environmental credit obligation should only include a regulatory compliance obligation arising from existing or enacted laws, statutes, or ordinances, or whether the definition should be expanded to include any obligation that could be settled by an environmental credit, such as contractual obligations. Even though we are currently unaware of environmental credit obligations incurred outside of a regulatory compliance program, we believe such obligations may arise in the future.

**Question 9: The proposed amendments would require that an entity recognize an environmental credit obligation liability when events occurring on or before the reporting date result in an environmental credit obligation. The entity would be required to assume that the reporting date is the end of the compliance period. Are those recognition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the recognition requirements outlined in the proposed ASU are clear and operable.

**Question 10: The proposed amendments would require that an entity initially measure the funded portion of an environmental credit obligation liability using the carrying amount of compliance environmental credits associated with that obligation at the reporting date. If an entity has insufficient compliance environmental credits at a reporting date to satisfy an environmental credit**

**obligation liability, the unfunded portion of its environmental credit obligation liability would be measured under the proposed amendments using the fair value of the environmental credits necessary to settle that portion of the liability at the reporting date, with certain exceptions (see paragraph 818-30-30-3(a) through (b) in this proposed Update). Are the proposed amendments for initially measuring the environmental credit obligation liability clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed guidance on initially measuring the environmental credit obligation liability is clear and operable. However, we believe that the final guidance should clarify the circumstances when the estimated cost basis of the environmental credits to be obtained may differ from the fixed price per the contract. For example, when the unconditional purchase commitment is part of a multiple-element arrangement and the transaction price allocated to the unconditional purchase commitment differs from the stated purchase amount, the final guidance should indicate that the entity would use that allocated price rather than the stated consideration for the unconditional purchase commitment.

**Question 11: The proposed amendments would require that at each interim and annual reporting date an entity subsequently measure an environmental credit obligation liability using the same method as initial measurement and recognize any measurement changes through earnings. Are the proposed amendments for the subsequent measurement of an environmental credit obligation liability clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed subsequent measurement guidance for an environmental credit obligation liability is clear and operable.

**Question 12: The proposed amendments would require that an entity account for the derecognition of an environmental credit obligation liability in accordance with Subtopic 405-20, Liabilities—Extinguishments of Liabilities. Is that proposed derecognition guidance clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that proposed derecognition guidance for environmental credit obligation liability is clear and operable and believe that such guidance is consistent with the guidance for derecognizing other liabilities that a reporting entity has recognized.

**Question 13: The proposed amendments would require that an entity present its compliance environmental credits separately from its environmental credit obligation liabilities on its consolidated balance sheet. Do you agree with that proposed presentation, or should environmental credit obligation liabilities be offset with their related compliance environmental credits and presented on a net basis? Please explain why or why not. If not, what changes would you suggest.**

We agree with the separate presentation of credits from the obligations. We believe such presentation would better depict the assets held by the entity to settle its liabilities and is consistent with other areas of U.S. GAAP, such as guidance on presenting ROU assets and lease liabilities and balance-sheet offsetting.

**Question 14: The proposed amendments would require qualitative disclosures for annual reporting periods and quantitative disclosures for interim and annual reporting periods in accordance with paragraphs 818-30-50-1 through 50-7. Are those proposed disclosure requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed disclosure requirements are clear and operable.

#### **Transition and Effective Date**

**Question 16: An entity would be required to apply the proposed amendments retrospectively through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) as of the beginning of the annual reporting period of adoption. The entity would apply the proposed amendments as if they always had been applicable, subject to specific modifications to those requirements upon adoption. Are the proposed transition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.**

We agree that the proposed transition requirements are clear and operable and would not present any auditing challenges.

**Question 18: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities differ from the effective date for public business entities? If so, how much additional time would you recommend for entities other than public business entities? Should early adoption be permitted? Please explain your reasoning.**

We believe that entities other than public business entities should be given an additional year after the first annual period in which public business entities are required to adopt the final guidance, consistent with the FASB's *Private Company Decision Making Framework*. We believe early adoption should be permitted considering the guidance provides a more relevant accounting model for environmental credits and obligations compared to various analogies being used by reporting entities to account for such assets and liabilities.

#### **Private Companies**

**Question 19: The proposed amendments, including disclosures, would apply to all entities, including private companies. Do you agree? Are there any private company considerations that the Board should be aware of in developing a final Accounting Standards Update? Please explain your reasoning.**



We agree that the proposed amendments, including disclosures, should apply to all entities.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta, Partner - Audit Services, Grant Thornton LLP and Principal, Grant Thornton Advisors LLC, at [rahul.gupta@us.gt.com](mailto:rahul.gupta@us.gt.com); Ryan Brady, Partner - Audit Services, Grant Thornton LLP and Principal, Grant Thornton Advisors LLC, at [ryan.brady@us.gt.com](mailto:ryan.brady@us.gt.com); or Graham Dyer, Partner and Chief Accountant - Audit Services, Grant Thornton LLP and Principal, Grant Thornton Advisors LLC, at [graham.dyer@us.gt.com](mailto:graham.dyer@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP