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DEMAREST

# CARBON CREDITS AND CBIOS

CVM RESOLUTION NO. 223/24

Technical Pronouncement OCPC 10

## General Aspects



The Brazilian Securities and Exchange Commission ("CVM") has made it mandatory for listed companies to comply with Technical Pronouncement OCPC 10 - Carbon Credits (tCO<sub>2</sub>e), Carbon Allowances, and Decarbonization Credits (CBIO), issued by the Brazilian Accounting Pronouncements Committee ("CPC").

The goal of the OCPC 10 is to address basic recognition, measurement, and disclosure requirements that entities must meet when generating, negotiating, and purchasing carbon credits, allowances and CBIO to achieve decarbonization goals (retirement). In addition, OCPC 10 provides for associated liabilities resulting from legal or non-formalized obligations. The technical pronouncement seeks to align with international practices regarding this matter.

Clients must carefully assess the potential implications of OCPC 10, given that the accounting processing (recognition and measurement) must comply with **CPC 04 (Intangible Asset) or CPC 16 (Inventories)**, taking into consideration **the business models** operated by the economic agents participating in this market and **their objectives when generating and trading such credits**.

## EFFECTS

The provisions approved by CVM Resolution No. 223/24 will enter into force from January 01, 2025.





## SCOPE



For the purposes of OCPC 10, the concept of “**carbon credit**” encompasses the Certificate of Verified Emissions Reduction or Removal (**CRVE**) and carbon credit outside the Brazilian Greenhouse Gas Emissions Trading System (**SBCE2**). The term “**carbon allowance**”, in turn, includes the Brazilian Emission Quotas (**CBE**).

## COMMON ASPECTS OF ASSETS PROVIDED FOR IN OCPC 10

- ✓ From an accounting standpoint, these are **non-financial and intangible** assets;
- ✓ **They are not deemed financial assets** as they do not meet the criteria to be classified as such, although Law No. 15,042/24 (carbon market regulatory framework) does provide for the classification of carbon credits as securities when they are traded in the financial and capital markets;
- ✓ The accounting processing (recognition and measurement) must comply with **CPC 04 (Intangible Asset) or CPC 16 (Inventories)**;
- ✓ They are traded in **specific markets**;
- ✓ They **require certification and verification processes** to ensure that emission reductions are real and additional.

## ATTENTION POINTS

- ✓ Each asset has **a specific purpose**;
- ✓ Each asset has its own **origin and regulation**;
- ✓ There are **specific rules** for accounting assets depending on the business model and the economic agent involved;
- ✓ Regulation of issues that **have yet to be addressed by Brazilian** legislation or treated in different ways;
- ✓ Accounting methods must not affect the calculation of federal taxes; and
- ✓ Taxpayers must assess the tax reform impact on carbon credit transactions.

## ECONOMIC AGENTS AND BUSINESS MODELS



### GENERATOR

Economic agent that controls funds with the potential to generate assets provided for in OCPC 10 through projects that reduce, remove, kidnap, or prevent greenhouse gas ("GHG") emissions into the atmosphere. Its business model involves generating these **assets in order to sell them within the regular operation of their business.**



### INTERMEDIARY

For instance, the trader (also commonly referred to as "Broker-Trader") is the economic agent that frequently trades assets provided for in OCPC 10 aligned with its business purpose and, therefore, **obtains revenue from this main operating activity.** Its business **model involves actively purchasing and selling (active trading)** these assets. It is comparable to commodity traders under the CPC 16 (Stocks).



### END USER

Economic agent that acquires the assets provided for in OCPC 10 to offset its GHG emissions through the retirement (removal from circulation) of such assets. Its business model involves purchasing these assets with **the main purpose of retiring them**, in the process of offsetting or neutralizing their GHG emissions.

**Economic agents can have more than one business model for the assets provided for in OCPC 10**, that is, both **the Generator** and **the Intermediary** can use part of these credits to **offset their own GHG emissions**. However, this action is ancillary or marginal **and does not modify the primary business model** that steers the economic performance of these agents .

## CONTACT

**Demarest's Tax, Environmental and ESG, and Capital Markets** teams are monitoring the subject and remain available to provide further clarifications.

