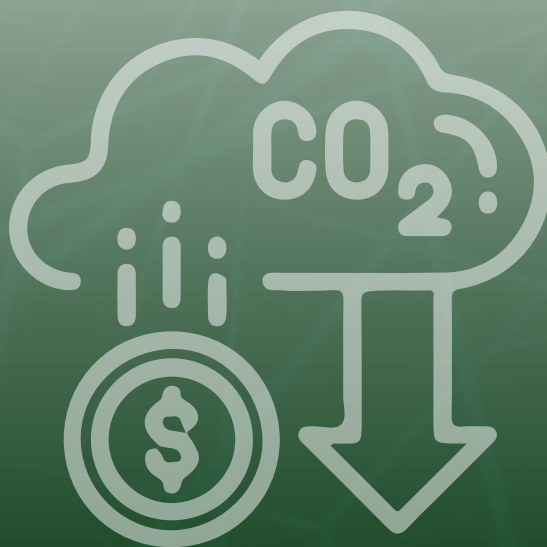


Special Edition- National Carbon Market



PERSPECTIVAS
COMUNICAÇÃO E RELAÇÕES INSTITUCIONAIS

Law N. 15,042 - DECEMBER 11th, 2024
National Carbon Market



Law N° 15.042,

of December 11th, 2024
National Carbon Market

Approval of Bill 182/2024

Origin of the Bill (2015):

Bill of Law 182/2024 is the result of Bill of Law 2.148/2015, authored by deputy Jaime Martins, which proposed reducing taxes for products aligned with the green and low-carbon economy.

Consolidation in the Chamber (2023):

- Bill of **Law 412/2022** is joined to other related bills, such as Bill of **Law 2.148/2015**.
- After debates and adjustments, the consolidated text is approved in the House and moves on to the Senate.
- When it returned to the Senate, Bill of Law 2.148/2015 was registered as Bill of Law 182/2024.

2.148/2015 >> **182/2024**

Progress in the Senate (2023):

In October 2023, the Senate approved another proposal, Bill of Law 412/2022, authored by Senator Chiquinho Feitosa, which was presented on October 18, 2023

- This bill addresses the carbon market more comprehensively, proposing the creation of the **Brazilian Emissions Trading System (SBCE)**.
- The bill is sent to the Chamber of Deputies.

NOVEMBER

13

Approval of Bill of Law 182/2024 (2024) in the Senate (Revising House) - 13/11/2024

- The Senate analyzes the text and makes alterations
- Senate approves the substitute in plenary on 13/11/2024
- With Senator Leila Barros - Democratic Labor Party (PDT)/ Federal District - acting as rapporteur in the Senate.

Final Approval in the Chamber (Initiating House) - 19/11/2024:

- The House approves the Senate's substitute, which regulates the carbon market in Brazil, with deputy Aliel Machado - Green Party (PV)/ Paraná - acting as rapporteur in the House

Presidential Sanction (12/12/2024):



On December 11th, 2024: The Presidency of Brazil sanctioned the consolidated text as Law No. 15.042, of December 11th, 2024

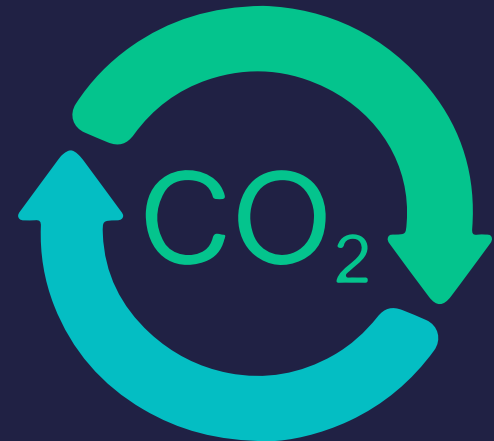


**December 12, 2024:
Publication of the
official sanction**

The sanctioned legislation establishes the creation of the regulated carbon market in Brazil, and institutes the Brazilian Greenhouse Gas Emissions Trading System (SBCE in Portuguese) based on the National Policy on Climate Change and focused on promoting the reduction of emissions and the removal of GHGs in a transparent and cost-effective manner.

How the SBCE works:

The Brazilian Greenhouse Gas Emissions Trading System (SBCE) structures the national carbon credit market into two segments: regulated and voluntary. The regulated sector, which includes government initiatives and is based on technical regulations, proposes the creation of a management body responsible for establishing standards and applying sanctions to entities subject to regulation. This metric, which takes into account the global warming potential of different greenhouse gases, allows emissions to be standardized in terms of CO₂.



The regulated sector also requires the submission of monitoring plans and activity reports to the management body. On the other hand, the voluntary market operates with spontaneous transactions of carbon credits or SBCE assets in a spontaneous approach between the actors and is based on a technical norm with the objective of compensating greenhouse gases without impacting the national computation.

Therefore, the regulated market establishes limits for greenhouse gas emissions and allows for the commercialization of quotas (CBEs in Portuguese) and certificates of reduction/removal (CRVEs in Portuguese). In this sense, the process of carbon report and accounting will be divided in four steps:

National Information System (SNI in Portuguese):

convergence of reduction and removal data through the creation of a National Emission and Removal Report Program in combination with the Central Registry of SBCE.

Communication process:

Dissemination of SNI data through projects of annual monitoring and conciliation reports with the delivery of CBE and CRVE.

Revision and conformity process:

Analysis and corrections stage before full implementation.

Compilation of information and database feed:

Final step for follow-ups and continuity of analysis and data dissemination.

The objective: To promote efficiency in mitigation of emissions and to encourage economic competitiveness, in addition to promoting low carbon technologies. Its main components are

The Brazilian Emissions Quota (CBE in Portuguese): Represents the right to emit 1 ton of carbon dioxide equivalent (tCO₂e).

Certificates of Verified Emission Reduction or Removal (CRVE in Portuguese): Instruments that prove emission reductions or removals and can be traded.

The Voluntary and Regulated Market: Integrations between the SBCE and the national and international markets become more viable, promoting greater flexibility.

Establishing two levels of regulation.

1

Companies with annual emissions of more than 10,000 tons of CO₂e must submit annual inventories.



2

Companies that exceed 25,000 tons will be subject to mandatory reduction targets, organized by allocation plans.

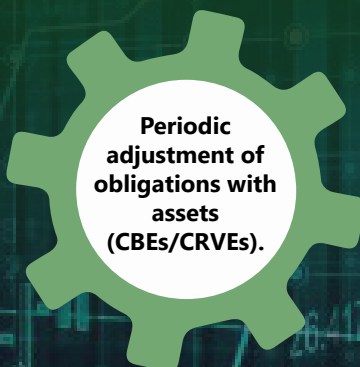


CO₂e:

Carbon dioxide equivalent (CO₂e) is a metric used to standardize the measurement of greenhouse gas (GHG) emissions by converting them into a common unit based on the impact they would have if they were carbon dioxide (CO₂). This conversion is done by multiplying the amount emitted of a gas by its global warming potential (GWP), as defined by the decision of the United Nations Framework Convention on Climate Change (COP 3) and later revised in article 5 of the report produced by the same conference. For example, methane (CH₄) has a GWP 21 times greater than that of CO₂. Therefore, one ton of methane is equivalent to 21 tons of CO₂e. This metric is essential for assessing and comparing total GHG emissions, helping to formulate climate policies and mitigation targets (IPAM, 2024).

The SBCE is responsible for identifying regulated operators and ensuring compliance with reporting and emission reduction obligations.

Monitoring Plans:



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Implications

Taxation and Incentives:

- Carbon credits are exempt from PIS/Cofins and tax deductions associated with expenses for decarbonization projects.
- Applicable taxes vary according to the nature of the taxpayer and the market.



Penalties:

- Notices, fines (limited to 3% of gross revenue), and restrictions on rights are provided for in cases of non-compliance.



Fostering Innovation:

- Resources intended for decarbonization include technological support, capacity building and stimulating the removal of emissions.



Transitory Period for Implementation:

The SBCE will be implemented in five phases:

Phase I:

12 (twelve) months, extendable for a further 12 (twelve) months, to issue the regulations for this Law, starting from its effective date.



Phase II:

1 (one) year for operators to make the emission reporting instruments operational.

Phase III:

2 (two) years, during which operators will be subjected only to the duty to submit a monitoring plan and report GHG emissions and removals to the SBCE management body.

Phase IV:

The first National Allocation Plan comes into effect, with the non-costly distribution of CBEs and the implementation of the SBCE asset market.

Phase V:

Full implementation of the SBCE, at the end of the period of validity of the first National Allocation Plan.

Involvement of the Industrial Sector

In 2023, during the processing of Bill 182/2024, the National Confederation of Industry (CNI) developed a document together with the Ministry of Development, Industry, Trade and Services (MDIC) presenting the industry's proposals for reconciling the competitiveness of the productive sectors and the carbon market. The aim of the document was to foster dialogue between the government and the private sector, promoting the development of the regulated carbon market in Brazil and outlining the next steps for implementing the new legislation. In this way, the aim was to ensure the success of emissions trading, with measures including:

Regulation of emission offset credits.

Development of the Measurement, Reporting and Verification (MRV) system to improve monitoring of sectoral and national targets.

Price stabilization mechanism.

Possibility of free quota allocation during the transition process. This option allows for a flexible value to be set for the reduction targets during the adaptation phase of the carbon market. In this way, companies that do not meet the exact reduction value can receive compensation credits free of charge.

Possibility of revenue recycling, which would be applied in order to avoid asymmetric environmental policies, i.e. policies that impose carbon emission restrictions in one jurisdiction, while others have less stringent carbon restrictions or none at all. Recycling would then be a way of neutralizing tax revenues that could be used to invest in energy efficiency programs or climate funds.

Normative Repercussions

Following this logic, the recently published CVM Resolution 223/2024 of the Ministry of Finance and Securities and Exchange Commission provides a milestone that represents the repercussions of the enactment of Law 15.042 of 2024. The resolution provides for the accounting statement of entities and economic agents that will operate in both the compulsory and voluntary carbon credit markets.

Thus, from now on it will be established that the accounting treatment of carbon credits in Brazil will be regulated by Technical Guideline OCPC 10, issued by the Accounting Pronouncements Committee (CPC in Portuguese). This guidance establishes mandatory accounting rules for publicly traded companies, covering carbon credits (tCO₂e), emission allowances and decarbonization credits (CBIO in Portuguese).

In this scenario, this resolution establishes guidelines for the disclosure of accounting information related to these assets. Companies must detail how they use the credits to meet decarbonization targets or trade on the market, ensuring transparency for investors and stakeholders.

It addresses liabilities that arise from legal or non-formalized obligations related to decarbonization targets, as defined in CPC 25 (which regulates provisions, contingent liabilities and contingent assets). This covers the accounting of obligations that companies need to fulfill, whether imposed by law or assumed voluntarily.

The guidance also deals with accounting for liabilities associated with decarbonization targets, in accordance with CPC 25, which regulates provisions, contingent liabilities and contingent assets. This approach includes both obligations imposed by legislation and voluntarily assumed commitments, reinforcing companies' responsibility for meeting environmental targets and managing related assets.

It is important to note that CPC 10 does not aim to address the tax and legal aspects associated with carbon credits and emission allowances. Its main focus is to establish fundamental accounting requirements, promoting greater robustness and confidence in the Brazilian carbon market

ABOUT PERSPECTIVAS

Perspectivas is a Communication & Institutional Relations consultancy specialized in advocacy strategy and image building based on the pillars of dialogue, ethics, and transparency, with a strong focus in the Low Carbon Economy.

Access the previous editions of our newsletters, in Portuguese and English, at: www.perspectivasbr.com/newsletter

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