



INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Emissions Trading Schemes

- 1.1 This project will develop requirements and guidance on accounting for emissions trading schemes.
- 1.2 Existing IPSASs do not specifically address the accounting for emissions trading schemes. IFRSs also do not specifically address the accounting for emissions trading schemes. The IASB and the FASB have a joint project to consider the accounting for emission trading schemes, but in November 2010, agreed to defer further deliberations until after June 2011. In the second half of 2011, the IASB will undertake a consultation on its agenda so it is unlikely that their joint project on emissions trading schemes will recommence in 2011.
- 1.3 Many jurisdictions have introduced Emissions Trading Schemes as a way to encourage a reduction in greenhouse gas emissions. The schemes generally involve the allocation of a limited number of allowances at the start of a defined period of time (compliance period) and require entities to have sufficient allowances at the end of the compliance period to cover the volume of emissions made. There are statutory and non-statutory schemes. Statutory schemes are government imposed and require mandatory participation of entities that emit greenhouse gases. Non-statutory schemes are voluntary in nature.
- 1.4 A public sector entity could set up, and be the administrator of, a scheme which means it could issue permits or allowances to emit to participants of the scheme, facilitate a trading mechanism for the permits or allowances and reconcile the surrender of permits or allowances at the end of the commitment period. A public sector entity could also be a participant in a scheme where it is an emitter of greenhouse gases. This project includes in its scope the accounting treatment for both types of transactions or other events.

2. Project Rationale and Objectives

- 2.1 There are numerous emissions trading schemes and currently limited guidance exists on how to account for the set up, and administration of, a scheme. In order to enhance consistency and comparability of emissions trading schemes in the financial statements of public sector entities, the IPSASB should undertake a project to determine the appropriate accounting treatment.
- 2.2 For private sector entities that are participants in a scheme, there are a number of accounting models that are currently in use and an entity needs to determine the most appropriate model to use and adopt that as its accounting policy. This diversity in practice is one of the reasons that the IASB and the FASB have a joint project on this topic. By analogy, a public sector entity that is a participant in a

scheme could select one of these accounting models. The IPSASB should also include the accounting treatment for the participant in an emissions trading scheme so that there is no diversity in practice for public sector entities.

(a) Issues identified

2.3 There are a number of issues that will need to be considered in progressing this project. The major issues are:

2.5.1 How should the IPSASB approach this project?

2.5.2 What is the appropriate scope of the project?

2.5.3 What is the appropriate accounting treatment for emissions trading schemes?

(b) Objectives to be achieved

2.4 The ultimate objective of the project is to issue an IPSAS on emissions trading schemes.

2.5 The intermediate objective is to produce a Consultation Paper. The Consultation Paper will address the scope of the project and possible accounting treatments for emissions trading schemes.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

2.6 One of the IPSASB's strategic priorities for the period 2010–2012 is public sector critical projects which could be either public sector specific or IASB convergence projects. The development of an IPSAS for the set up and administration of a statutory emissions trading scheme is a public sector specific project. The development of an accounting treatment (within an IPSAS) for public sector entities that are participants in an emissions trading scheme could be either public sector specific or an IASB convergence project.

ii. Link to IFAC Strategic Plan

2.7 The IFAC Strategic Plan for 2011–2014 includes two strategies that are relevant. The first is IFAC's commitment to the development, adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Considering issues relating to emissions trading schemes supports both of these strategies.

3. Outline of the Project

(a) Project Scope

3.1 The scope of this project is to determine the appropriate accounting treatment for the:

- 3.1.1 Set up and administration of a statutory emissions trading scheme; and
- 3.1.2 Participant in an emissions trading scheme.

(b) Major Problems and Key Issues that should be addressed

- 3.2 In addition to the key issues set out below, the development of the project may identify further key issues.

Key Issue #1—How should the IPSASB approach this project?

- 3.3 A key issue will be to determine how the IPSASB should approach this project. It could, by analogy to the service concessions arrangement project, wait until the IASB and the FASB has completed its joint project and then develop guidance that “mirrors” their guidance. It could investigate whether it is feasible to undertake the project together with the IASB and the FASB. Or it could separately undertake the project, independently of developments in the IASB and the FASB’s project.

Key Issue #2—What is the appropriate scope of the project?

- 3.4 A key issue will be to determine the appropriate scope of the project. The scope could be limited to the accounting treatment of the set up and administration of a statutory emissions trading scheme. It could be expanded to encompass the accounting treatment for participants in a scheme. It could also be expanded to include the accounting treatment of the set up and administration of a voluntary scheme.

Key Issue #3—What is the appropriate accounting treatment for emissions trading schemes?

- 3.5 A key issue will be to determine the appropriate accounting treatment for transactions and other events related to an emissions trading scheme. This includes items such as the initial recognition and measurement of the issue of allowances, subsequent measurement of allowances and the timing of recognition and measurement of a liability related to the amount of emissions made.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 This project will encompass the accounting treatment of participants in emissions trading schemes. The IASB, jointly with the FASB, are also undertaking a project on this topic.

(b) Relationship to Other Standards, Projects in Process or Planned

- 4.2 Dependent upon the outcome of this project, there may be implications for several IPSASs such as IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)* and IPSAS 31, *Intangible Assets*. As the project develops, potential implications for other IPSASs may also be identified. At this stage (May 2011),

there are no IASB pronouncements that are relevant to this project. The actions of the IASB will be monitored as the project develops.

(c) Other—Government Finance Statistics

- 4.3 One aspect of the IPSASB's strategic theme of undertaking public sector specific projects is to consider convergence with the statistical basis of accounting where appropriate. This project will explore how emissions trading schemes are accounted for under the statistical basis and whether there are opportunities for the accounting treatment to be similar to that used for the statistical basis of accounting.

5. Development Process, Project Timetable and Project Output

(a) Development Process

- 5.1 The development of outputs will be subject to the IPSASB's formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

(b) Project timetable

Major Project Milestones	Expected Completion
Present draft Project Brief	June 2011
Undertake research on types of schemes (September 2011–March 2012)	
Discussion of issues and development of a Consultation Paper (CP) (March 2012–September 2012)	
Approve CP (6 month comment period)	September 2012
Review of responses to CP and development of an Exposure Draft (April 2013–March 2014)	
Approve ED (4 month comment period)	March 2014
Review of responses to ED and development of a IPSAS	
Approve Final IPSAS	2015

(c) Project output

- 5.2 The initial output will be a Consultation Paper. The ultimate output will be an IPSAS.

6. Resources Required

(a) Task Force/Subcommittee

- 6.1 A Task Based Group may be required to assist in providing information on the broad range of emissions trading schemes that have been formed.

(b) Staff

- 6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 Factors that might add to the complexity and length of the project include:
- 6.3.1 The wide range of emissions trading schemes.
 - 6.3.2 The relative lack of existing guidance on emissions trading schemes.
 - 6.3.3 The interaction between this project and the development of the Conceptual Framework; and
 - 6.3.4 The interaction between this project and the joint IASB-FASB project.

7. Important Sources of Information that Address the Matter being Proposed

- 7.1 Potential sources of information regarding emissions trading schemes include:
- 7.1.1 The joint IASB-FASB project.
 - 7.1.2 Private sector publications on emissions trading schemes.
 - 7.1.3 The Government Finance Statistics Manual (2001).
 - 7.1.4 The System of National Accounts (SNA) 2008.