



Emissions Trading Schemes

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

1. Project background

- 2. What are the main accounting issues?
- 3. Presentation and disclosure
- 4. Where are we in the project? Next steps?

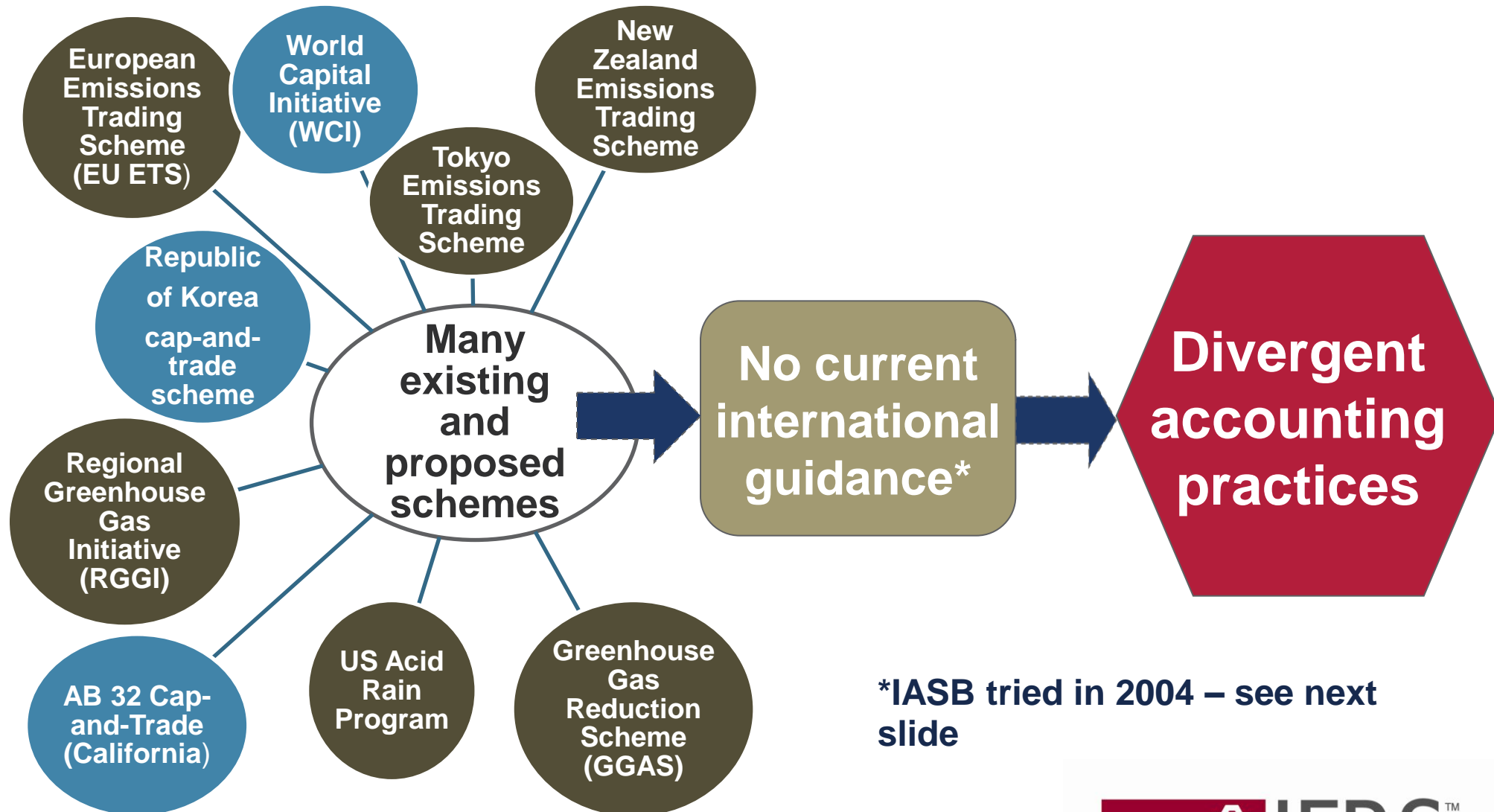
Growth of emissions trading schemes

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- Climate change is a critical issue
- Jurisdictions seeking to reduce emissions
- Emissions trading schemes are a low cost solution
- More jurisdictions implementing some form of scheme

How do participants account for the rights and obligations created by the scheme?

Current accounting practices



*IASB tried in 2004 – see next slide

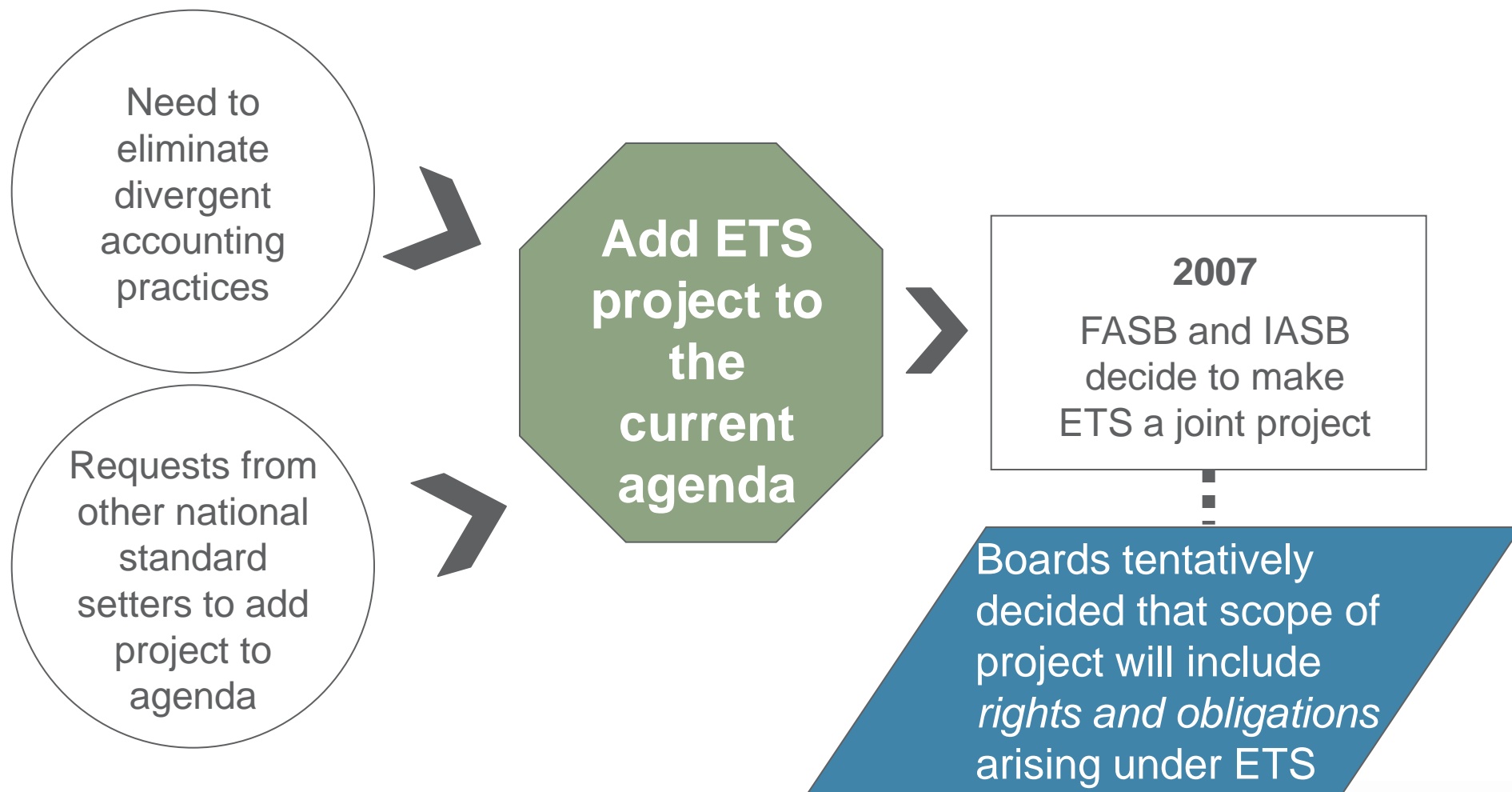
IFRIC 3 *Emission Rights*

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- **IFRIC 3 *Emission Rights* was issued in 2004**
 - Allocated allowances measured at fair value, not remeasured *unless* active market, remeasurement (if any) recognised in OCI [IAS 38]
 - Difference between fair value and amount paid recognised as government grant and amortised to income [IAS 20]
 - Liability for actual emissions remeasured at fair value; remeasurement recognised in income [IAS 37]
- IFRIC 3 met considerable resistance
- **IFRIC 3 was withdrawn in 2005**

Adding ETS to the current agenda

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Scope of the project

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2 main types
of schemes

Cap & trade

Baseline
and credit

Rights and
obligations
under an
emissions
trading
scheme

Related issues

*(may be partly in the
scope of other
standards)*

- Forestry
- Project-based activities

In 2010 the Boards decided to defer work on the ETS project

Main types of schemes - Cap & trade v Baseline & credit

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	Cap & trade	Baseline & credit
Overall cap (emissions target)	Units of emissions (eg tonnes of CO ₂) that may be released within commitment period	
Implementation of overall cap	Allocation or auction of allowances to individual emitters up to overall cap	Baselines are assigned to individual emitters up to the overall cap Credits issued only if emissions are below baseline at end of the year
Trading mechanism	Allowances are tradable	Credits are tradable, baseline is not
Remittance obligation	Allowances covering <i>total</i> emissions	Credits covering emissions in excess of baseline

Forestry

Allowances received for sequestering carbon.

Only required to return allowances when carbon released.

Project-based activities

Project developer receives credits (eg CERs) for reducing emissions below a specified benchmark.

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What are the main accounting issues?

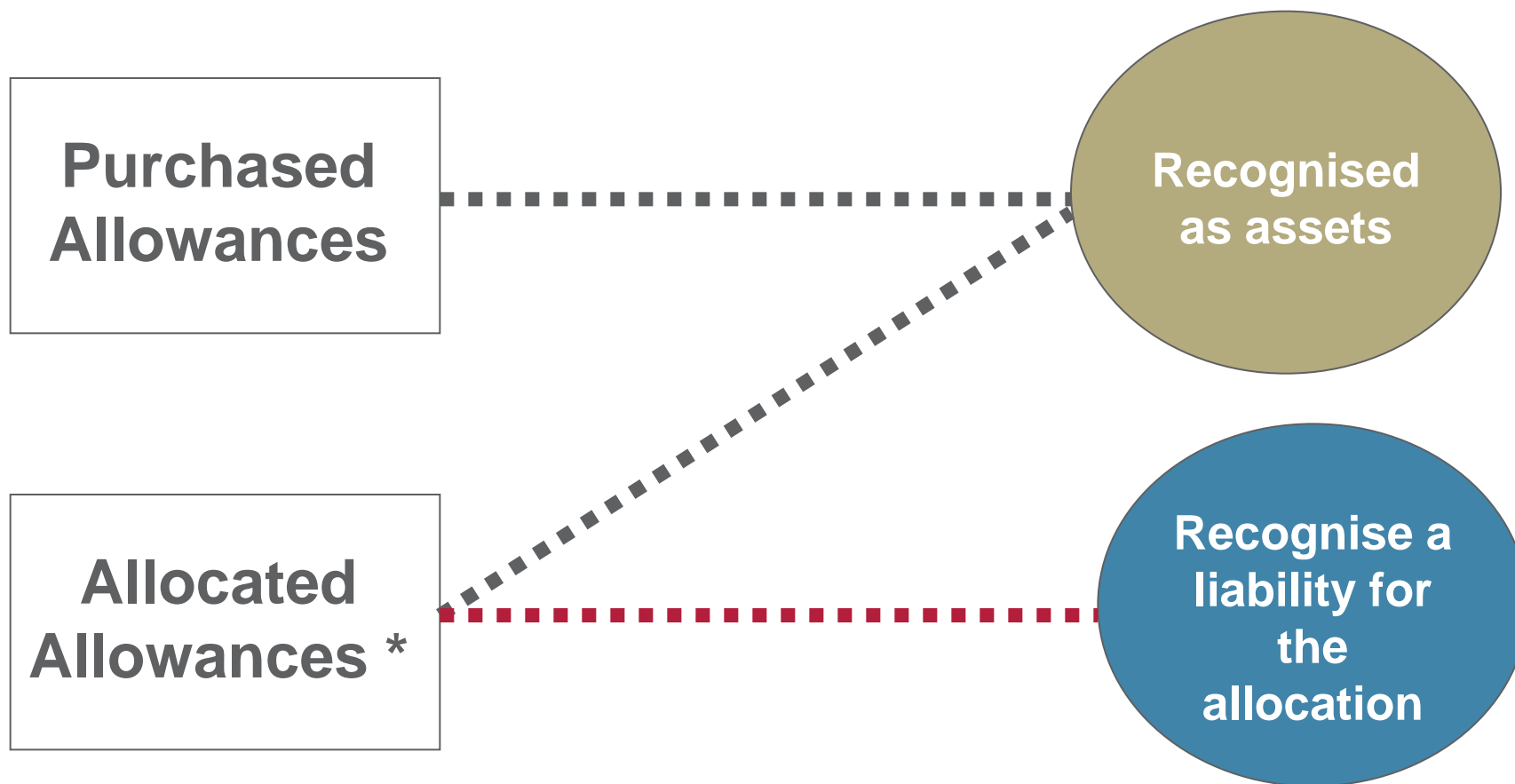
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- What elements should an entity recognise in its financial statements for emissions trading schemes?
 - Allowances and baselines – are they assets?
 - What are the obligations/liabilities in each scheme? (most contentious issue)
- How do you measure the assets and liabilities?

Initial focus: cap and trade schemes

Cap and trade scheme - recognition

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*received from the scheme administrator for no monetary consideration

Cap and trade - measuring the assets

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Alternative 1: Measure the assets initially and subsequently at fair value

Alternative 2: Measure the assets based upon their *'intended use'*

- a) *held for use:* measure assets initially at fair value, no remeasurement
- b) *trading:* measure assets initially and subsequently at fair value

Cap and trade - measuring the assets

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Same measurement principles for purchased and allocated allowances



Tentative decision of the boards:

Alternative 1

‘assets measured initially and subsequently at fair value’

why: allowances like a currency



Considered:

Alternative 2

‘intended use model’

why: complex to apply, would reduce comparability between entities, and difficult to define categories

Cap and trade – assets and liabilities

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Tentative decision:
**Assets measured initially and
subsequently at fair value**



*How does the measurement of the
assets relate to the measurement
of the liabilities?*

Measuring the liability for the allocation

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Price X **Q**uantity

Measure price consistently with the allowances*

Maximum quantity: number of allowances allocated (ie a 'cap')

* Initially and subsequently at fair value. When liabilities are not covered by allowances, they are also measured initially and subsequently at fair value.

What if the entity doesn't expect to return the maximum? How will the quantity to be returned be measured?

- **Entity's allowed carbon emissions = 100 units in 2012**
- **Government gives entity 100 allowances 1 Jan 2012**
- **What if, at 1 Jan 2012 entity expects to emit:**
 - 1. 80 units (less than allowances granted)?
 - 2. 100 units (equal to allowances granted)?
 - 3. 120 units (more than allowances granted)?
- **What to do if expectations change during the year?**

Measuring the **Q**uantity to be returned

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How does an entity measure the liability when it expects emissions to be below the quantity of allowances allocated?

Expected return approach:

Measure the quantity by estimating the expected outcome

Derecognition approach:

Measure quantity of allowances to be returned as the number of allocated allowances received. Derecognise the liability only when the entity reduces emissions.

Evaluating the alternatives

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Expected return approach

- Relevant; considers a reasonable number of outcomes and their probability
- Some believe calculation is complex

Derecognition approach

- Closest to derecognition criteria in other standards
- Conservative, some believe too conservative

When to recognise a liability for expected excess emissions

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When does an entity recognise a liability for emissions in excess of the quantity of allowances allocated?

View 1:

A liability for excess emissions is recognised when actual emissions exceed the quantity of allowances allocated

View 2:

A liability for expected excess emissions is recognised as the entity emits throughout the period

Example

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Allocated: 100 Expected emissions: 124		
	View 1	View 2
Q1 – emit 31 units View 2: $(31/124) \times (124-100) = 6$	Asset 100 Liability (100)	Asset 100 Liability (106) Expense 6
Q2 – emit 40 units	Asset 100 Liability (100)	Asset 100 Liability (114) Expense 8
Q3 – emit 25 units	Asset 100 Liability (100)	Asset 100 Liability (119) Expense 5
Q4 – emit 28 units	Asset 100 Liability (124) Expense 24	Asset 100 Liability (124) Expense 5

Rationale for View 1 and View 2

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View 1 – when allocation exceeded

No additional present obligation until emissions exceed allocation

View 2 – throughout the period

Emitting changes measurement of liability (ie changes the total expected number of allowances to be returned/submitted)

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Presentation – gross or net or linked

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- The boards considered 3 alternatives for presenting asset and liabilities in an emissions trading scheme:
 - **Gross**
 - **Net**
 - **Linked** (ie gross amounts of assets and liabilities are presented next to each other on the face of the balance sheet, and a total to a net emission asset or liability is presented)
- Tentative decision: **Linked presentation**

- Not yet discussed by the boards
- Some disclosures may depend on model

Question:

What information about the scheme do users need?

- Risks and opportunities arising from the scheme
- Allowances that an entity has a right to receive in the future as an allocation
- Quantity of allowances on hand (including the number received as an allocation)
- Fair value of allowances (if not initially and subsequently measured at fair value)
- Method and assumptions used in estimating the quantity of allowances to be returned/submitted
- Other disclosures?

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Where are we in the project?

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- Project is in the early stages; boards have not yet issued a document for comment
- 2010: few (but important!) tentative decisions of the boards
- Many issues yet to be discussed by the boards
 - baseline and credit schemes
 - right to future allocations
 - project-based activities
 - forestry
- Project is being considered as part of agenda consultation process

Where to get more information

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Find out more at:

<http://www.ifrs.org/Current+Projects/IASB+Projects/Emission+Trading+Schemes/Emissions+Trading+Schemes.htm>

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Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.