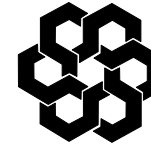




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This document is provided as a convenience to observers at the joint IASB-FASB meeting, to assist them in following the Boards' discussion. It does not represent an official position of the IASB or the FASB. Board positions are set out in Standards (IASB) or Statements or other pronouncements (FASB).

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: 21 October 2008, Norwalk

Project: Emission Trading Schemes – slides to accompany Agenda
paper 9 / FASB memo #2



Emissions Trading Schemes project

Description / comparison of the schemes

(AP 9A, ¶4-¶25)

	Cap & trade	Baseline & credit
Emissions target (overall cap)	Units of emissions (eg tonnes of CO ₂) that may be released within each compliance period	
Implementation of overall cap	Allocation or auction of emission allowances to emitters up to the overall cap	Baselines are assigned to 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 for the year	Credits covering only emissions in excess of baseline

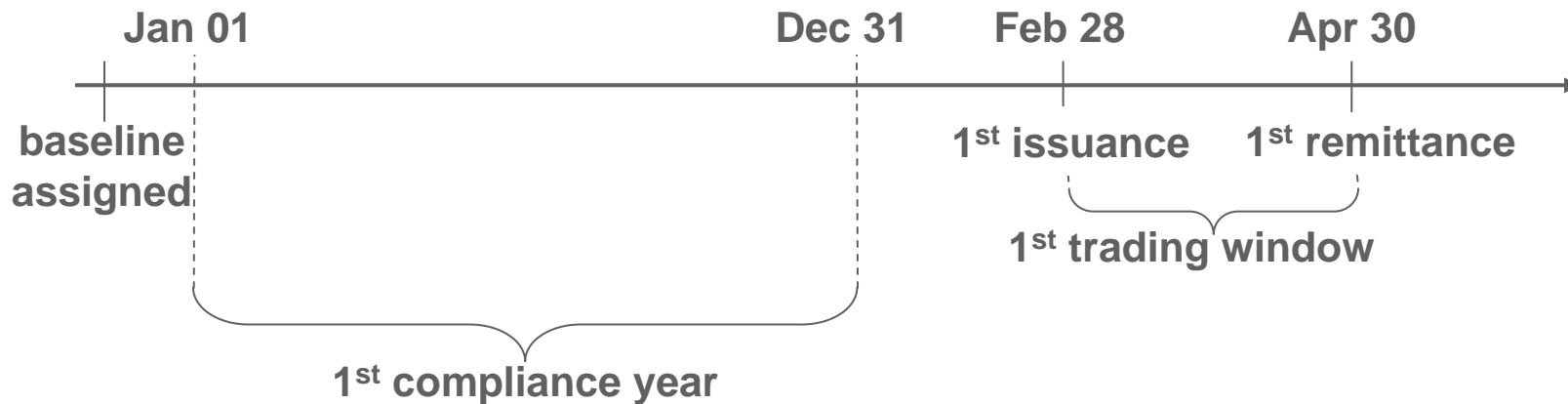
Description / comparison of the schemes

(AP 9A, ¶4-¶25)

Cap & trade (EU ETS)



Baseline & credit



Are credits and emission allowances assets? (AP 9B, ¶5-¶8)

	Emission allowances	Credits
Scheme	Cap & trade	Baseline & credit
Assets?	Future economic benefit either through exchange for other assets or the settlement of an obligation	

Should an entity recognise credits and emission allowances? (AP 9B, ¶9-¶14)

	Emission allowances	Credits
Scheme	Cap & trade	Baseline & credit
Recognition?	<ul style="list-style-type: none">• Entity controls emission allowances / credits, so future economic benefits are expected to flow to the entity• In schemes with active markets, reliable measurement of emission allowances / credits	

- Recognise future instalments?

In a baseline and credit scheme, is the baseline an asset? (AP 9B, ¶15-¶21)

- Allocation of baseline allows entity to emit up to a specified limit at no incremental cost
 - **View 1:** baseline meets the asset definition
 - **View 2:** it depends on the type of scheme
 - Does a baseline preclude use or limit the use of economic resource (ie emitting) by others?
 - *Open scheme:* no → no asset
 - *Closed scheme:* yes → asset

Should an entity recognise a baseline?

(AP 9B, ¶22-¶30)

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- Can value of baseline be measured with reliability?
 - Active markets do not exist
- *Separate asset?*
 - **View 1: no separate asset**
 - Baseline becomes integral part of emitting source
 - **View 2: separate asset**
 - Baseline recognised separately from goodwill in business combination (legal right)
 - For the same reason, a baseline is a separate asset outside a business combination

When does an entity incur an emission obligation in the schemes? (AP 9B, ¶31-¶38)

	Cap & trade	Baseline & credit
Present obligation?	When emissions occur ie a liability is incurred with each unit of emissions	View 1: only when emissions exceed the baseline View 2*: expense recognised on a pro rata basis if entity expects to exceed baseline

* Assumes that baseline is not recognised as an asset

What is the corresponding entry on recognising a baseline and emissions allowances? (AP 9B, ¶39-¶45)

- **View 1:** profit or loss
 - No present obligation to remit baseline or allowances
 - Likelihood that entity produces emissions in the future is business risk
- **View 2:** liability reflecting level of baseline / allowances
 - Intention of schemes: market based approach to reduce emissions by imposing costs to emit
 - Gain at the outset of the schemes is counterintuitive
 - Long term contracts require to produce
 - Allocations similar to performance related grant

Do the schemes require consistent accounting approaches? (AP 9B, ¶46-¶51)

- Schemes are designed to achieve identical targets
- Allocation of allowances effectively establishes a baseline
- Participants have identical excess (shortfall) of emission allowances or credits (provided no trading)
- P/L effect different at outset of schemes if allocated allowances recognised but not baseline
- However, trading mechanisms are different
 - Emission allowances may be traded separately
 - Baseline is not tradable, but linked to emitting source