

**International  
Accounting Standards  
Board**

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*This document is provided as a convenience to observers at the Analyst Representative Group meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*Note: These notes are based on the staff papers prepared for the ARG meeting. Paragraph numbers correspond to paragraph numbers used in the ARG agenda paper.*

### **INFORMATION FOR OBSERVERS**

**ARG Meeting: February 2009, London**

**Project: Emissions Trading Schemes project**  
*(Agenda paper 6)*

25 February 2009

International Financial Reporting Standards



# Emissions Trading Schemes project

ARG meeting

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## IASC Foundation

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

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## Objective of meeting

2

Get your views on

- initial accounting for granted offsets  
in a cap & trade scheme  
(ie emissions allowances given for free by government)
- subsequent accounting for offsets



## Background: Two main type of schemes

3

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

Focus of meeting



## Background: EU ETS (cap & trade)

4

- Biggest existing cap and trade scheme
  - > 90% of tradable offsets granted
- Germany biggest emitter (~23% of EU limit)
  - market value of tradable offset: ~€ 6.9b\*
- Utilities most heavily affected, eg
  - grant: ~37mt CO<sub>2</sub> (~€ 0.6b\*)
  - emissions: ~47mt CO<sub>2</sub> per year

\* Priced at €15.3 per allowance (European Climate Exchange, price per 15/12/08)



## Key issues

5

- Are all of Company's offsets assets ?
  - does it make a difference whether granted or purchased?
- If an asset, what type of asset ?
  - financial instrument, intangible, inventory, other ?
- If an asset, how initially recognized and measured ?
  - purchased allowances: Dr assets (up) Cr cash (down)
  - allocated allowances: Dr assets (up) Cr ???
    - is there any liability - present obligation - on receiving offsets - if so what?
  - does intended use of offsets matter (eg hold to settle emissions obligation vs hold for trading) ?
  - are markets sufficiently developed to FV all offsets ?



## Key issues (continued)

6

- When does liability for emissions obligation arise ?
  - cap and trade: as Company emits
  - baseline and credit:
    - as Company exceeds baseline ?
    - does a company accrue for a shortfall ?
- Does a clawback of tradable offsets give rise to a liability ?
  - as Company breaches the condition ?
  - as long as Company has to stand ready ?  
(ie until condition is met)



## Example

7

- Annual allocation of tradable offsets (TOs): 40m  
(1 Jan)
- Expected annual emissions: 50m
- Price per tradable offset: €15
  
- Value of granted offsets: €600m
- Expected annual emissions: €750m
- Expected excess emissions: €150m



## Three accounting approaches

8

- 1) 1 Jan: Dr assets Cr gain      During year: expense emissions

mEUR	q1	q2	q3	q4	Σ
income TOs	600				600
expense emissions	(188)	(188)	(188)	(188)	(750)
<i>P/L</i>	413	(188)	(188)	(188)	(150)

q1 mEUR	
TOs 600	provisions 188
	ret earnings 413

- 2) 1 Jan: Dr assets Cr liability      During year: accrue excess emission

mEUR	q1	q2	q3	q4	Σ
income TOs					
expense emissions	(38)	(38)	(38)	(38)	(150)
<i>P/L</i>	(38)	(38)	(38)	(38)	(150)

q1 mEUR	
TOs 600	liability 600
	provisions (38)
	ret earnings 38

- 3) 1 Jan: Dr --      Cr --      During year: accrue excess emissions

mEUR	q1	q2	q3	q4	Σ
income TOs					
expense emissions	(38)	(38)	(38)	(38)	(150)
<i>P/L</i>	(38)	(38)	(38)	(38)	(150)

q1 mEUR	
	provisions 38
	ret earnings (38)

(other approaches possible)



## Questions

9

- 1) Gain on 1 Jan
  - misleading ?
  - could effect be mitigated by supplementary disclosures ?
- 2) No gain on 1 Jan
  - what is the obligation of the Company on 1 Jan ?
- 3) No gain on 1 Jan, no recognition of granted offsets
  - are granted offsets different to purchased ones ?
  - what happens if an entity starts trading ?



## Subsequent measurement of offsets

10

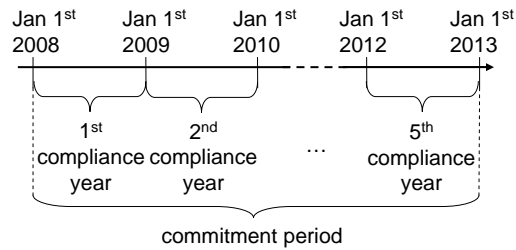
- Cost ?
  - volatility if emission obligation is remeasured
  - if entity starts trading ?
- Fair value ?
  - volatility if long position (ie offsets > actual emissions)
- Mixed measurement ?
  - used to offset emissions: cost
  - used for trading: fair value
  - how do you distinguish? Is the asset different?
- Does it matter whether granted or purchased?



## How to account for future instalments?

11

- *Allocation* for commitment period
- *Issued* in yearly instalments (compliance period)



- When do you recognise a right to receive offsets ?



## Questions or comments?

12

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.

