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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **March 2009, London**

Project: **Emissions Trading Schemes**

Subject: **Accounting for issued tradable offsets (Agenda paper 13B)**

OBJECTIVE OF THE MEETING

1 The objective of this meeting is for the boards to decide on a model for the *initial* accounting for tradable offsets[1] that have been issued to an entity free of charge[2] in an emissions cap and trade scheme. The staff will bring the *subsequent* accounting in a cap and trade scheme and related issues (eg accounting for a baseline and credit scheme and accounting for future instalments) to the boards in future meetings.

STRUCTURE OF THE PAPER

2 **Section A,** *Accounting for issued offsets*, (paragraphs 6-23) addresses the accounting for *issued* offsets, in particular, whether they should be initially measured at cost (nominal amount) or at fair value.

3 **Section B,** *Accounting for the credit if issued offsets are initially measured at fair value*, (paragraphs 24-114) presents three possible models to account for the

[1] The staff refer to the term *tradable offset* instead of *emissions allowances* because the instrument, strictly speaking, does not allow to emit but rather may be used to offset an emissions obligation. Entities, in addition, must hold a permit to emit that is typically separately awarded by the government.
[2] Throughout the remainder of this Agenda Paper, tradable offsets that have been issued to an entity free of charge are referred to as 'issued offsets'.

corresponding entry. (If the boards select cost as the intial measurement attribute, they will not need to discuss these models.) The models are:

(a) Model A—non-reciprocal transfer model (paragraphs 24-62)

(b) Model B—performance obligation model (paragraphs 63-79)

(c) Model C—compensation model (paragraphs 80-109).

4 At the end of each model, a staff analysis is provided, laying out the arguments for and against each of the models.

5 At the end of the Paper, **Section C,** *Preview of issues to be addressed at future meetings*, (paragraphs 115-124) lays out the issues to be addressed at future meetings.

A ACCOUNTING FOR ISSUED OFFSETS

Does an issued offset meet the definition of an asset?

6 In the IASB's *Framework*, an asset 'is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.' FASB's Concepts Statement No. 6 *Elements of Financial Statements* defines assets as 'probable future benefits obtained or controlled by a particular entity as a result of past transactions or events.'

7 Issued offsets are a resource that provides future economic benefits. The entity can use issued offsets in settling emissions obligations or it can sell issued offsets on the open market for cash. Issued offsets held result from a past event (the receipt of tradable offsets) and are a present resource.[3] The staff conclude that issued offsets meet the definition of an asset.

Does an issued offset meet the recognition criteria?

8 The recognition criteria of the boards' frameworks are not congruent with each other. However, the staff believe this to be mainly due to the different structure of the

[3] The boards' draft working definition uses the term 'present economic resource'—'An asset of an entity is a present economic resource to which the entity has either a right or other access that others do not have.'. However, using the existing definitions a present economic resource means that the asset must have arisen from past transactions or other past events (see Conceptual Framework project, July 2006 IASB Agenda Paper 3a / July 2006 FASB Memorandum 30a).

frameworks and not because of fundamental differences in the principles. The staff, therefore, do not believe that the boards' recognition criteria result in different accounting answers when applied to issued tradable offsets.

9 According to the IASB *Framework*, for an item to be recognised as an asset, it must be *probable* that future economic benefit from the item will flow to the entity. Concepts Statement 5 includes this requirement implicitly because to meet the asset definition a future benefit must be probable. As to tradable offsets, it is probable that future benefit flows to the entity. An entity can sell tradable offsets or can use them to offset emission obligations.

10 The IASB *Framework* requires that an item must have 'a cost or value that can be measured with reliability.' Concepts Statement 5 requires that an item has a 'relevant attribute measurable with sufficient reliability'. (The next section discusses the relevant attribute or basis to measure tradable offsets upon initial recognition, ie cost or fair value.)

11 Issued offsets are not acquired in an exchange transaction. Hence, the entities generally do not incur costs in relation to issued tradable offsets. The *value* of tradable offsets, in many schemes, can be measured with reference to quoted prices in an active market. In schemes with no active market the value must be estimated. Estimates of values are reliable when they are free from material error and bias and can be depended upon by users (paragraph 31 of IASB *Framework*, paragraph 75 of Concepts Statement 5).

12 Concepts Statement 5 additionally requires that the information provided is *relevant* in that it is capable of making a difference in user decisions. Relevance is not a recognition criterion in the IASB *Framework*. However, relevance is a qualitative characteristic of financial statements in the IASB *Framework*. The staff believe that information about an entity's issued offsets is relevant to financial statement users, because of their potential effect on an entity's future cash flows.

13 The staff conclude that issued offsets meet the criteria for recognition.

How should issued offsets be initially measured?

14 The staff believe that there are two possible initial measurement attributes for issued offsets: cost (nominal amount) and fair value. The staff note that the boards' frameworks do not prescribe a particular measurement basis (or attribute) for particular classes of assets and liabilities. However, paragraph 69 of Concepts Statement 5 notes that 'some assets are acquired, and some liabilities are incurred, without exchanges—for example, assets found or received as contributions and income tax or litigation liabilities. There is no historical exchange price in those situations, and some other attribute must be used.' Additionally, paragraph 18 of APB Opinion No. 29 *Accounting for Nonmonetary Transactions* indicates that 'a nonmonetary asset received in a nonreciprocal transfer should be recorded at the fair value of the asset received'. The following paragraphs discuss the relative merits of each approach.

Cost (Nominal Amount)

15 The staff believe that the main argument for initially recognising issued offsets at a nominal amount (ie nil) is that it avoids the accounting complexities that may arise from recognising the offsets at fair value. Specifically, recognition at fair value raises the issue about how to account for the credit entry. Those issues will be explored in more detail later in this Agenda Paper.

16 The staff note that, notwithstanding the guidance in Concepts Statement 5 and Opinion 29 cited above, in certain circumstances under both US GAAP and IFRS, non-reciprocal transfers are measured at a nominal amount (ie the costs that an entity incurs). For example, FASB Statement No. 116 *Accounting for Contributions Received and Contributions Made* prohibits entities from recognising certain contributed services received. It also allows entities not to recognise contributed collection items if they meet specified criteria. This also applies to intangible assets in the scope of IAS 38 *Intangible Assets* that are acquired free of charge by way of a government grant. According to paragraph 44, entities may choose to recognise the items 'initially at a nominal amount (the other treatment permitted by IAS 20) plus any expenditure that is directly attributable to preparing the asset for its intended use.'

17 The staff also note that US utilities that file regulatory financial statements with the Federal Energy Regulatory Commission are required to account for issued offsets at cost (ie at a nominal amount). This accounting typically carries over into their US GAAP financial statements. Additionally, the large European emitters with whom the staff spoke also account for issued offsets at a nominal amount.

18 The initial recognition at a nominal amount, however, raises an issue if entities subsequently sell issued offsets. As noted in Agenda Paper 13a, many entities trade at least some of their offsets. Indeed, this is consistent with the objective of a cap and *trade* scheme. Upon sale of an issued offset, entities presumably realise a gain equivalent to the sale price. Hence, the initial recognition at a nominal amount gives entities some leeway to manage earnings.

Fair Value

19 Alternatively, allocated offsets could be initially measured at fair value. The staff believe that the strongest argument in support of fair value is the fact that the issuance of tradable offsets can be seen as a non-reciprocal transaction, in which case the guidance from paragraph 18 of Opinion 29, which requires that the asset received be measured at fair value, is directly on point. Indeed, Statement 116 requires most contributions (a type of non-reciprocal transfer) received to be initially measured at fair value.

20 Financial statement users indicated to the staff that they would prefer that issued offsets be initially measured at fair value, rather than at cost. They indicated that recognising issued offsets at fair value provides them with more transparent and decision-useful financial information than recognising them at a cost of nil.

21 The staff believe that for most emissions trading schemes in existence, markets are active enough to provide relevant information for entities to make level 1 or level 2 estimates of fair value (as described in FASB Statement No. 157 *Fair Value Measurements*). Even for new emissions trading schemes, where active markets have not yet developed, other information may be available to estimate fair value. The staff notes that in addition to supply and demand, the other factors that appear to affect the price of tradable offsets include any penalties that may be paid *in lieu of* remitting tradable offsets (which exist in some schemes and effectively set a cap for the price of

tradable offsets) as well as the cost of purchasing and installing equipment to reduce emissions.

22 The main challenge that arises from initially measuring issued offsets at fair value is the accounting for the credit side of the entry. There are three possible classifications for the credit entry: as a gain in the income statement, as other comprehensive income, or as a liability. With regard to those possibilities:

(a) Preparers and users broadly objected to recognising issued offsets as income. These views will be discussed further in the section on the non-reciprocal transfer model below.

(b) The staff understand that board members would prefer not to create additional categories of other comprehensive income.

(c) Treatment as a liability raises questions about the nature of that liability and how it interacts with the accounting for the obligation arising from an entity's emissions. The staff believe the subsequent accounting for these liabilities can become quite complex. The accounting for liabilities in a cap and trade scheme will be addressed in a future meeting. The staff have included a short preview of these issues in Section C at the end of this Paper called *Preview of Issues to Be Addressed at a Future Meeting*.

Staff analysis and recommendation

23 The staff recommend that issued offsets be initially measured at fair value, rather than at cost. The staff agree with users' views that initially measuring issued offsets at fair value provides more transparent and decision-useful financial information than initially measuring them at cost.

QUESTION FOR THE BOARDS

Question #1: Do you agree with the staff's recommendation that issued offsets should be initially measured at fair value?

B ACCOUNTING FOR THE CREDIT IF ISSUED OFFSETS ARE INITIALLY MEASURED AT FAIR VALUE

Model A - Non-reciprocal Transfer Model

24 This model considers whether an entity incurs a present obligation when it is issued offsets. The discussion in this section will address offsets that are not subject to a clawback feature as well as those that are (see Agenda Paper 13a for a discussion of clawback features). First, however, the staff believe it is important to review the framework's guidance on liabilities.

25 In the IASB's Framework, 'a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.' In FASB Concept Statement No. 6 *Elements of Financial Statements* 'liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.'

26 At meetings of the IASB and FASB in June 2008, the boards discussed the latest version of a new draft liability definition: 'A liability of an entity is a present economic obligation that is enforceable against the entity.'[4]

27 In all definitions, a present obligation is an essential characteristic of a liability. The working definition of a liability does not explicitly link a present obligation to a past event. However, the Conceptual Framework project team concluded that a present obligation 'can only have arisen from past events, thus, explicit reference to past events is unnecessary—redundant'.

Offsets issued with no clawback conditions

28 For tradable offsets with no clawback conditions, the recipients do not have responsibilities with respect to the transferred resources. For instance, if an entity with no clawback provisions were to close down its installation after receiving offsets, it would keep the issued offsets and have no obligation to remit excess offsets. However, the recipients of offsets generally have little choice other than to emit in the

[4] See Conceptual Framework project, June 2008 IASB Agenda Paper 11C / June 2008 FASB Memorandum 74c.

future. For example, utilities often are subject to operating licenses or similar agreements with governments or regulatory agencies. These agreements include clauses relating to the level of service (ie power generation) required to be maintained by the entity. Additionally, utilities typically enter into long term contracts to deliver power. In fact, future expected emissions are a precondition for an entity to receive tradable offsets.

29 The purpose of the issued offsets is to compensate an entity for future outflows. However, the expected costs from an entity's emissions in the future do not presently obligate the entity upon receipt of the issued offsets. The future emissions have not yet occurred. The regulator could not fine or make the entity take action upon receipt of issued offsets related to its future emissions. The fact that an entity may be economically compelled to emit in the future does not mean that the entity has a present obligation. This is consistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Paragraph 19 of IAS 37 concludes that commercial pressure or legal requirements to operate in a particular way in the future do not create a present obligation. Entities enter into a variety of contracts that compel them to incur all sorts of costs (eg employment costs) but these future costs are not regarded as liabilities (unless the contracts are regarded as onerous).

30 The regulatory requirements and the likelihood that the entity will emit in the future mean that the entity may *in the future* incur an obligation to offset the damage or pay a fine. However, they do not create a present obligation before the entity emits. An expectation to emit in the future, therefore, does not meet the definition of a liability.

31 The non-reciprocal transfer model is consistent with a view that a present obligation from emitting arises when an entity actually emits during a compliance period and not when it receives the offsets. A present obligation is triggered by each unit of emissions that the entity is obliged to offset. Hence, although issued offsets are intended to compensate an entity for liabilities resulting from emissions, the entity recognises issued offsets and the liabilities at different times.

Do clawback features give rise to a present obligation?

32 The accounting issue is whether a clawback feature gives rise to a present obligation upon receipt of the issued offsets and thus a liability.[5] From discussions with the Conceptual Framework team and the Liabilities (IAS 37) team, the staff believe that some of the issues are cross cutting issues currently under debate. Hence, this Agenda Paper reflects the differing views on these issues. According to View A (paragraphs 33-39), an entity does not have a present obligation when it is issued tradable offsets. According to View B (paragraphs 40-45), an entity may have a present obligation upon receipt of the issued offsets *if, and only if,* a possible clawback is attach to issued offsets.

View A

33 According to View A, the stipulations attached to issued offsets do not trigger a present obligation that gives rise to a liability. Paragraph 36 of Concept Statement 6 *Elements of Financial Statements* describes that a liability 'obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice.' View A holds that an entity has discretion to avoid the future sacrifice, ie the remittance of excess tradable offsets to the scheme administrator due to closure. The entity can do so by operating its installations at, or above, the predetermined level.

34 View A acknowledges that, with the receipt of the issued offsets, the entity implicitly or explicitly accepts that it has to return excess issued offsets upon closure. However, the entity has no present obligation to remit tradable offsets upon receipt of the issued offsets.

35 The guidance in IAS 37 supports this view. IAS 37 explains that a present obligation exists 'independently of an entity's future actions', therefore an entity has 'no realistic alternative to settling the obligation' (IAS 37.17, IAS 37.19). An entity can, through its own actions, avoid settling the obligation. An entity has a realistic alternative to remitting issued offsets due to closure. In fact, for the majority of entities it is highly

[5] The staff deliberately avoided the term *condition* because in the accounting literature a grant is not recognised in income until the conditions are met. For example, according to IAS 41 *Agriculture* a government grant that requires an entity to farm in a particular location for five years is not recognised in income until the five years have passed.

likely that they will operate above the predetermined level. Many entities have long-term contracts with their customers or operating licenses that require them to operate.

36 According to View A, a possible clawback in the future is not a present obligation. Instead, the possibility of a future clawback is a business risk. An entity might be required in the future to remit issued offsets (due to closure), but there exists no present obligation for future sacrifice at the date of issuance of offsets. At that date, no third party has a right that would force the entity to remit tradable offsets.

37 Applying View A, the past event that results in a present obligation is not the *receipt* of issued offsets, but a *breach* of the stipulations attached to the offsets. Although the possibility exists that the stipulations will not be met, an obligation to remit tradable offsets does not exist unless, and until, the entity breaches the stipulations.

38 A promise to remit tradable offsets upon closure is not a present obligation if the entity can prevent the closure from occurring. Otherwise, any promise would be a present obligation (eg a promise to pay redundancy costs, lease termination penalties).

39 A present obligation may or may not arise in the future, but there is no present obligation to remit tradable offsets when they are issued. Hence, in the absence of any other consideration that may trigger (a) a liability or (b) a valuation adjustment/impairment of an entity's assets, View A results in a gain upon initial recognition of issued tradable offsets.

View B

40 View B arrives at a different conclusion. According to View B, the stipulations attached to issued offsets give rise to a present obligation.

41 View B states that an entity has no present obligation to remit issued offsets upon receipt of the offsets. However, the entity has made a promise to the scheme administrator. It has promised to remit excess tradable offsets if it closes its regulated operations. In other words, the entity stands ready to return tradable offsets upon closure. Even though the entity may, through its own actions, avoid the future sacrifice (ie the clawback), it cannot avoid the promise it has made. The entity is in a different economic position from an entity that is not exposed to a clawback.

42 With the receipt of the offsets, the entity promises to return excess tradable offsets upon closure. Hence, on View B, the obligating event is the *receipt* of the offsets. This is the anchor of an entity's obligation. The promise expires when the entity has met the stipulations. This is the case when an entity's production arrives at, or exceeds, the predetermined level of production. In contrast, in View A an entity has a present obligation only *if, and when,* it has no discretion to avoid the future sacrifice (ie the clawback), that is, when the entity breaches the stipulation.

43 The staff believe there are three ways to account for the present obligation resulting from the promise to remit tradable offsets upon closure under View B:

1 Measure the liability in a manner consistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, ie at the amount that an entity would rationally pay to settle the obligation or to transfer it to a third party (View B1). This approach presumes that the liability can be measured reliably. If the likelihood of closure is low, presumably the liability would be relatively small compared to the fair value of the issued offsets, resulting in the recognition of a significant gain.

2 Do not recognise a liability, on the basis that it cannot be measured reliably (View B2). This approach would be consistent with the view expressed in paragraph 79 of Statement 116, which states that 'presently, there are no cost effective techniques to measure with sufficient reliability the value of…a conditional obligation….' The boards' frameworks and IAS 37 indicate that a liability is recognised in the statement of financial position when it can be measured reliably. This approach holds that a present obligation to stand ready to remit tradable offsets does not meet the recognition criteria and therefore results in the same accounting treatment as View A.

3 Measure the liability at the fair value of the issued offsets that are subject to the clawback feature (View B3). This approach is based on a view that recognising income from issued offsets with stipulations attached—even if the stipulations are likely to be met—may give rise to income recognition that is inconsistent with the boards' frameworks. The boards' frameworks indicate that income is recognised when an increase in future economic benefits has

arisen that can be measured *reliably*. The staff note that this is consistent with IAS 41 *Agriculture* and Statement 116. Those standards require the stipulations that attach to a grant or contribution to be met (IAS 41) or substantially met (Statement 116) in order to recognise income.[6]

44 Views B1 and B3 could result in different accounting treatment for two entities that are subject to different cap and trade schemes as a result of different clawback features within those schemes. Some administrators require a clawback of tradable offsets if an entity closes, others do not. In a multi-country scheme like the EU ETS, Views B1 and B3 may result in different accounting even within one scheme. Consider a UK entity and a German entity operating in the EU ETS. Whereas the UK entity may keep issued offsets upon closure, the German entity has to remit excess tradable offsets if it closes. According to View B, only for the German entity do issued offsets trigger a present obligation to stand ready to remit excess tradable offsets.

45 From discussions with constituents, the staff understand that this raises the issue of whether, in substance, an entity in the UK is in a different position than an entity in Germany. In theory, the EU ETS pursues a harmonised approach within the EU ETS. In practice, however, some differences between the different countries still remain. The UK administrator has not introduced a clawback rule for a simple reason: it expects few entities to close within the current commitment period. In other words, were many entities expected to close, the UK administrator possibly would have introduced a closure rule (similar to Germany). The UK administrator chose to reduce the administrative burden on government, regulators and industry resulting from a clawback rule. Hence, some believe that the stipulations in many cases have little substance. In their view, if an accounting model leads to radically different results depending on the presence or absence of a clawback feature, the model will not provide useful information.

[6] The guidance in Statement 116 is different if the stipulations attached to a contribution are regarded as a *restriction* and not a *condition* in Statement 116. A contribution (ie transfer) with restrictions is recognised in profit or loss.

Example

46 The following example illustrates the different views in Model A to account for stipulations attached to issued offsets. It highlights the effects on the financial statements upon initial recognition of tradable offsets.

47 The example is based on publicly available information of major utilities operating under the EU ETS. The utility sector is considered to be the most heavily affected sector in the EU ETS. The example shows the accounting for (a) a German entity and (b) a UK entity—assuming that they both are issued the same number of tradable offsets. The only difference is that the German entity has to remit excess tradable offsets upon closure, whereas the UK entity may keep excess tradable offsets upon closure.

48 In the example, the entities receive 40 million tradable offsets for the 2010 compliance period. The example assumes that the entity recognises the receipt of tradable offsets on 1 January 2010. Assuming a market price for emission allowances of €18, the fair value of issued offsets amounts to €720 million at that date.

View A

49 According to View A, stipulations attached to issued offsets do not presently obligate an entity to transfer resources upon receipt of the offsets and thus no liability arises from stipulations at that date. As a result, the German entity does not account for the issued offsets differently than the UK entity.

50 On 1 January 2010 the German entity and the UK entity initially recognise the issued tradable offsets at fair value. The example assumes that no other liabilities arise and that no impairments of the entities' assets occur. The recognition of tradable offsets then results in a gain equivalent to their fair value. The journal entries on 1 January 2010 would be:

<u>German entity</u>

Debit tradable offsets	720,000,000	
Credit gain		720,000,000

UK entity

Debit tradable offsets	720,000,000	
Credit gain		720,000,000

View B

51 According to View B, an entity that receives issued offsets with stipulations attached has a present obligation to stand ready to remit tradable offsets upon closure and thus a liability. View B laid out three different views on how to account for the present obligation to stand ready.

52 View B1 recognises the obligation to stand ready and measures the obligation at the amount that an entity would rationally pay to transfer the obligation to a third party. The example assumes that the German entity would rationally pay 5% of the value received (that is, €36 million) to transfer the obligation to stand ready to remit excess tradable offsets upon closure. The UK entity has no present obligation as no stipulations are attached to its issued offsets.

53 On 1 January 2010 the German entity and the UK entity recognise the issued tradable offsets at fair value. The German entity additionally accounts for a liability of €36 million reflecting the present obligation to stand ready to remit tradable offsets upon closure. Hence, the gain on initial recognition of the issued offsets is €684 million for the German entity and €720 million for the UK entity. The journal entries on 1 January 2010 are:

German entity

Debit tradable offsets	720,000,000	
Credit liability		36,000,000
Credit gain		684,000,000

UK entity

Debit tradable offsets	720,000,000	
Credit gain		720,000,000

54 View B2 is of the view that the obligation cannot be measured reliably and hence, no liability is recognised. The recognition of tradable offsets results in a gain equivalent to the value of the issued offsets for both entities (ie €720 million). The journal entries on January 2010 are the same as in View A (see paragraph 50).

55 View B3 also holds that the measurement of an obligation to stand ready is not representationally faithful. However, it concluded that the receipt of the issued offsets should not result in a gain until the stipulations are met.

56 According to View B3, the German entity recognises a liability and measures it at the carrying amount of the issued offsets so that no gain arises upon initial recognition of issued offsets. The UK entity does not face a clawback and hence, does not recognise a liability. Hence, it recognises a gain of €720 million. The journal entries on 1 January 2010 are:

<u>German entity</u>

Debit tradable offsets	720,000,000	
Credit liability		720,000,000

<u>UK entity</u>

Debit tradable offsets	720,000,000	
Credit gain		720,000,000

Pros and cons of the non-reciprocal transfer model

57 Some believe that the main argument for the non-reciprocal transfer model is that the model applies the framework definitions of both boards. The model analyses separately the issued offsets and any stipulations attached to issued offsets—the rights and obligations associated with the arrangement.

58 The non-reciprocal transfer model most likely results in a gain upon initial recognition of issued offsets. Only if a clawback attaches to issued offsets *and* the boards consider this to give rise to a present obligation may entities recognise a liability, reducing (or perhaps eliminating) the gain. The staff have spoken with a wide variety of interested parties, including large emitters, other standard setters, auditors, analysts, ratings agencies, and investors. They generally believe that recognizing a gain on

initial recognition of issued offsets does not provide useful information. They observe that the purpose of an emissions trading scheme is to impose additional *costs* on entities in order to effect an overall reduction in emissions. In this context, they feel it is inappropriate for an entity to reflect a gain related to the allocation, because the allocation is meant to reduce entities' incremental cost of complying with an emissions trading scheme.

59 Financial statement users in particular indicated that they would reverse out the gain in their analysis of an emitting entity. They felt that including such a gain in the financial statements would not provide decision-useful information. This is because an entity's costs of emitting over a compliance period exceed the gain on initial recognition of issued offsets. They view a gain on initial recognition as misleading.

60 This would be particularly true if an entity is issued offsets spanning several compliance years at a time, that is, if the gain on initial recognition is recognised in *one* annual period, whereas the related emissions expenses occur over *several* annual periods. Consider the following variation on the earlier example. Assume that the UK entity (ie with no clawback) is issued the offsets for a two year compliance period. That is, tradable offsets worth €720 million (40 million offsets with a value of €18 each) are intended to compensate for emissions expected to occur over a two year period. If the entity expects to need 50 million offsets for that two year period, assuming the price of offsets remains constant, the value of those offsets would be €900 million. Assuming emissions occur evenly over both years, in the first year the entity would recognise a net gain of €270 million (€720 million - €450 million). In the second year, the entity would recognise a net loss of €450 million. If the issued allowances are subject to a clawback feature (eg for the German entity), depending on the view, these figures would be modified to account for the recognition of a present obligation to stand ready to remit issued offsets upon closure.

61 Another point raised is that an entity that must comply with a scheme would recognise a gain upon initial allocation, whereas a similar entity located in a jurisdiction without a scheme would record no entry. All other things being equal, presumably the latter entity is in a better economic position, because it is not subject to a scheme at all. Nevertheless, the first entity would recognise the gain, even though it is likely to have

lower net future cash flows as a result of the scheme and therefore is arguably not better off.

62 The staff also note that recognising a gain upon initial recognition of issued offsets increases the importance of the *timing* of initial recognition. Assuming tradable offsets are recognised when they are issued, differences in the timing of offsets in different cap and trade schemes would impede the comparison of entities subject to those different schemes. However, if the boards decide that tradable offsets should be recognised before issuance (for example, if future instalments should be recognised), the issue of timing becomes even more significant. This would apply in particular to schemes with long commitment periods with allocations that take place for several compliance years at once.

Model B - Performance Obligation Model

63 Under this model, when an entity is issued offsets, it has a performance obligation that it must fulfil in order to realise income from the offsets. Effectively, the entity enters into an agreement with the scheme administrator. The entity agrees to reduce its emissions below the level represented by the allocation of tradable offsets. That is, the offsets exist only as a result of the agreement with the scheme administrator. The agreement establishes a performance obligation. It requires an entity to remit one issued offset for each unit it emits in the compliance period. Hence, only if the entity reduces its emissions to nil in a compliance period will it retain the number of tradable offsets it has been issued.

64 The performance obligation model acknowledges that an entity can immediately convert issued offsets to cash. However, it also considers the reality that the entity will not simply walk away with the cash as a profit. That is, the performance obligation has substance. The performance obligation model points to the fact that entities operating under a scheme often have little choice other than to emit in the future. Entities that are within the scope of a scheme often are subject to operating licenses or similar agreements with governments or governmental bodies. In addition, many entities enter into long term supply contracts with their customers. In fact, an administrator's expectation to receive back the issued offsets in the future is the precondition for a scheme administrator to issue an entity offsets in the first place.

65 Generally, the amount of issued offsets is below the level of an entity's expected future emissions. Hence, an entity that continues emitting on the level it has emitted in the past will remit a number of offsets greater than the number of issued offsets by the end of the compliance period. To benefit from issued offsets, an entity has to make its performance more efficient, that is, reduce its emissions. Only if an entity manages to reduce its emissions can it end up with excess issued offsets by the end of the compliance period.

66 The performance obligation model is of the view that issued offsets impose a performance obligation on an entity, irrespective of whether a possible clawback attaches to issued offsets or not (though a possible clawback may make it even more obvious that a performance obligation is attached to the allocation). Irrespective of its course of action, an entity ends up surrendering offsets to the scheme administrator.

The entity has two choices: either it may operate its regulated operations at, or above, the level that the scheme administrator deems to represent closure (and hence, emits), or it may close its regulated operations. In both cases the entity ends up surrendering tradable offsets to the administrator. The entity either remits offsets to cover emissions or remits them because of closure. Again, an entity ends up with excess issued offsets by the end of the compliance period only if it reduces its emissions.

67 The performance obligation model views the issuance of tradable offsets, to some extent, as similar to the issuance of a loan, repayable at the end of the compliance period.[7] The scheme administrator hands out tradable offsets *prior* to the expected emissions for a simple reason: to establish an active trading mechanism. The entity can, in theory, sell the issued offsets for cash. However, by the end of the compliance period it has to buy back the offsets to discharge its remittance obligation. This is the first part of the agreement implicit in the issuance of offsets.

68 The second part of the agreement implicit in the issuance of offsets is the performance element. The entity satisfies the performance element by taking the action that entitles it unconditionally to retain the issued offsets. If an entity's emissions more than absorb the issued offsets in a compliance period, the entity has in effect to surrender offsets equal to the difference. Conversely, if an entity's emissions in a compliance period do not absorb the issued offsets, the entity in effect receives tradable offsets equal to the difference. This element is similar to a baseline in a baseline and credit scheme.

69 At the end of the compliance period, the simultaneous settlement of the loan (ie first part of the agreement) and the performance element (ie second part of the agreement) result in a net amount of offsets payable by the entity. This net amount corresponds to an entity's level of emissions in a compliance period.

70 The performance obligation (ie both elements in the agreement) is measured at the initial carrying amount of issued offsets. The model views this as an appropriate proxy for the value of the performance obligation. An entity recognises income from issued offsets *only* when an increase in future economic benefits has occurred related

[7] Others believe issued offsets to be similar to a trust arrangement or some form of repurchase agreement. However, the staff do not believe this distinction to be important.

to an increase in an asset or a decrease in a liability and that increase can be measured reliably. That is, income from the issuance of offsets is recognised when the performance obligation or part of it is satisfied.

71 The staff note that the performance obligation model, to some extent, is similar to the guidance in IAS 41 *Agriculture* and FASB Statement No. 116 *Accounting for Contributions Received and Contributions Made* for a grant or contribution with conditions attached. Although different in scope, both standards do not allow for income recognition until the conditions attached to a transfer of resources are met (IAS 41) or substantially met (Statement 116).

72 Continuing the earlier example, assuming the same facts described in paragraphs 47 and 48, the entity initially recognises the issued offsets on 1 January 2010 at their fair value, ie €720 million and accounts for a liability at the same amount. According to the performance model the journal entries on 1 January 2010 would be:

Debit tradable offsets	720,000,000	
Liability		720,000,000

73 It is of note that the recognition of the liability does not depend on whether a possible clawback attaches to issued offsets or not. That is, the German entity (which is subject to a possible clawback of issued offsets) and the UK entity (which is not subject to a clawback of issued offsets) account for the same liability.

Offsetting (netting) the issued offsets with the corresponding liability

74 An alternative form of presentation under the performance obligation model would be to offset (net) the issued offsets and the performance obligation on the statement of financial position. The staff will ask the boards to address presentation in a later meeting. However, the staff believe it is worth noting that there may be support for net presentation in the statement of financial position in paragraph 7 of APB No. 10 *Omnibus Opinion—1966*. Opinion 10 allows, in restricted circumstances, offsetting where a right of set-off does not exist. This applies in circumstances in which a

'government issues securities that are specifically designated as being acceptable for the payment of taxes of those governments' (Opinion 10, paragraph 7).[8]

Pros and cons of the performance obligation model

75 The performance obligation model does not result in a gain on initial recognition of issued offsets. The vast majority of constituents believe that this provides users with information that is representationally faithful. The basis for this view is that the intention of the scheme is not to reward entities that emit. Instead, the scheme aims at gradually reducing emissions by introducing costs to emit. Hence, they believe that a scheme rarely makes entities better off. A gain on initial recognition of issued offsets would not faithfully reflect this. Under this view, a gain at the time of issuance does not meet the criteria in paragraphs 83-84 of FASB Concepts Statement No. 5 *Recognition and Measurement in Financial Statements of Business Enterprises* of being 'realised or realisable and earned' until the entity has fulfilled its obligation under the scheme.

76 The staff believe that this model has less effect on the accounting for future instalments. This is because the timing of recognition does not affect the statement of income. This increases comparability not only with other entities in the same scheme but also with entities operating in a different scheme.

77 Some may object to the assumptions in the performance obligation model. Specifically, they may reject the assumption that an entity enters into an agreement with the scheme administrator to reduce its emissions. Unlike contracts or other binding agreements, statutes are different because an entity does not explicitly agree to perform for another party. The administrator cannot force the entity to remit offsets until it starts emitting. Thus, statutory requirements that may result in future emissions are not a present obligation. Making an assumption of an agreement in order to arrive at a different unit of account may seem artificial.

78 An entity that remits offsets does so to offset its emissions. Without issued offsets, the entity would have to buy offsets in the market. That is, issued offsets reduce an

[8] If one views the issued offsets as similar to a repurchase agreement, the entity receiving the tradable offsets would also not recognise the tradable offsets (AG 51 of IAS 39 *Financial Instruments: Recognition and measurement*).

entity's expected future costs so that entities benefit from issued offsets. Hence, the substance of issued offsets is not just a temporary transfer, such as a loan.

79 Another argument against the performance obligation model is that its income statement effect on initial recognition would be the same for entities that receive a different number of offsets even though they (a) operate in the same scheme and (b) have the same expected emissions. For example, in the EU ETS, an Italian utility may receive a large number of issued offsets, but a Swedish utility with similar emissions intensity does not receive *any* offsets for free. According to the performance obligation model, the accounting does not reflect the fact that the entities face *different* performance obligations. That is, the income statement of the Italian utility upon initial recognition of issued offsets is not different from the income statement of the Swedish utility. In fact, the Swedish utility is not compensated for any future costs of emitting, whereas the Italian utility can offset the majority of its expected emissions with issued offsets.

Model C - Compensation Model

80 The compensation model takes the view that the issuance of tradable offsets is not a non-reciprocal transfer from the scheme administrator to an entity. Instead, the compensation approach considers the issuance of tradable offsets in the context of the whole package of requirements imposed by an emissions trading scheme.

81 The rationale for the compensation approach evolves from one of the goals of the issuance of offsets: to compensate for stranded assets. A stranded asset is any asset (eg property, plant and equipment) that falls in value as a result of the scheme. With the receipt of the offsets, the entities agree to comply with (a) the regulatory environment introduced by the emissions trading scheme and (b) the stipulations attached to the issued offsets (eg possible clawback as discussed in AP 13a).[9]

82 Compliance with the regulatory environment of the scheme results in higher future outflows for entities when conducting regulated operations. The compensation model assumes that future compliance costs have an adverse effect on the value of an entity's regulated operations. The issuance of offsets is intended to compensate at least partly for this change in value of an entity's assets.

83 Hence, the compensation model sees a linkage between the issuance of offsets and the change in value of an entity's assets. Were an entity not expected to suffer a fall in the value of its related assets as a result of the introduction of the scheme, it would not receive offsets. In fact, the allocation plans apply a sector level allocation that reflects a scheme administrator's view on how entities are affected by the scheme.

84 The initial recognition of issued offsets at fair value reflects this linkage between the issuance and an entity's related assets only *if*

(a) the fall in value of an entity's assets is matched by a remeasurement of the related assets (eg property, plant and equipment), or

(b) an entity passes on in full the costs of emitting to its customer (so that an entity's affected assets do not fall in value).

[9] The compensation model acknowledges that a present obligation may arise from a possible clawback. However, for simplification purposes this issue is not considered within the compensation model.

Remeasurement of related assets

85 A fall in value of an entity's assets is matched by a remeasurement of an entity's assets if (a) the affected assets are recognised and carried at fair value with changes through profit or loss or (b) the introduction of the scheme triggers an impairment that reflects the change in value. The compensation model assumes that this will rarely happen. First, the affected assets (eg property, plant and equipment) are usually carried at cost and not at fair value through profit or loss. Second, the model expects that the change in value will rarely trigger an impairment of the same amount. Instead, a reduction in the amount of *unrecognised* goodwill and/or a reduction in the (positive) difference between the fair value and the carrying amount of *recognised* assets will absorb the change in value of an entity's assets.

An entity passes on in full the costs of emitting to the customer

86 The introduction of a scheme does not result in a fall in value of an entity's assets if the entity is able to pass on the costs of emitting in full to its customers. In that case, a gain upon initial recognition of issued offsets reflects the substance of the transfer, that is, an increase in the entity's value.

87 However, the compensation model assumes that the allocation mechanism prevents an entity from passing on the costs of emitting—that it has been compensated for—to its customers.

88 This is because the allocation mechanism ensures that entities compete on equal footing. Stated differently, the allocation mechanism is intended to provide that two identical entities have the same access to an allocation. Otherwise, the allocation mechanism would distort.

89 In addition, access to allocations is not restricted to *past* investments (ie existing installations). Indeed, a *new* investment in the regulated industry that occurs after the start of the scheme will be entitled to an allocation. Stated differently, *investment* in regulated activities is the precondition to receive an allocation, not *past emissions*. Hence, schemes are generally constructed in a way that is intended to avoid creating barriers to entry, which facilitates competition on a level playing field. The staff

understand that the principle of competition on equal footing applies to most schemes (eg EU ETS, U.S. Lieberman-Warner Bill, draft Australian scheme).

90 As a result, in a competitive market the passing on of costs of emitting—that the entity has been compensated for—is limited. The sector level allocation reflects the scheme administrator's expectation about elasticity of demand and the ability to pass through costs.

91 The compensation model, therefore, takes the view that the initial recognition of issued offsets most likely results in a *measurement* mismatch. This is because issued offsets are initially recognized at fair value whereas an entity's assets that are affected by the scheme are generally measured at cost and, therefore, their carrying amounts are generally unaffected by the receipt of the offsets even though their fair value decreases.

Approaches to addressing a measurement mismatch

92 One possibility is to accept the fact that the measurement bases of an entity's assets affected assets by the scheme's requirements are not consistent with the initial measurement base of tradable offsets, resulting in a measurement mismatch. That is to say, to acknowledge that in a mixed measurement model accounting mismatches can arise as a result of accounting for some assets and liabilities at fair value and others at cost.

93 However, some argue that the measurement mismatch arising on recognition of the offsets would not give a faithful representation of the entity's position because it would reflect only the assets that the entity has received from the scheme administrator. It would not reflect the decrease in the fair value of an entity's assets as a result of no longer being able to freely emit.

94 The staff think that there are two approaches to address a measurement mismatch:

(a) an adjustment of the carrying amount of the assets which fall in value due to the introduction of the scheme

(b) presentation as a separate balance sheet account.

Adjustment to the carrying amount of assets which fall in value

95 One way to address the measurement mismatch would be to adjust the carrying amount of the affected assets when issued offsets are initially recognised. The schemes provide a link between the issuance of offsets and an entity's affected asset or group of assets. This is because an allocation of tradable offsets is linked to a specific installation. For instance, if an entity were to sell an installation, it would also sell its rights to the future instalments of offsets that are attached to that installation.

96 An adjustment of the carrying amounts of the related assets reflects the link between the issued offsets and an entity's assets (ie installations). The compensation model adjusts the carrying amount of affected assets by the initial carrying amount of the issued offsets. This accounting entry is not expected to exactly reflect the change in value of an entity's affected assets. Rather, it is an allocation procedure.

97 The compensation model points to the fact that the carrying amount is a function of an allocation procedure before any adjustments occur (paragraph 96 IASB *Framework*, paragraph 149 of Concepts Statement No. 6 *Elements of Financial Statements*). This is because the depreciation of assets such as property, plant and equipment is an allocation procedure that is intended to systematically and rationally recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed (paragraph 96 of the IASB *Framework*, paragraph 86 of Concepts Statement No. 5 *Recognition and Measurement in Financial Statements of Business Enterprises*). Indeed, were the related assets all recognised and carried at fair value and not at cost, there would be no need for an adjustment to the carrying amount of the related assets.

98 The compensation model claims that this approach best reflects the intention of the issuance of offsets, that is, to compensate for the fall in value of an entity's assets. However, the implementation of the approach will likely result in diversity in practice. This is because entities will adjust different assets with different useful lives (eg property, plant and equipment).[10] Different adjusting entries subsequently result in timing differences in the income statement across entities. This can be avoided

[10] The accounting for future instalments also has a greater effect on the income statement.

only if the adjusting entry is released to income concurrently with the expenses that it is intended to compensate.

99 An adjustment of the carrying amount of the related assets may also raise an issue if the value of the issued offsets exceeds the carrying amount of the related assets.

100 Continuing the earlier example with the same facts, the entity initially recognises the issued offsets on 1 January 2010 at their fair value, ie €720 million. Assuming that the carrying amount of *property, plant and equipment* is adjusted the journal entries on 1 January 2010 would be:

Debit tradable offsets	720,000,000	
Credit property, plant and equipment		720,000,000

101 It is of note that the adjusting entry in the compensation model does not differ whether stipulations attach to issued offsets or not. Hence the German entity (which is subject to a possible clawback of issued assets) and the UK entity (which is not subject to clawback) would make the same adjusting entry.[11]

A separate balance sheet account

102 An alternative presentation would be to present the valuation adjustments as a separate balance sheet account. Presentation as a liability would overcome the issues with an approach that adjusts the carrying amount of the affected assets. In the example, the entity would present a liability equivalent to the initial carrying amount of issued offsets. The journal entries on 1 January 2010 would be:

Debit tradable offsets	720,000,000	
Credit liability		720,000,000

103 If the boards choose the compensation model, the staff will ask the boards in a future meeting whether (a) adjusting the carrying amount or (b) crediting a separate balance sheet account is appropriate.

[11] However the possible clawback, depending on the boards' views, may give rise to a liability.

Pros and cons of the compensation model

104 Some believe that the compensation model appropriately applies the framework definitions of both boards. The model adjusts for a measurement mismatch that arises as a result of different measurement bases. This is because issued offsets are initially recognized at fair value, whereas the related assets that fall in value are generally measured at cost (adjusted for depreciation). They believe that the introduction of the scheme rarely results in a remeasurement (eg impairment) of the related assets that reflects the change in value of an entity's assets.

105 The compensation model results in the same effect on the statement of income as does the performance obligation model. Hence, some of the arguments for the performance model also apply to the compensation model—ie (a) no gain on initial recognition of issued offsets is representationally faithful, (b) the timing of recognition of issued offsets has less effect, and (c) it increases comparability across entities.

106 In addition, the compensation model may better explain why the income statement effect on initial recognition is the same for entities that receive a different number of offsets even though they (1) operate in the same scheme and (2) have the same expected emissions. This is because a different allocation indicates that the entities operate in a different competitive environment. Taking the example of the Italian and the Swedish utility in paragraph 79, the model assumes that (a) the Italian utility does not deliver power to Sweden (and vice versa) and (b) that the Italian and the Swedish utility have different abilities to pass on costs of emitting to the customer. Otherwise, the allocation would violate the principle of a level playing field and hence, would also potentially violate European Community competition law.

107 On the other hand, although the idea of compensation for stranded assets is easy to understand in concept, its practical implementation is complex and highly controversial. Specifically, the assumption that the scheme provides for a level playing field and that entities are unable to pass on the costs of emitting to the customer simply may not be true. Indeed, the ultimate burden on an entity depends upon complex market responses.

108 Moreover, the simplification may prove wrong in some situations. This particularly applies if offsets are issued to entities that do not operate in a competitive market. The discussion about windfall profits of utilities in the EU ETS indicates that some utilities have managed to pass on costs of emitting—that they have been compensated for via a free allocation—to the customer. In Spain, the government issued a decree that, if enacted, makes utilities refund revenues collected by virtue of adding the market value of tradable offsets to the price of power when they received the offsets for free.

109 The adjustment of the carrying amount of related assets by the initial carrying amount of offsets, in addition, may raise timing issues subsequent to the initial recognition of issued offsets. This is because depending on the useful life of the adjusted assets the adjustments will roll out over a different number of periods. The alternative, to present a separate credit balance, to some extent, raises similar issues as the presentation of deferred tax liabilities, specifically, for deferred tax that conceptually, in the view of some, is more akin to a valuation adjustment than a liability.

Staff conclusions and recommendation with respect to the three alternative models

110 The staff believe that recognising a gain upon initial recognition of issued offsets is not representationally faithful. The staff found convincing the arguments of many constituents that recognising an initial gain does not portray the overall economic substance of participation in an emissions trading scheme in a representationally faithful manner. As noted previously, the boards' constituents, particularly users, oppose recognition of an initial gain. Users also noted that recognition of an initial gain is most likely to skew interim results, and that interim reporting is equally important to them as annual reporting.

111 In addition, it may happen that the effect of the initial recognition of tradable offsets will not be reversed within the same annual period. This is the case if (a) an entity recognises issued offsets in one period and the related emissions occur in another period or (b) if an entity recognises issued offsets (or an allocation) covering more than one compliance year at a time.

112 The staff believe recognising an initial gain does not reflect the substance of a cap and trade emissions trading scheme. The purpose of a scheme is to reduce emissions by

imposing a cost of emitting on entities. Governments do not issue tradable offsets to entities for the purpose of giving them gains, and for this reason, the number of issued offsets an entity receives is below its level of expected emissions for the period, based on its historical emissions and other available data. To realise a gain in this context, an entity has a performance obligation to reduce its emissions to a level below that represented by the offsets it was issued. The staff note that under paragraph 83 of Concepts Statement 5, revenues and gains must be 'realised or realisable and earned' in order to be recognised. In the staff's view, a gain from issued offsets is realised once (or as) that performance obligation is fulfilled. The staff believe this is a legitimate performance obligation because, as the evidence indicates, entities will not reduce their emissions without an incentive to do so.

113 Accordingly, the staff generally believe that the performance obligation model best reflects the substance of the arrangement. The staff recommend that the boards adopt the performance obligation model.

QUESTIONS FOR THE BOARDS

Question #2: If the boards decide that issued offsets should initially be recognised at fair value, which model do you support?

(a) Model A—non-reciprocal transfer model

(b) Model B—performance obligation model

(c) Model C—compensation model

114 If the boards select the non-reciprocal transfer model, they will need to answer the following additional question.

Question #3: Do the boards believe that a clawback feature in an emissions cap and trade scheme gives rise to a present obligation that should be recognised as a liability?

C PREVIEW OF ISSUES TO BE ADDRESSED AT FUTURE MEETINGS

Future Instalments

115 The staff plan to ask the boards to address the accounting for future instalments at a future meeting. Future instalments are issuances of tradable offsets an entity expects to receive in the future based on an allocation plan that has been established by the government.

Subsequent Accounting in a Cap and Trade Scheme

116 At a future meeting, the staff will present alternatives to the boards regarding subsequent accounting for tradable offsets and emissions obligations arising under a cap and trade scheme. The staff believe there are three possible approaches to subsequent measurement:

a. Measure all offsets at fair value (mark to market)

b. Measure all offsets at the initial measurement amount

c. Measure offsets that are part of a trading activity at fair value (mark to market), and measure offsets that are not part of a trading activity at the initial measurement amount.

117 The staff will also present to the boards various alternatives for accounting for the obligation that arises when an entity emits (an *emissions obligation*). The staff believe there are two important issues for the boards to consider:

a the interaction of an emissions obligation with a liability that may be recognised depending on the initial recognition model the boards select (nonreciprocal transfer model, performance obligation model, or compensation model) and

b the measurement of an emissions obligation.

118 Regarding (a) in the previous paragraph, an emissions obligation will interact differently with a performance obligation liability than it will with a liability arising from a clawback feature recognised under the nonreciprocal transfer model. For

example, if a performance obligation liability is recognised, an entity might (a) accrue an emissions obligation and reduce the performance obligation by an equal amount, (b) wait to recognise an emissions obligation until that obligation exceeds the number of offsets represented by its performance obligation, or (c) accrue an emissions obligation on a pro rata basis as it emits if it expects its total emissions obligation for the period to exceed its performance obligation. On the other hand, if a clawback liability is recognised, an entity would need to reflect the fact that fewer offsets are subject to the clawback as the entity emits.

119 Measurement of an emissions obligation could be based on either the current market value of tradable offsets or the carrying amount of an entities' tradable offsets, to the extent that the obligation does not exceed the number of offsets held. The staff note that many of the IASB's constituents objected to the requirement in IFRIC 3 *Emission Rights* to remeasure an emissions obligation through profit and loss on the basis of the current market value of tradable offsets. They objected because under IFRIC 3, changes in the market value of offsets held were not recognised in profit and loss, resulting in a mismatch.

120 The staff also plan to ask the boards to address the issue of accounting for *vintage year swaps*. Some emissions trading schemes issue tradable offsets for several compliance years all at once. Those schemes typically attach a vintage year designation to each offset, which indicates the compliance year in which the offsets may be used. In a vintage year swap, entities exchange tradable offsets with different vintage year designations, usually to better align their portfolio of offsets with their forecasted emissions. The accounting issue is whether these nonmonetary transactions should be accounted for (a) at the carrying amount of the asset(s) given up or (b) at fair value.

Other Types of Schemes

121 The staff plan to discuss at a future meeting the accounting in other types of emissions trading schemes, particularly the accounting in a baseline and credit scheme.

Disclosures

122 The staff plan to discuss disclosure requirements in relation to emissions trading schemes at a future meeting. This will include a discussion about whether, and how, an entity is to disclose its risk management policy in relation to emissions trading schemes.

Project-based Activities

123 The scope of the Emissions Trading Schemes project, at present, includes the accounting for the generation of tradable offsets from project-based activities.

124 Once the boards reach conclusions on the main issues in accounting for the tradable offsets in and obligations created by emissions trading schemes, the staff plan to ask the boards to reconsider whether the project should also address the accounting for the generation of tradable offsets. One option would be to wrap up the conclusions on the main accounting issues in emission trading schemes and directly proceed to an exposure draft. This would speed up the project. If necessary, the accounting for the generation of emissions rights could then be addressed in a separate project at a later stage.