Emissions trading schemes

ASAF meeting December 2014

Dear ASAF members

At the upcoming meeting, Jane Pike and Natasha Dara will lead a 45-minute discussion on Emissions Trading Schemes. Our objective in this session is to identify schemes that are in place; the accounting that is currently applied to those schemes; and if that accounting is based on any formally issued guidance.

Although we have high-level current information about some emissions trading schemes in existence around the world, we would like to gather more information on the detail of the schemes and any accounting issues you may have encountered. As such, if there is an emissions trading scheme in place in your jurisdiction and you are willing to help in our research, it would be very helpful if you could fill out the following questionnaire to provide us with details of local schemes, and the accounting applied.

Please return this form to Natasha Dara (email: ndara@ifrs.org) by 17 November 2014. The responses to this questionnaire will help us to plan for the meeting and to enable us to have a more informed discussion.

Many thanks

Natasha and Jane

Please select or write in your answers, as relevant.

1. What type of scheme is in place?

    a. Cap and trade (a common scheme where a government issues tradable allowances to an entity's sources of emissions. Participants may buy and sell allowances, but at the end of a compliance period, are required to remit to the government allowances equal to their actual emissions.)
    b. Baseline and credit (a scheme where each source of emissions of an entity is assigned a specific emissions limit for a period. After the end of the period, actual emissions are compared to the limit. If emissions fall below the limit, tradable credits are issued in the amount of the difference. If emissions are exceeded, credits must be purchased to cover the excess.)
    c. Other
       Please specify: ____

2. Is there another mechanism in place to reduce emissions? (Eg, a carbon tax)

3. Has there been any guidance issued in your jurisdiction that details how to account for these schemes? If so, please provide a very short summary and if there is a version in English, please send it to us.

4. How are the schemes accounted for? (Please see table in Appendix A)

    a. Approach 1

    b. Approach 2

    c. Approach 3

    d. Other

    Please specify: ____

Appendix A
Approaches applied in practice to account for cap & trade schemes

In the absence of authoritative guidance by the IASB, several approaches have developed that IFRS preparers apply to account for the effects of emissions trading schemes. A survey by PwC and the International Emissions Trading Association (IETA) identified as many as fifteen variations to account for the effects of EU ETS.[1] The following table highlights the three main approaches.

	Approach 1	Approach 2	Approach 3
Initial recognition – *Allocated* allowances	Recognise and measure at **market value** at date of issue; corresponding entry to government grant.		Recognise and measure at cost, which for granted allowances is **nil**.
Initial recognition – *Purchased* allowances	Recognise and measure at **cost**.		
Subsequent treatment of allowances	Allowances are subsequently measured at **cost or market value**, subject to review for impairment.		Allowances are subsequently measured at **cost**, subject to review for impairment.
Subsequent treatment of government grant	Government grant **amortised** on a systematic and rational basis **over compliance period**.		Not applicable.
Recognition of liability	Recognise liability when incurred (ie as emissions are produced).		Recognise liability when incurred (ie as emissions are produced). However, the way in which the liability is measured (see below) means that often no liability is shown in the statement of financial position until emissions produced exceed the allowances allocated to the participant.

[1] See 'Trouble-entry accounting - Revisited: Uncertainty in accounting for the EU Emissions Trading Scheme and Certified Emission Reductions.' (http://www.ieta.org/assets/Reports/trouble_entry_accounting.pdf)

	Approach 1	Approach 2	Approach 3
Measurement of liability	Liability is measured based on the **market value** of allowances at each period end that would be required to cover actual emissions, regardless of whether the allowances are on hand or would be purchased from the market.	Liability is measured based on: the **carrying amount** of **allowances on hand** at each period end to be used to cover actual emissions (ie market value at date of recognition if cost model is used; market value at date of revaluation if revaluation model is used) on either a FIFO or weighted average basis; *plus* the **market value** of allowances at each period end that would be required to cover any **excess emissions** (ie actual emissions in excess of allowances on hand).	Liability is measured based on: the **carrying amount** of **allowances on hand** at each period end to be used to cover actual emissions (nil or cost) on a FIFO or weighted average basis; *plus* the **market value** of allowances at each period end that would be required to cover any **excess emissions** (ie actual emissions in excess of allowances on hand).