

STAFF PAPER

May 2014

IFRS Interpretations Committee Meeting

Project	IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>		
Paper topic	Measurement of liabilities arising from emission trading schemes		
CONTACT(S)	Kenichi Yoshimura	kyoshimura@ifrs.org	+44 (0)20 7246 6905

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify the measurement of a liability under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that arises from an obligation to deliver allowances in an emission trading scheme.
2. The request asked whether the measurement of the liability for the obligation to deliver allowances should reflect the current values of allowances at the end of each reporting period if IAS 37 was applied to the liability. The request noted that this was the basis required by *IFRIC 3 Emission Rights*, which was withdrawn in June 2005.
3. The Interpretations Committee discussed this issue in January 2014. In that meeting, the Interpretations Committee noted that:
 - (a) When the IASB withdrew *IFRIC 3*, it reaffirmed that *IFRIC 3* was an appropriate interpretation of existing IFRS for accounting for the emission trading schemes that were within the scope of *IFRIC 3*.
 - (b) Nevertheless, the IASB acknowledged that, as a consequence of following existing IFRS, *IFRIC 3* had created unsatisfactory

measurement and reporting mismatches between assets and liabilities arising from emission trading schemes.

- (c) In 2012, the IASB added to its agenda a research project on the accounting for emissions trading schemes.
- (d) One of the main issues in the IASB’s project on emission trading schemes was whether the accounting for the liabilities arising from emission trading schemes should be considered separately from the accounting for the assets.

4. Consequently, the Interpretations Committee noted that it would be difficult for it to provide an interpretation of IFRS on the measurement of a liability arising from the obligation to deliver allowances without also considering the accounting for the allowances.
5. On the basis of the analysis above, the Interpretations Committee tentatively decided not to add this issue to its agenda because this issue is too broad for it to deal with.

Comments received on the tentative agenda decision

6. We received one comment letter on the tentative agenda decision that was published in January 2014.
7. The respondent (Deloitte Touche Tohmatsu Limited) agrees with the Interpretation Committee’s decision not to add this issue onto its agenda, and with the rationale provided in the tentative agenda decision.
8. However, the respondent encourages the IASB to press ahead with its research project on emission trading schemes to address many accounting issues presented by such schemes.
9. We note that in the April 2014 meeting of the IASB, the staff updated the IASB on the progress of each research project, including the emission trading schemes

project¹. The staff stated that the IASB plans to focus initially on updating its analysis of the different types of emission trading schemes that exist around the world. This will help the IASB assess whether it can, and should, develop financial reporting requirements that will enhance comparability across a potentially wide range of schemes.

10. The staff also explained that even though specific staff have not been assigned to this research project, the IASB staff are monitoring work being undertaken by the International Public Sector Accounting Standards Board (IPSASB) and are working with national standard-setters to encourage them to undertake preliminary work on documenting scheme characteristics.
11. The discussions in the January 2014 meeting of the Interpretations Committee on this issue were reported to the IASB in February 2014 (Agenda Paper 12A²). We will update the IASB on the discussions in this meeting, and share the request in the comment letter with the IASB staff associated with the emission trading schemes project.

Staff recommendation

12. Taking into consideration the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise the agenda decision without modifications to the wording except for some minor editorial changes. The proposed wording of the final agenda decision is presented in Appendix A to this Agenda Paper.

¹ Agenda Paper 13 (<http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/April/AP13A-The%20Research%20Programme.pdf>).

² Agenda Paper 12A (<http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/February/12A%20IFRIC%20Update.pdf>).

Questions for the Interpretations Committee

Questions

1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add the issue to its agenda?
2. If the answer to Question 1 is 'Yes', does the Interpretations Committee agree with the wording of the final agenda decision in Appendix A to this Agenda Paper?

Appendix A—Proposed wording for the final agenda decision

- A1. The following text presents the proposed wording for the final agenda decision, highlighting differences from the wording of the tentative agenda decision published in January 2014 (new text is underlined and deleted text is struck through).

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—measurement of liabilities arising from emission trading schemes

The Interpretations Committee received a request to clarify the measurement of a liability under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that arises from an obligation to deliver allowances in an emission trading scheme.

The request asked whether if the measurement of the liability for the obligation to deliver allowances should reflect current values of allowances at the end of each reporting period if IAS 37 was applied to the liability. The request noted that this was the basis required by IFRIC 3 *Emission Rights*, which was withdrawn in June 2005.

The Interpretations Committee noted that when the IASB withdrew IFRIC 3, it affirmed that IFRIC 3 was an appropriate interpretation of existing IFRS for accounting for the emission trading schemes that were within the scope of IFRIC 3. However, the IASB acknowledged that, as a consequence of following existing IFRS, IFRIC 3 had created unsatisfactory measurement and reporting mismatches between assets and liabilities arising from emission trading schemes.

In 2012, the IASB added to its agenda a research project on the accounting for emissions trading schemes. The Interpretations Committee noted that one of the main issues in the IASB's project on emission trading schemes was whether the accounting for the liabilities arising from emission trading schemes should be considered separately from the accounting for the assets. Consequently the Interpretations Committee noted that it would be difficult for it to provide an interpretation of IFRS on the measurement of a liability arising from the obligation to deliver allowances without also considering the accounting for the allowances.

On the basis of the analysis above, the Interpretations Committee {decided} not to add this issue to its agenda because this issue is too broad for it to deal with.

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@ifrs.org

7 April 2014

Dear Mr Upton

**Tentative agenda decision - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets:*
Measurement of liabilities arising from emission trading schemes**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the January IFRIC Update of the tentative decision not to take onto the Committee's agenda a request to clarify the measurement of a liability that arises from an obligation to deliver allowances in an emissions trading scheme.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision, but would encourage the IASB to press ahead with its research project on emissions trading schemes as first step in addressing the many accounting issues presented by such schemes.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader