

STAFF PAPER

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IASB Meeting

Project	Emissions Trading Schemes		
Paper topic	Project plan		
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Purpose of the paper

1. The purpose of this paper is to seek the IASB's approval of the staff's recommendations about the:
 - (a) scope of the project (and related name change);
 - (b) approach to the project; and
 - (c) direction of the project.
2. The paper also summarises the staff's preliminary public discussions with the:
 - (a) Global Preparers Forum (GPF) in November 2014;
 - (b) IASB in November 2014; and
 - (c) Accounting Standards Advisory Forum (ASAF) in December 2014.
3. Background information about the types of schemes in operation and related accounting issues were presented in IASB Agenda Papers 6-6B, November 2014.¹ The same information was provided to ASAF members, with summarised information provided to the GPF members.

¹ Agenda Papers 6-6B, November 2014 can be downloaded from <http://www.ifrs.org/Current-Projects/IASB-Projects/Emission-Trading-Schemes/Pages/Emissions-Trading-Schemes.aspx>

Summary of recommendations

4. The staff recommend that:
 - (a) the IASB set the scope of the project broadly to consider a variety of schemes that use emissions allowances to manage the emission of pollutants. In addition, the title of the project should be changed to “Emissions Management Schemes”.
 - (b) the IASB approach the project decisions from a ‘fresh start’. Consequently, previous decisions will not bind the direction of the project or the decisions of the current IASB members. In addition, the staff will work collaboratively with other Standard-setters to gather factual information about schemes and to do ongoing outreach to stakeholders.
 - (c) the IASB develops a Discussion Paper as the first due process output of the project. The Discussion Paper should focus on the accounting for the relationship between the rights and obligations created by the schemes, instead of focusing on the existing accounting for separate assets and liabilities within the schemes.

Preliminary public discussions

GPF, November 2014

5. The GPF members noted that a variety of approaches are being used to account for the schemes in operation. Most approaches focus on the expected net effect of the scheme over the period, rather than looking at individual components separately. This typically involves using consistent recognition and measurement requirements for the obligation to remit allowances, based on emissions that have occurred to date, and the allowances currently held by the entity that are expected to be used to settle that obligation. In addition, some approaches accounted for allowances differently, depending on whether they are expected to be used solely to settle the emitter’s obligation to remit allowances to the scheme administrator or may be used for trading, ie a business-use approach.

6. Consequently, GPF members asked the staff not to look to the withdrawn IFRIC 3 *Emission Rights* for a solution, because it focused on the individual components at a point in time, and looked only at the existing accounting requirements for each separate component. The resulting accounting treatment did not, they stated, reflect the economic reality of the entity's overall position under the scheme. Instead, they stressed that, when looking at how to account for the scheme, the 'unit of account' should be the scheme as a whole.²
7. Some GPF members suggested that the project should consider not only emitters, but also entities that perform activities to offset emissions, eg planting trees in particular regions to absorb carbon dioxide. Those entities may, in some cases, be able to receive allowances that they can then sell to emitters or use to settle their own emissions obligations.

IASB, November 2014

8. The IASB discussed Agenda Papers 6-6B in the November 2014 meeting. Some members noted that the IASB had struggled to resolve the issues in a previous project because of the potential for creating mismatches when looking separately at when to recognise and how to measure assets and liabilities. This time around it would be helpful to look more closely at the relationship between the rights and obligations in the scheme as a whole to try to avoid mismatches. This should not necessarily result in accounting for the net position as a single item but could involve recognising and measuring related assets and liabilities in a way that avoids creating artificial mismatches.
9. Other IASB members noted that in the previous project, issues around the application of the definition of liabilities in the *Conceptual Framework* created problems because it was not clear what obligating events arose in the schemes discussed. They suggested that the issue of what liabilities are created and when they should be recognised will be an important part of the new project.

² The use of the term 'unit of account' in this context does not refer to a net presentation of the expected net effect of the scheme in a single line item in the financial statements. It is used to reflect a desire to find a way to faithfully represent the net effect of the scheme, avoiding the mismatches in recognition and measurement that resulted from the requirements of IFRIC 3.

ASAF, December 2014

10. Some ASAF members noted that, in a limited number of countries, there is formal accounting guidance available that addresses the accounting for emissions trading or other emissions management schemes. Although the details of the formal guidance and the actual accounting practices applied vary widely, most result in similar accounting to the three approaches described in IASB Agenda Paper 6B, November 2014. In each case, the recognition and measurement policies applied to both the allowances and the obligation to remit allowances equivalent to the volume of the regulated pollutants emitted are designed to avoid the recognition, measurement and presentation mismatches that resulted from the requirements of IFRIC 3.
11. Many ASAF members suggested focusing on identifying and accounting for the overall economic effect of the scheme, instead of considering each component of the scheme separately. Any resulting accounting model developed should ensure that the overall effect is reflected in the ‘bottom line’ amounts reported in the financial statements. This could be achieved either by presenting the overall effect as a net amount or by using consistent recognition and measurement policies for the associated rights and obligations created by the schemes.

Staff recommendations

12. The staff have developed the following recommendations, taking into account the input received from the GPF, IASB and ASAF outlined in the previous paragraphs.

Scope of the project

13. The staff recommend that the IASB set the scope of the project broadly to consider a variety of schemes that use emissions allowances to manage the emission of pollutants. This would encompass both cap and trade and baseline and credit emissions trading schemes, as well as schemes that involve the issue of tradable allowances that can be used to satisfy obligations in those schemes. It would also encompass the accounting for tradable allowances by participants

(ie emitters that are required to remit allowances to the scheme administrator), traders in the allowances, and recipients who receive allowances in exchange for carrying out activities that either reduce emissions or absorb/sequester pollutants.

14. The staff recommend that the research should focus on trying to identify common characteristics of a wide variety of schemes and the resultant overall economic effects of those characteristics. This should support the identification of a principle-based approach to accounting for identified schemes, which could be used as the basis for developing robust accounting policies for new and changing schemes.
15. The staff believes that it is important to establish broad guidance because new schemes with varying features continue to be developed and implemented worldwide. If the IASB was to limit the guidance developed in this project to a specific type of scheme (such as cap and trade schemes), preparers may request additional guidance in the future because of the different characteristics of new schemes, or they may make inappropriate analogies to the limited guidance.
16. If the IASB agree to set the scope of the project broadly, we recommend that the title of the project is changed to reflect this. We suggest a title of “Emissions Management Schemes”.

Questions for the IASB

Question 1: Scope of the project

- a) Does the IASB agree with the staff recommendation to set the scope of the project broadly to encompass:
 - (i) a variety of schemes that involve the issue of allowances for emission reduction and absorption projects, as well as emission trading schemes? and
 - (ii) the accounting by emitters, traders and entities that carry out projects to reduce or absorb emissions?

b) Does the IASB agree with the staff recommendation to change the name of the project to “Emissions Management Schemes”?

Approach to the project

17. The staff recommend that the IASB approach the project decisions from a ‘fresh start’. The staff propose to use the research carried out in previous projects to support the work in the current project, but will ask the IASB to take decisions based on the current work. Previous decisions will not bind the direction of the project or the decisions of current IASB members.
18. In addition, the staff propose to work collaboratively with other Standard-setters to gather factual information about schemes and to do ongoing outreach to stakeholders. We have already received information and offers of assistance from some ASAF members in response to a short questionnaire that was sent to them in preparation for the December 2014 meeting.
19. We are also working collaboratively with the International Public Sector Accounting Standards Board (IPSASB). IPSASB has an active project on its agenda looking at the accounting implications of emissions trading and other schemes. That project will focus primarily on the accounting by scheme administrators (typically government bodies). However, many participants in emissions management schemes are government controlled entities and, consequently, the outcome of the IASB’s project is likely to have direct consequences for the work of the IPSASB.
20. The staff think that this collaborative approach will assist the IASB in identifying a more principle-based approach to the accounting for emissions management schemes. This will improve consistency in the accounting for such schemes and more faithfully represent their economic effect.

Questions for the IASB

Question 2: Approach to the project

- a) Does the IASB agree with the staff recommendation to take a 'fresh start' approach to the project?
- b) Does the IASB agree with the staff recommendation to work collaboratively with other Standard-setters to provide ongoing outreach during the research phase of the project?

Direction of the project

21. The staff recommends that the IASB develops a Discussion Paper as the first due process document in the project. We recommend that this outlines the common characteristics of a wide variety of schemes, the accounting issues raised and the possible accounting approach or approaches that could provide a faithful representation of the overall effects of the schemes identified.
22. To achieve this outcome, the staff recommend that the IASB do not restrict themselves to identifying separate assets and liabilities and how those separate elements are currently accounted for in accordance with existing Standards. Instead, we recommend that the IASB focus on the relationships between the rights and obligations created by the emissions management schemes identified and how best to reflect the combination of rights and obligations in IFRS financial statements.
23. For the avoidance of doubt, we do not recommend focusing only on accounting for, as a single line item, the net position of an entity subject to an emissions management scheme. Instead we recommend that the IASB also consider the possibility of accounting separately for the assets and liabilities created by the scheme, but using consistent recognition, measurement and presentation policies to avoid creating artificial mismatches.
24. In cases in which such assets and liabilities are already dealt with in existing Standards we recommend that the IASB focus on using the [developing] *Conceptual Framework* to identify how best to reflect the overall effects of the relationships between rights and obligations within the scheme. This approach

would allow the IASB to use the most up-to-date thinking about the *Conceptual Framework*, without being constrained by the accounting requirements that the IFRS Interpretations Committee were restricted to using in developing IFRIC 3.

Questions for the IASB

Question 3: Direction of the project

- a) Does the IASB agree with the staff recommendation to develop a Discussion Paper as the first due process output of the project?
- b) Does the IASB agree with the staff recommendation to focus on the accounting for the relationship between the rights and obligations created by the schemes, instead of focusing on the existing accounting for separate assets and liabilities within the scheme?

Next steps

25. If the IASB accepts the staff's recommendations, we expect to begin deliberations later in Q1 of 2015, with publication of the Discussion Paper targeted for the second half of 2015.