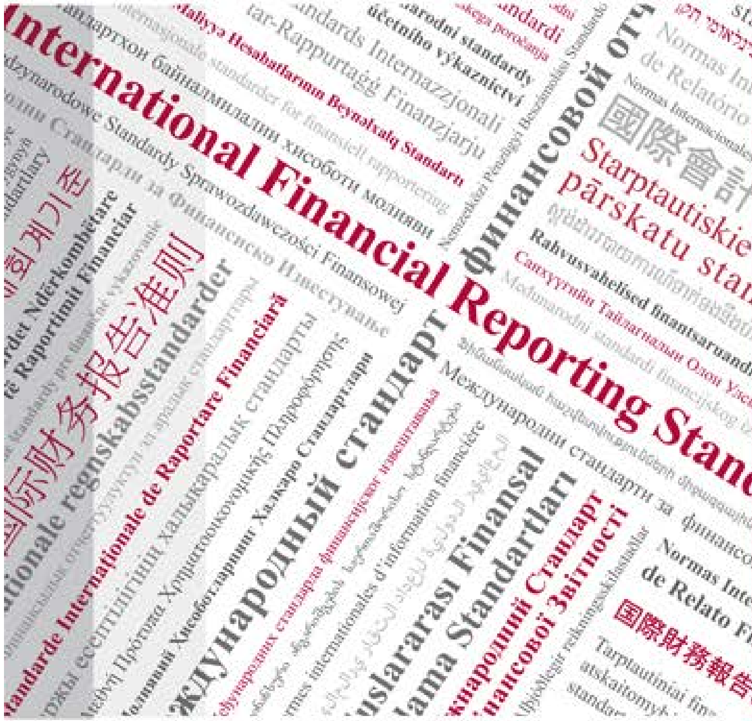
International Financial Reporting Standards



Joint CMAC and GPF meeting,
June 2015
Agenda Paper 4A

Pollutant Pricing Mechanisms
(formerly Emissions Trading Schemes)

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

Agenda

1. **Where are we in the project?**
   - **Purpose of this session**
2. Background on Pollutant Pricing Mechanisms
3. Questions for CMAC and GPF members

Where are we in the project?

- Early stages **January 2015—IASB decides to take a fresh start approach**
  - staff research: identifying the financial effects of various schemes and current accounting practices
  - wide variety of accounting methods used in financial statements
  - IASB has not yet issued a document for comment

- Previous project (2005-2010)
  - Began after the issue (2004) and withdrawal (2005) of IFRIC 3 *Emission Rights*
  - IASB made some tentative decisions about cap-and-trade issues but these will be revisited

Purpose of this session

- Generate discussion
- Gather ‘gut reactions’ and views about the financial effects of cap-and-trade type of emission trading scheme
- Consider issues about the nature of any assets and liabilities created, when they should be recognised and how they should be measured

Looking from a ‘fresh start’ perspective – so starting with a blank sheet of paper

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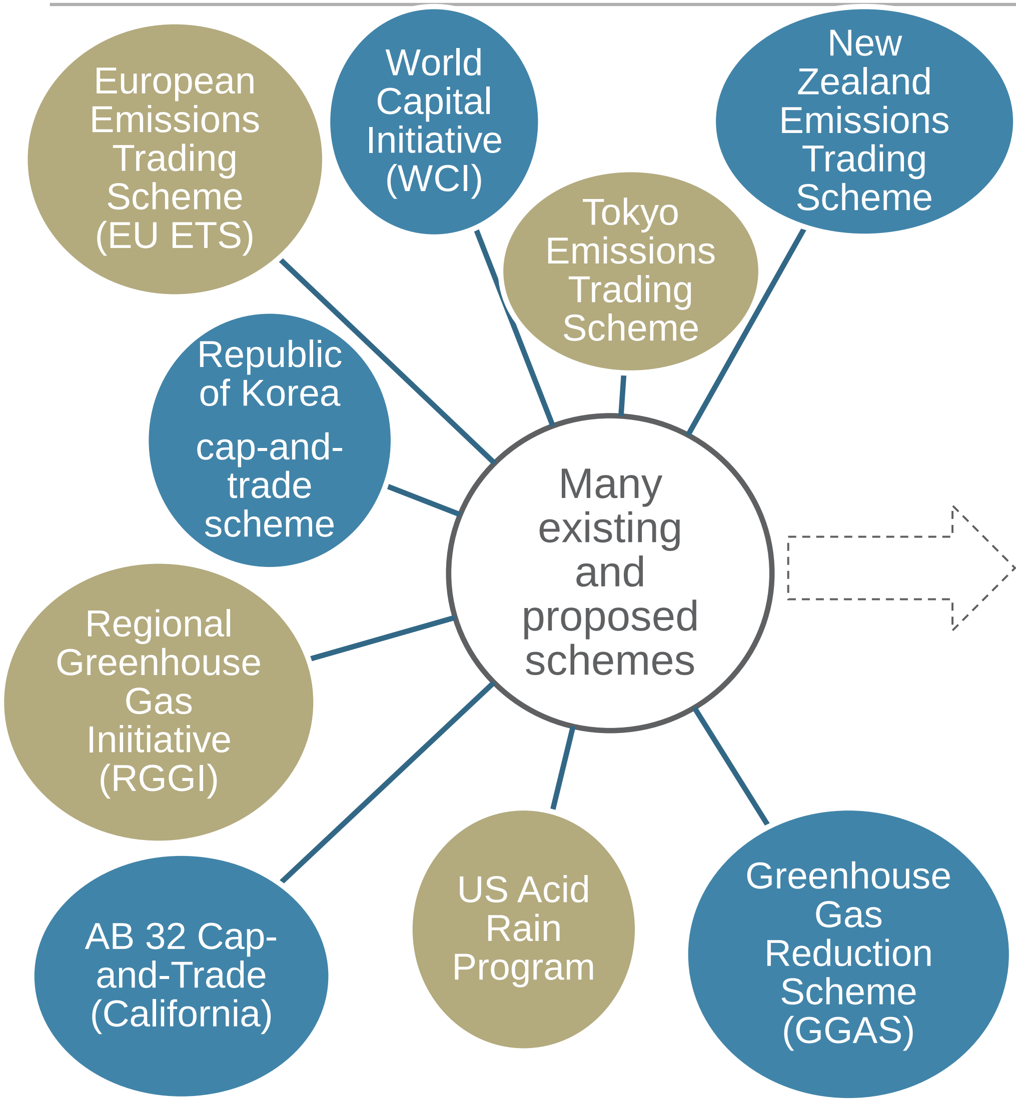
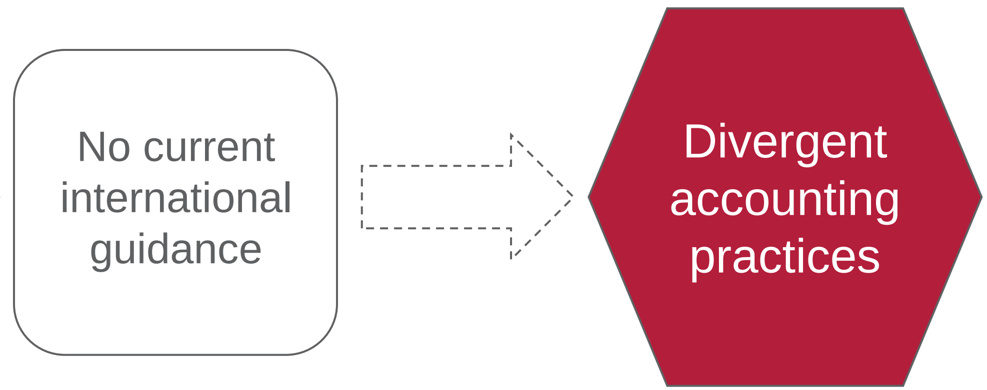
Pollutant pricing mechanisms

There are many emission trading schemes in place around the world. They differ in details but have many common features.





Cap-and-trade type of schemes

Common features of cap-and-trade emission trading schemes	
Overall cap (emissions target)	Total units of emissions (eg tonnes of CO_2) that may be released by all participants (emitters) within the commitment period over which emissions are to be reduced
Implementation of overall cap	Allocation or auction of allowances to individual participants up to overall cap. Typically issued in reducing instalments in each compliance year within the commitment period
Trading mechanism	Allowances are tradable. Allocations given only to participants, but trade may be with other participants or with non-participant traders
Remittance obligation	Allowances covering ***total*** emissions made during the compliance year

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Break-out session—Agenda Paper 4B

- Agenda Paper 4B contains a practical example of a simplified cap-and-trade type of emission trading scheme. It provides information about five entities, which have slightly differing fact patterns within the same emission trading scheme.
- We will break into four discussion groups:
  - Each group to focus primarily on one entity
  - Group leaders to report back conclusions to the whole group
  - All members are encouraged to comment on all examples

Practical example—Entity 1

- Scheme starts on 1 January 2015—5-year commitment period to reduce emissions by 20 per cent
- Reducing number of free allowances issued at the start of each compliance year
- Entity 1 receives allowances equal to expected (and actual) emissions: no trading
  - Overall, Entity 1 has no 'real' gain or loss during 2015
- In practice, many entities reflect this by:
  - Recognising allocated allowances and 'liability' at nil
  - Recognising allocated allowances and 'liability' at fair value

Practical example—Entities 2 - 5

- Each group to consider one primary example, with a comparison to Entity 1
  - Entity 2 receives allowances equal to expected emissions: trades some allowances
  - Entity 3 receives allowances that are less than expected emissions: needs to purchase more
  - Entity 4 receives allowances that are more than expected emissions: retains the surplus hoping that production levels will return to prior levels (with a consequential increase in emissions)
  - Entity 5 implements plans to reduce emissions and sells the surplus

Questions for CMAC and GPF members

- What ***elements*** do you think an entity should recognise in its financial statements for a cap-and-trade scheme?
  - Allowances
    - what type of **asset**?
  - What are the obligations/**liabilities**?
    - when do they arise?
- When would you ***recognise*** the assets and liabilities?
- How would you ***measure*** the assets and liabilities?
- What **gains** and **losses** would you report and when?

Project information

- **Project page:** http://go.ifrs.org/Emissions-Trading-Schemes

Project contacts:

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Thank you


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