

STAFF PAPER**October 2015****IASB Meeting—Education session**

Project	Pollutant Pricing Mechanisms		
Paper topic	Project overview		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. The purpose of this education session to provide:
 - (a) an overview of the current status and objective of the Pollutant Pricing Mechanisms (PPM) project; and
 - (b) an outlook about the topics to be discussed in the project. This is presented in two parts:
 - (i) a high-level overview of the issues to be covered in the Discussion Paper; and
 - (ii) a more detailed overview of the cap-and trade emissions trading scheme (ETS) issues to be discussed.
2. The overview of the cap-and trade ETS issues is presented to help the IASB appreciate the interactions between the different aspects of any possible accounting model and how decisions about one aspect may affect the decisions needed in other aspects. The presentation also highlights how some aspects could affect decisions needed for other types of PPM.
3. Staff will present more detailed papers about each aspect at future decision-making sessions of IASB meetings.

Project overview

4. There is currently no guidance in IFRS for the accounting for PPM.
5. The objective of the project is to develop an analysis of the common economic characteristic of a variety of PPM that put a price on the volume of greenhouse gases or other pollutants emitted (or captured).
6. The project is focussing on the accounting by participants in the schemes; that is by entities that emit or capture the specified pollutants and are subject to the terms and conditions of authorised PPM. We will identify the financial effects of a variety of mechanisms and how those effects could best be reflected in IFRS financial statements.
7. The current plan is to develop a Discussion Paper for publication in the first half of 2016.
8. The International Public Sector Accounting Standards Board (IPSASB) is also conducting research in this area because PPM are usually designed and administered by government or by a government-appointed designated body, termed a scheme administrator. The IPSASB aims to publish a Consultation Paper within a similar timeframe.
9. The IPSASB Consultation Paper will focus primarily on the accounting by government and scheme administrators but will also consider the accounting by participants, some of whom will be government departments or enterprises.
10. IASB staff and IPSASB staff are collaborating and sharing findings. We will compare the financial effects of the schemes on both government and participants. This will support an analysis of the implications of any IPSASB proposals for the accounting by government on any proposed model that is developed by the IASB for participants. In the analysis we will consider whether symmetry of accounting treatment is relevant.

Current project status

11. The project is currently classified as an assessment stage project within the research programme. Our research so far has identified that there is a financial

reporting problem but we are still establishing the significance of the problem and whether a viable accounting model can be developed.

The financial reporting problem

12. A previous project to develop guidance to be applied to cap-and-trade types of emissions trading schemes (ETS) was suspended in November 2010. Since then, diversity in how such schemes are accounted for has been identified. It is likely that diversity in how other types of PPM are accounted for also exists, but further research is needed to identify the extent of any such diversity.

Identifying a viable model

13. Staff are currently assessing a variety of possible accounting approaches to be included in the planned Discussion Paper. We are currently focussing on developing a possible accounting model for cap-and-trade types of ETS before moving on to consider whether the principles identified could be applied to other types of PPM.
14. Our initial outreach and discussions with the IASB and three of its advisory bodies (see paragraph 16) have identified that, although there is no clear consensus for a particular model, some preferences are emerging for particular aspects of a possible model. These preferences reflect views about the economics of the cap-and-trade ETS and how to faithfully represent the resulting financial effects in a way that is relevant to users of financial statements and that is understandable.
15. Through the slide presentation in Agenda Paper 6A, we will highlight the preferences and outline some of the issues arising from them. We will bring further analysis to a subsequent IASB meeting before asking the IASB to decide which possible model, if any, the Discussion Paper should focus on as a ‘preferred model’.

Outreach and discussions

16. So far, we have received input on issues and possible accounting guidance through the following meetings with the IASB and its advisory groups:

- (a) IASB meetings in November 2014 (education session), January 2015 and June 2015;
- (b) Accounting Standards Advisory Forum (ASAF) meetings in December 2014, July 2015 and October 2015;
- (c) Global Preparers Forum (GPF) meeting in November 2014; and
- (d) Joint Capital Markets Advisory Committee (CMAC) and GPF meeting in June 2015.

Project outlook—planned contents of the Discussion Paper

17. We have identified the following areas that we think need to be included in the planned Discussion Paper:

- (a) Comparison of types of PPM;
- (b) Economic drivers and financial effects of the different types of PPM;
- (c) Comparison of possible models for a cap-and-trade type of ETS:
 - (i) Recognition and measurement of the liability or liabilities arising from the entity's obligation to remit allowances as a result of emitting pollutants;
 - (ii) Recognition and measurement of allowances;
 - (iii) Reflecting the 'economic hedge' between the liability and allowances held; and
 - (iv) Summary of principles identified and how they relate to the *Conceptual Framework for Financial Reporting* and requirements in existing Standards.
- (d) Analysis of whether the possible models for cap-and-trade ETS could be adapted for other types of schemes:
 - (i) Baseline-and-credit ETS;
 - (ii) Clean Development Mechanism (CDM) and similar incentive schemes;
 - (iii) Carbon-capture type schemes; and
 - (iv) Carbon taxes or levies.

- (e) Consideration of whether any proposed model could be achieved through amendments to, or an Interpretation of, existing Standards or whether a new Standard would be needed; and
- (f) Consideration of the implications of any IPSASB proposals for the accounting by government and scheme administrators, in particular whether symmetry of accounting treatment is relevant.

Project outlook—issues regarding cap-and-trade type ETS

18. The slide presentation contained in Agenda Paper 6A outlines some of the issues identified so far regarding cap-and-trade ETS. The staff will be seeking decisions about these issues from the IASB in subsequent meetings. During this meeting, we will walk IASB members through the issues as an Education session, highlighting the potential implications of decisions on other areas of the project. The issues can be grouped into the topics listed in paragraph 17(c).

Questions for the IASB

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1. Do IASB members have any comments or questions about the overall contents of the planned Discussion Paper?
2. Do IASB members have any comments or questions about the issues raised in the Agenda Paper 6A regarding the possible model(s) for cap-and-trade type ETS?

Appendix: Cap-and-trade ETS—topics to be considered

