

## Agenda Item 3: Emissions Trading Schemes

John Stanford, Deputy Director

IPSASB Meeting

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# Objective of Session

- Approve project brief on Emissions Trading Schemes

# Accounting for Emissions Trading Schemes:

## Section 1 (1)

- **Objective:** Develop requirements and guidance on accounting for Emissions Trading Schemes (ETS)
- Joint project with the IASB, with the IPSASB to take lead on requirements and guidance relating to public sector administrators of statutory ETS
- IPSAS and IFRS do not address accounting for ETS
- IFRIC 3, *Emission Rights*, addressed some aspects of ETS schemes in the EU, but withdrawn in 2005
  - Links to Conceptual Framework

# Accounting for Emissions Trading Schemes: Section 1 (2)

- IASB initiated a project in 2007
  - Joint project with the FASB
  - Staff research paper developed and discussed in 2010
  - Project deferred in November 2010
  - March 2012 IASB Staff Presentation on ETS at IPSASB's meeting
  - May 2012; ETS was added to the IASB's research agenda
- IASB staff research paper identified two main types of ETS:
  - Cap and trade systems
  - Baseline and credit schemes

# Accounting for Emissions Trading Schemes: Section 1 (3)

- Statutory vs. non-statutory ETS
  - Statutory ETS participation is mandatory
  - Non-statutory ETS participation is voluntary
- IASB DP, *A Review of the Conceptual Framework for Financial Reporting*
  - Consideration in context of obligations when eventual need to transfer resources depends on entity's future actions
  - IASB has not formed a view on when eventual need to transfer resources depends on entity's future actions gives rise to liability
  - IASB has rejected view that obligations must be strictly unconditional in order for a liability to exist

# Accounting for Emissions Trading Schemes:

## Section 1 (4)

- In response to Kyoto Protocols, many governments have introduced ETS
  - 37 industrialized countries and the EU committed to binding targets for greenhouse gas emissions (US did not ratify and Canada withdrew in 2011)
  - First commitment period covered from 2005-2012
  - Second commitment period covers from 2013-2020 (not yet legally ratified)
- ETS project will consider whether Kyoto Protocol and other treaties or accords give rise to liabilities for national governments

# Accounting for Emissions Trading Schemes: Section 1 (5)

- Project will consider accounting treatment for the situation when the government is the administrator of ETS and when a public sector entity is a participant in ETS
- Similarities with the IPSASB's approach to service concession arrangements
  - IPSASB adopted a control model approach and “mirrored” the requirements for operators in IFRIC 12, *Service Concession Arrangements*

## Project Rationale and Objectives: Section 2 (1)

- Public Sector Specific Issues
- Diversity in practice of how to account for ETS
- Gap in literature
- Issues Identified-Administrators
  - Do Kyoto Protocol Units (KPU)s issued to national governments meet the definition of an asset
  - If KPUs are an asset what is the nature of the asset and how should they be measured
  - Do obligations under the Kyoto Protocol and other treaties/accords give rise to liabilities
  - Do allowances to emit issued to participants without charge give rise to an expense and liability of the administrator
  - Does revenue arise when participants surrender allowances to the administrator



## Project Rationale and Objectives: Section 2 (2)

- Issues Identified-Participants
  - Are allowances and baselines assets of the participant entity?
  - How should assets be measured (at initial recognition and subsequently)?
  - Does the manner in which a participant acquires allowances impact measurement (purchased vs. allocated)?
    - Note intention in EU ETS to move to auctions rather than free allocations
  - When should a liability be recognized for emissions in excess of allowances or baselines (incurred vs. expected basis)?
  - Should the presentation of assets and liabilities be on a gross, net or linked basis?

## Project Rationale and Objectives: Section 2 (3)

- Objectives
  - Consultation Paper: Phase 1
  - Exposure Draft: Phase 2
  - IPSAS: Phase 3
- Link to IFAC and IPSASB Strategic Plans
  - Public sector critical project
  - Commitment to development, implementation & adoption of international standards
  - Enhanced focus on public sector financial reporting

## Key Issues: Section 3 (1)

- Key Issue 1: Scope of ETS covered
  - Are there other types of schemes that should be in scope other than cap and trade and baseline and credit (command and control)?
- Key Issue 2: Timing of recognition and appropriate measurement of obligations and liabilities
  - When do liabilities arise for participants and administrators and how should they be measured?
- Key Issue 3: Timing of recognition and appropriate measurement of assets
  - When do assets arise for different ETS and how should they be measured?

## Key Issues: Section 3 (2)

- Key Issue 4: Disclosure requirements
  - What disclosures should be required for administrators and participants?

# Implications for Specific Person or Group: Section 4

- IASB
  - Agreed that the first phase will be a joint project with the IASB.
  - ETS on IASB's research agenda
  - No current intention to elevate to active agenda
- Other IPSASB Standards, Projects
  - IPSAS 23 and IPSAS 31
  - Conceptual Framework: Elements & Recognition, Measurement Phases in particular
- Other-Government Finance Statistics
  - Approaches in GFSM

## Timetable: Section 5

Project Milestones	Expected Completion
Project Brief	December 2013
Consultation Paper Approval	December 2014
Exposure Draft Approval	March 2016
IPSAS Approval	Late 2016/Early 2017

## Factors Related to Complexity and Length: Section 6

- Working with the IASB will require detailed planning, coordination and communication
  - IASB has not yet allocated a staff member
- Wide range of ETS and the extent to which these can be classified to provide relevant information to users
- Lack of existing guidance on ETS, particularly related to administrators
- Interaction between this project and the development of the Conceptual Framework

## Important Sources of Information: Section 7

- Draft IASB staff research paper developed in 2010
- The Financial Statements of the Government of New Zealand
- Controller and Auditor-General of New Zealand, *The Emissions Trading Scheme-Summary Information for Public Entities and Auditors (2011)*
- Parliament of Australia, Issues Paper, *Emissions Trading Schemes Around the World (2012)*
- European Commission, Fact Sheet, *The European Union ETS (2013)*
- Government Finance Statistics Manual 2001 (under revision)
- System of National Accounts 2008
- European System of Accounts





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