Agenda Item 3: Emissions Trading Schemes

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IPSASB Meeting
December 2-5, 2013
Ottawa, Canada
Objective of Session

- Approve project brief on Emissions Trading Schemes
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IFRIC 3, *Emission Rights*, addressed some aspects of ETS schemes in the EU, but withdrawn in 2005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
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
Emissions Trading 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

  – 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
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*
• Public Sector Specific Issues
• Diversity in practice of how to account for ETS
• Gap in literature
• Issues Identified-Administrators
  • Do Kyoto Protocol Units (KPUs) issues 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
• **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

<table>
<thead>
<tr>
<th>Project Milestones</th>
<th>Expected Completion</th>
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<tbody>
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<td>Project Brief</td>
<td>December 2013</td>
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<tr>
<td>Consultation Paper Approval</td>
<td>December 2014</td>
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<tr>
<td>Exposure Draft Approval</td>
<td>March 2016</td>
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<tr>
<td>IPSAS Approval</td>
<td>Late 2016/Early 2017</td>
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 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
- System of National Accounts 2008
- European System of Accounts