IPSASB International Public Sector Accounting Standards Board

529 Fifth Avenue, 6th Floor, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org

Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 11**	For:
Meeting Location:	Toronto, Canada		☐ Approval
Meeting Date:	June 23–26, 2015		☒ Discussion
			☐ Information

Emissions Trading Schemes

Objectives of Agenda Item

1. The objective of this session is to provide direction on development of an Emissions Trading Schemes consultation paper.

Materials Presented

Agenda Item 11.1	Issues Paper

Actions Requested

2. The IPSASB is asked to discuss the issues identified and provide direction on further development of an Emissions Trading Schemes consultation paper.

Objectives of this Paper

1. This paper identifies issues for development of the consultation paper (CP) on accounting for Emissions Trading Schemes (ETSs). Staff seek direction from the IPSASB on these issues.

Background

2. The ETS project was activated in September 2014. The International Public Sector Accounting Standards Board (IPSASB) had an education session on ETSs at its December 2014 meeting. In March 2015 the IPSASB provided direction to staff for development of the CP, which included direction on the CP's structure, and support for a generic approach to different types of ETS and identification of the key factors relevant to ETS accounting. The IPSASB also directed that the project's scope should remain focused on accounting for ETS involvement. The project's scope does not include related accounting issues such as environmental accounting, accounting for carbon taxes, or possible impairment of operational assets due to introduction of an ETS.

3. The Task Based Group (TBG) is Aracelly Mendez, Angela Ryan, Fabienne Colignon (Conseil de Normalisation des Comptes Publics (CNOCP)) and Martin Koehler (European Commission (EC)).

Collaboration with IASB Staff and Recent IASB Developments

4. Development of the CP involves collaboration between IPSASB and International Accounting Standards Board (IASB) staff. The IASB project is now named the "Pollutant Pricing Mechanisms" project, but remains focused on ETSs. The project aims to develop an IASB discussion paper that addresses financial reporting by ETS participants.

5. The IASB did not discuss ETS accounting at its April and May meetings. The IASB is expected to discuss ETS issues at its June 2015 meeting (22 to 26 June). IPSASB staff liaised with IASB staff and had input into identification of accounting alternatives for ETS participants, which will be discussed at the June IASB meeting. The four participant accounting approaches, for IASB consideration in June, are expected to be the same as those identified in this IPSASB issues paper.

Overview of Issues

6. The CP will discuss alternative accounting approaches for ETS administrators and participants, and include a Specific Matter for Comment (SMC) requesting constituents' views on each set of approaches. Therefore, the first two issues on which staff requests the IPSASB's direction are:

   (1) Administrators—Alternative accounting approaches and their evaluation; and

   (2) Participants—Alternative accounting approaches and their evaluation.

7. Each of the first two issues section of this paper identifies the alternatives, proposes criteria for their evaluation and then provides a preliminary discussion of the alternatives. Separation of these discussions into those for administrators (Section 1) and those for participants (Section 2) should facilitate the IPSASB's focus on each perspective.

8. A third issue raised is whether the CP should discuss the following two related issues:

   (a) Accounting for the impact of international agreements to achieve emissions reduction; and,

(b) Accounting by an “administrative agent” responsible for administering an ETS.

Further Overview Information on the Issues

9. Staff and the TBG consider that IPSASB members’ views on the three administrators’ accounting approaches is the highest priority. This is because:

   (a) The majority of administrators are public sector entities;

   (b) Administrators’ ETS involvement raises different issues from those raised by participants’ ETS involvement; and

   (c) Development of accounting approaches for administrators is at an earlier stage compared to ETS participants.

10. By contrast, the IASB’s past considerations of participants’ accounting provides an important resource for their identification.

11. The IPSASB’s direction is requested as follows:

    Section 1: Administrator’s ETS involvement (Page 5)

    (1) The IPSASB is asked to indicate whether the CP should include

      (a) All three administrator accounting approaches identified;

      (b) Any further administrator accounting approach; and

      (c) The proposed evaluation criteria.

    (2) Staff also requests the IPSASB’s views on staff’s initial support for Approach 3, *Revenue*.

    Section 2: Participants’ ETS involvement (Page 15)

    (3) The IPSASB is asked to indicate whether the CP should include

      (a) All four participant accounting approaches identified;

      (b) Any further participant accounting approach; and

      (c) The proposed evaluation criteria.

    (4) Staff also requests the IPSASB’s views on staff’s initial support for Approach 4.

    Section 3: International Agreements and Administrative Agents (Page 23)

    (5) The IPSASB is asked to indicate whether the CP should discuss (i) criteria that indicate creation of an ETS, and (ii) criteria to identify an entity’s involvement with an ETS (as an administrator, administrative agent or participant) with reference to:

      (a) International agreements such as the Kyoto Protocol; and

      (b) EU Member States’ responsibilities for administering the EU ETS.

Proposed Criteria to Evaluate the Alternative Accounting Approaches

12. The following criteria are proposed for the evaluation of each accounting approach:

    (a) Provides useful information on the financial impact of the economic phenomenon;

(b) Consistent with the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework), particularly the objectives of general purpose financial reporting (GPFR), the qualitative characteristics and constraints, and the Conceptual Framework coverage of financial elements and measurement;

(c) Consistent with International Public Sector Accounting Standards (IPSASs) that could apply either directly or by analogy, given the economic phenomenon;

(d) Consistent with International Financial Reporting Standards (IFRS) developments for ETS accounting and provides scope to reduce unnecessary differences between Government Financial Statistics (GFS) reporting guidelines and IPSASs.

Symmetry as an Evaluation Criteria

13. The evaluative criteria above do not include symmetry. At this stage, staff and the TBG have not focused on ensuring symmetry between the different administrator and participant accounting approaches. Financial accounting is not constrained by symmetry, although symmetry between different parties within the economy is a critical concern for statistical reporting. If necessary the question of symmetry can be further explored after developing the standalone approaches for administrators and participants. In the event the approaches included in the CP are asymmetrical, the CP could discuss this point as it applies to accounting for ETS involvement.

Initial Evaluation of Approaches and IPSASB Preliminary View(s)

14. This issues paper includes an initial evaluation to illustrate the application of these proposed criteria and to elicit IPSASB members' views on both the proposed criteria and the alternative accounting approaches. If IPSASB members are prepared to provide an early indication of whether any particular accounting approach is preferred, based on this very preliminary evaluation, then that would be helpful for developing the draft CP, which could include preliminary views on the approach for administrators and for participants, which would then be discussed at the IPSASB's September 2015 meeting.

15. This paper has four appendices, which provide the following information:

(a) Appendix A: IASB Meetings—A list of IASB meetings that have discussed ETS issues, which includes links to the relevant IASB meeting papers (page 26);

(b) Appendix B: Conceptual Framework coverage relevant to accounting for ETSs (page 28);

(c) Appendix C: Listings of active ETSs and those where public sector entities apply IPSAS–similar accounting standards (page 34); and

(d) Appendix D: Accounting entries for the three administrator approaches (page 36).

16. The next section describes the key steps in ETS involvement from the ETS administrator's perspective, as further background relevant to the issues sections.

Background: The Administrator's Involvement with an ETS

17. An ETS administrator is responsible for creating and then administering an ETS. The administrator administers the ETS either directly or through an administrative agent. An ETS reduces pollutants by making their emission costly. What would otherwise be a "free good"—i.e. an entity's ability to

emit gas into the atmosphere—becomes a limited, tradable right, which is represented by an "emission allowance" (EA). Participant entities must have sufficient EAs to cover the volume of pollutants that they emit.

Step (1) The Administrator Creates and Issues Emission Allowances (EAs)

18. The administrator decides the quantity and characteristics of EAs available to ETS participants. An EA is a tradable right to emit a certain volume of pollutants. It usually has a determinable market value, which fluctuates. For example, the Province of Quebec has established an ETS where each EA covers 1,000 tonnes of greenhouse gases (GHGs). The market value for these EAs is presently around CAN$15,000 per EA, so the market values the right to emit a tonne of GHGs at CAN$15[1].

19. The cost of creating EAs is immaterial, since EAs are non-physical items that only exist as data recorded in an electronic register (information system).

20. An EA will usually apply to a particular period of time—the "compliance period". The administrator issues EAs at the start of the compliance period[2]. After the end of the compliance period ETS participants must provide the administrator with sufficient EAs to cover their emissions during the period. In some ETSs unused EAs from one period might be reused in a future period, thus extending the "life" of the EAs.

21. The administrator chooses the parameters of EA issuance. EAs can be issued to ETS participants free of charge (a transfer, at nil cost to the participant) or through a pricing mechanism set by the administrator. The price could be subsidized when compared to how much an EA would cost to purchase in the market place. The administrator may choose to auction the EAs, so that their price is determined by supply and demand. An administrator may use a mixture of all three approaches; transfer at nil cost, sale at a specified price, and sale by auction. EAs may be issued exclusively to participants, or issued to a mixture of participants, other administrators and the general public, which could include institutions trading in EAs or individual investors.

Step (2) During the Compliance Period—The Administrator Monitors Emissions

22. During the compliance period the administrator monitors emissions, as ETS participants carry out activities that cause gases such as carbon dioxide to be emitted. At the end of the compliance period the administrator will have a record of how many EAs each participant must submit in order to cover the quantity of gases emitted. In some cases (for example, the EU ETS) the emissions in excess of EAs may be rolled forward to the next period with a penalty.

23. During the compliance period participants will incur obligations to submit EAs to the administrator as they emit target gases. Participants and other entities will hold, buy and/or sell EAs[3].

---

[1] The Toronto Star, (2015) *Quebec's cap-and-trade system,* April 2015.

[2] To simplify this discussion the compliance period is assumed to be a calendar year, with entities' reporting period being the same calendar year. EA issuance occurs at the start of the compliance period, while EA receipt by the Administrator occurs at the end of the compliance period. In fact issuance is usually before the compliance period, while receipt occurs during a "reconciliation period", which follows the compliance period and could be one or two months in duration.

[3] For a baseline–and–credit ETS the period in which participants can trade their emission rights is limited. Trading occurs during the reconciliation period, when participants have either a surplus or a deficit of emission rights, depending on the difference between their baseline (level of emissions allowed) and their actual emissions.

Step (3) The Administrator Receives Emission Allowances from ETS Participants

24. At the end of the compliance period the administrator will receive EAs from participants. As each participant submits[4] sufficient EAs to cover their emissions the administrator notes that the participant has discharged its obligation to submit EAs. If a participant fails to submit sufficient EAs to cover actual emissions, then the administrator will apply penalties, such as fines. In effect, the EAs applicable to that compliance period are cancelled as they are received by the administrator.

Issue 1: Administrator's ETS Involvement—Alternative Accounting Approaches

Overview of Administrator Issues

25. An administrator's ETS rights and obligations, if any, would arise from:

    (a) Creation and issuance of EAs;

    (b) Rights to receive EAs back from ETS participants, as ETS participants emit pollutants during an ETS compliance period; and

    (c) Receipt of EAs from participants, at the end of an ETS compliance period.

26. The ETS project brief also identified two key questions on administrators' involvement with an ETS:

    (a) Do allowances (baselines) to emit that are issued to participants without charge give rise to an expense and liability of the administrator? If so, how should such liabilities be measured and at what point does the expense/liability arise?

    (b) Does revenue arise when participants surrender allowances to the administrator? If so, what is the timing of the recognition of such revenue?

Three Alternative Accounting Approaches

27. Three alternative accounting approaches have been identified for the administrator's involvement with the ETS that it administers:

    (a) Approach 1, *Financial Liability*: Administrator recognizes a financial liability when EAs are issued. (EAs are similar to currency in circulation.)

    (b) Approach 2, *Intangible Asset*: Administrator creates intangible assets when it creates EAs, and then recognizes either an expense (transfer to ETS participants for no charge) or revenue (gain on sale). (EAs are viewed as similar to permits to engage in activities.)

    (c) Approach 3, *Revenue*: Administrator views EAs as a regulatory tool (no liability, no asset). The only financial impact is revenue received, if EAs are sold. Revenue is equivalent to cash received.

28. During development of this issues paper, staff and the TBG considered a fourth approach:

    Approach—Split Asset: This is the GFS reporting guidelines approach, which treats EAs as splitting into a financial instrument (similar to Approach 1) and, for the ETS participant or trader, a "non-

[4] Depending on how an EA is viewed, the word "submit", could be replaced with the word "redeem" which suggests the return of a voucher or the word "repatriate" which suggests that an item is returned to its original owner.

produced non-financial asset" (NPNFA). The financial instrument is valued at selling price and is unaffected by market value changes. Cash received on sale is treated as a prepayment of tax.

29. Based on TBG comments received, staff formed the view that this approach is, from the administrator's perspective, equivalent to Approach 3, *Revenue*. On that basis staff recommends that the split asset approach be discussed in the CP, but not be proposed as an alternative accounting approach for constituents' consideration.

Measurement

30. Applying different measurement bases generates further sub-options for these approaches. Measurement could take, broadly speaking, either a:

    (a) *Cost-based approach*—financial elements (assets or liabilities) are measured at cost of production or cost to the EA recipient if sold; or

    (b) *Market-based approach*— financial elements are measured at market value.

31. Further information on each of these accounting approaches is provided below.

Identification, Discussion and Evaluation of Each Accounting Approach

32. These three accounting approaches were identified by considering the following:

    (a) Two accounting approaches considered by the New Zealand government during development of its ETS–administrator accounting treatment:

        (i) Financial liability[5]—currency (preferred approach, used in practice); and

        (ii) Intangible asset.

    (b) Considerations of an OECD–Eurostat Task Force, formed for the purpose of developing GFS reporting guidelines applicable to ETSs[6]. The Task Force identified two preferred ETS accounting treatments:

        (i) Financial liability[7]; and

        (ii) Split asset (preferred approach, used for GFS reporting purposes);

    (c) The United Kingdom government's reporting of its involvement in the EU ETS, where revenue from auctioned EAs is recognized when sale occurs.

    (d) The CNOCP's Standard 21, *Greenhouse Gas Emission Allowances*[8], which addresses accounting by a national government (the French State) as an administrative agent acting on behalf of the EC.

---

[5] This approach has been described as the "financial asset" approach. The term used here is "financial liability" because the impact from the administrator's perspective is to issue currency or a debt instrument. The administrator recognizes a financial liability on EA issuance.

[6] OECD/Eurostat Task Force (2010) *OECD/Eurostat Task Force on the Treatment of Emission Allowances and Emission Permits in the National Accounts Final Report*, October 2010

[7] See footnote 5. The Task Force uses the term "financial asset". The price paid for EAs is viewed as payment for a financial asset (a transaction in government securities) with a resulting increase in the government's total financial liabilities. [Page 42, Task Force report.]

33. Compared to participants' accounting, there appear to be relatively few examples of administrators' accounting internationally to draw from[9]. Staff have only identified two alternative approaches that occur in practice (Approach 1 and Approach 3). One further approach (Approach 2, *Intangible Asset*) has not been found in use, although it was considered a viable alternative by New Zealand Treasury representatives during development of the New Zealand government's accounting policy for ETS. Staff considers that it is worth proposing as an alternative for consideration in the CP, because EAs do, arguably, have the characteristics of government–created intangible assets such as permits or licences.

34. Table 1 below, on page 10, provides a summary of how each approach accounts for the main administrator transactions and events. Appendix D provides the accounting entries (debits and credits) for each approach. Further description and discussion is provided below.

Approach 1, *Financial Liability*[10]

35. In Approach 1, *Financial Liability,* EAs are viewed as similar to currency issued and in circulation. The EAs are initially treated as a type of inventory, with their initial value being very low, because inventory is measured at cost of production and those costs are very low.

36. When the administrator issues EAs the administrator recognizes a liability, because the administrator is required to repatriate (or redeem) EAs for their emissions value. The EAs can be used by entities to meet their emission obligation (payments denominated in EAs) to the administrator. Like currency, no interest is paid on this financial liability. However, unlike currency, EAs are likely be repatriated (or redeemed) in full at some stage, although EAs may remain in circulation among participants for long periods of time. With currency, it is highly unlikely that the issuer will ever be paid out the financial liability in full, because there is always going to be a minimum amount of cash required in the financial system.

37. When a government issues currency to a bank, there is usually an exchange of value through consideration. That transaction is similar to an ETS participant acquiring EA's from the administrator at fair value. However, the issuance of EAs free of charge represents a subsidy that the administrator is providing to participants to mitigate the economic consequences that will be associated with emissions. In this respect it has the same economic impact as any subsidy or grant and the accounting treatment should be similar.

38. During the compliance period the administrator accrues emissions levy revenue and recognises a receivable from the participant through its sovereign power. The receivable reflects the administrator's right to be reimbursed for certain emissions. The timing of revenue recognition will be based on when the activity giving rise to the emissions—and therefore the participant's liability—occurs. (The emissions activity is similar to a taxable event.) If it is not possible to reliably estimate emissions at the 'taxable event' moment, then revenue recognition will be delayed until an

---

[8] CNOCP Opinion No. 2015–01: Standard 21, *Greenhouse Gas Emission Allowances*, was issued in April 2015. Standard 21 is available from this site: http://www.economie.gouv.fr/cnocp-en

[9] Of 17 functioning ETSs worldwide, there are seven ETSs where governments report on an accruals basis. The seven include subnational ETSs in Canada, Japan and America, national ETSs in Kazakhstan, Switzerland and New Zealand, and the EU ETS, which covers 28 national governments.

[10] The name "Approach 1, *Financial Liability*" is provided to support initial understanding of the approach. This is not intended to imply that EAs are actually a type of financial instrument.

emissions return is received and the administrator has assessed the obligation to surrender EAs. In that situation, the actual surrender of EAs to the administrator may occur later.

39. When EAs are surrendered to the administrator, the outstanding sovereign receivable is settled. The EAs operate as an acceptable medium of exchange for settlement of participants' emission obligations. Also, as a result of the EAs being surrendered, the administrator's EA financial liability is extinguished. The extinguishment of the financial liability on surrender of EAs is similar to when a bank surrenders currency to a Central Bank in exchange for other consideration. However, in the case of EAs, the settling of the participant's emission obligation is the consideration received by the participant in exchange for surrendering the EAs.

Approach 2, *Intangible Asset*

40. In Approach 2, *Intangible Asset,* EAs are viewed as similar to government created intangible assets such as permits or licenses. EAs embody rights to undertake economic activity, where a target group (the ETS participants) could potentially benefit from possessing those rights. As for Approach 1, the initial value of the EAs will be close to zero if measured at cost, because production costs will be very low. EAs are controlled by the administrator, are capable of being sold—which means that they can generate future economic benefits—and they can be reliably measured either at their historical cost or market value.

41. After creating the EAs the administrator then either transfers or sells them to ETS participants. Depending on the measurement basis used and the payment received (which could be somewhere between zero and the market value of the EA), the administrator may report either an expense (loss on transfer), revenue (gain on sale) or no change (transferred at value). There are two differences for this step between Approach 1 and Approach 2:

    (a) Approach 1 recognizes a liability for EAs at this point, while Approach 2 will no longer have an EA asset, so nothing recognized other than the gain/(loss) on transfer; and,

    (b) The liability recognized under Approach 1 will then remain in the administrator's books, waiting to be extinguished when participants submit their EAs. Under Approach 2 the administrator ultimately receives EAs to cover participants' obligations—see below.

42. As participants emit pollutants, they owe more and more EAs to the administrator. The administrator recognizes revenue and assets (EAs to which the administrator has rights). At the end of the compliance period, participants submit (or redeem) the necessary number of EAs, which then are held by the administrator. At this point the value of EAs is extinguished, as though the end of the compliance period acts as an immediate impairment equivalent to their total value.

Approach 3, *Revenue*

43. Approach 3, *Revenue*, reports revenue if the administrator sells EAs. This approach does not see any assets or liabilities arising from an administrator's holding of EAs, issuance of EAs, or rights to receive EAs from participants.

44. Approach 3, *Revenue*, seems focused on the administrator's use of an ETS to achieve public policy aims. The only value of EAs is their role as part of the ETS apparatus. Any economic benefits (cash flows) generated from issuing EAs are peripheral to the ETS's public policy aims to:

(a) Reduce emission of pollutants and carbon dioxide production, as an interim step to protect the environment and preventing global warming.

(b) Create a situation whereby emissions are costly to participant entities and they have economic incentives to reduce their emissions or otherwise reduce the amount of certain gases in the atmosphere.

45. Benefits to the administrator arise from the whole public policy initiative; policy development, legislation, initiation, monitoring, enforcement, etc. EAs are one small part of the whole. The administrator requires participants to submit EAs to cover their emissions. The number of EAs available is restricted, so that EAs are expected to be valuable items to participants. But the primary value of EAs to the administrator is as a public policy instrument. Any cash flow generated from auctioning EAs is peripheral to the administrator's aims in setting up the ETS. An EA submitted to the administrator does not hold future economic benefits or service potential. When the EA is issued, the administrator is not worse off and has no liability.

46. For the administrator, a well-functioning market for EAs could achieve public policy aims without generating any cash flows. However, increasingly administrators are using EA issuance to generate revenue. The revenue received is often then used on other emission reduction interventions.

Measurement in each Accounting Approach

47. With respect to measurement, Approach 1, *Financial Liability*, as practised by the New Zealand government, uses fair value measurement. The value of EAs on issuance is treated as their fair value (market value), with the administrator's initial liability measured at the same amount, without reference to whether EAs are transferred or sold. The financial liability's reported value then fluctuates with the market value of the EAs. Approach 2, *Intangible Asset*, could use cost initially, and then either remain at historic cost or revalue to market value, applying IPSAS 31, *Intangible Assets*. Measurement for Approach 3, *Revenue*, reflects the selling price of EAs.

TABLE 1: ETS ADMINISTRATOR: IMPACT OF DIFFERENT FINANCIAL REPORTING APPROACHES

Event/ Transaction	**Approach 1** *Financial liability (similar to currency in circulation)*	**Approach 2** *Intangible asset (similar to radio spectrum rights)*	**Approach 3** *Revenue (only shows revenue from EA sales)*
1. Create EAs	No reporting impact (Inventory—immaterial)	Measure at cost (nil value) or market value (A1)	No reporting impact
2. Issue EAs: **(a) Free** **(b) Market value**	Report liability (L1) and: (a) Expense at market value, or (b) Cash.	Report loss/gain from transfer/sale: (a) Loss/expense (b) Gain/revenue For (b) levy or tax revenue equal to gain on sale	No liability and no expense. (b) Report levy or tax revenue equal to value of sales (cash or account receivable)
3. Participants emit gases & incur EA obligation	Report revenue and receivable (Ax), as participants emit and incur obligations to submit EAs to administrator.	Report revenue and asset (Ax) equal to participants' EA obligations.	No impact
4. EAs' market value fluctuates	Gains/losses as value of Ax changes.	Gains/losses as value of Ax changes.	No impact
5. Receive EAs back	Participants submit EAs to extinguish their EA accounts receivable. The currency related liability is extinguished.	At end of period the EAs replace Ax. *(Ax then impaired to zero, since value of EAs is zero?)*	No impact

(1) Approach 1: If the analogy is with currency then inventory is produced. The costs of EAs inventory is nil, since they are electronic transfers.

(2) Approach 2: An intangible asset measured at cost is likely to have a nil value.

48. Before discussions and evaluation of these three approaches, the next subsection briefly describes the Split Asset approach, so that IPSASB members have sufficient information to consider the staff recommendation that this approach be discussed in the CP, but not proposed for constituents' consideration as an alternative approach for general purpose financial reporting.

Split Asset Approach—For Discussion Only

49. The *Split Asset approach* is used by the statistical community for GFS reports. This approach was described as follows in the final report produced by the OECD-Eurostat Task Force that was tasked to develop a preferred approach for ETS accounting by the statistical community:

> At issue, a financial asset is created, valued and fixed at the price of purchase from government, and, at any point in time, the difference between the market-price and the original purchase price is treated as a non-produced non-financial asset. The non-produced non-financial asset is created through another change in volume (OCV) in the accounts of the acquiring unit. A liability corresponding to the financial asset element is recorded in government's account and retains the same value (initial purchase price) throughout the life of the allowance. At surrender the non-financial part of the asset disappears as an OCV "other economic disappearance of non-produced assets" and the financial part of the asset is surrendered to government in lieu of a tax payment, which is recorded at the time emissions occur and at the value of the financial (part of the) asset.

50. The NPNFA part of this approach is not relevant to financial accounting, because financial accounting does not have satellite accounts such as the OCV. More importantly the creation of the NPNFA, its subsequent value changes and its eventual disappearance do not impact on the administrator's financial statements, which only report the financial asset part of the arrangement.

51. Focusing on the financial asset aspect of the *Split Asset* approach the main points to note are:

    (a) The "financial asset" gives rise to a financial liability in the administrator's accounts. This part of the split asset approach is, in that sense, similar to Approach 1.

    (b) The financial liability is treated as a "prepayment of tax". Tax revenue is recognized, and the liability extinguished, at the end of the compliance period when EAs are submitted to the administrator by participants emit.

    (c) The value of the financial liability is fixed at purchase price, which may be below market value. If all EAs are transferred at nil value (zero price) then no financial liability will be recognized.

52. The *Split Asset* approach is appropriate for GFS reporting, where there is scope to use satellite accounts such as the OCV. However, staff view is that it is not an appropriate approach for general purpose financial reporting. Its main characteristics are adequately captured in Approach 1, *Financial Liability*, and Approach 3, *Revenue*.

Discussion and Evaluation of Administrator Accounting Approaches

53. The following criteria are proposed to evaluate the three alternative approaches for an administrator's involvement with an ETS:

    (a) Provides useful information on the financial impact of the economic phenomenon;

    (b) Consistent with the Conceptual Framework (objectives, qualitative characteristics, financial elements and measurement);

(c) Consistent with IPSASs that would apply, given the economic phenomenon;

(d) Consistent with IFRS developments for ETS accounting and provides scope to reduce unnecessary differences between GFS reporting guidelines and IPSASs.

Symmetry not included as an Evaluative Criteria

54. As noted in the overview of issues, staff recommends that symmetry not be included as an evaluative criteria. The CP could, nonetheless, include a discussion of the alternative approaches from the perspective of symmetry. The discussion would identify which, if any, of the pairs of alternatives (administrator—participant) was symmetrical in their treatment.

55. The CP's discussion of symmetry could also note that governments may cause reporting entities to report assets (or liabilities) for which there is no equivalent, symmetrical, balancing effect reported in the government's financial statements. For example, government legislation that requires companies to clean up polluted sites can cause companies to report liabilities equivalent to clean-up costs. The government does not report an equivalent asset. Arguably, a government's creation and issuance of emission allowances is a situation where symmetry does not exist, due to the different economic impacts on the administrator and the participant. Symmetry between different parties within the economy is a critical concern for statistical reporting. Financial accounting is not constrained by symmetry, and symmetry is not part of the Conceptual Framework.

Discussion of the Approaches

56. With respect to Approach 1, *Financial Liability*, EAs have often been transferred at zero cost, which distinguishes their issuance from the "economic phenomenon" of issued currency, where value is always received in exchange. Although EAs are increasingly being transferred for a required price, their price is often (but not always) set below their market value. Nonetheless, an ETS could be viewed as raising funds to share the burden of emission costs with industry groups (and ultimately the end user through prices.) This creates incentives for industry to avoid the cost, or customers to change behavior, and therefore reduces emissions. In the EU ETS, for example, 50% or more of the revenue from EA auctions must be used on emission reduction actions. This requirement is part of the policy aim to reduce emissions.

57. Approach 1, *Financial Liability*, involves recognition of an administrator's "liability" when EAs are issued. Yet, there appears to be no obligation on the administrator to transfer resources—no "future outflow of resources". Participants are obliged to submit EAs. The administrator must accept the EAs back. EA acceptance does not involve an outflow of resources from the administrator to a participant. One argument in favor of the administrator having an obligation is that there is an obligation to accept participants' EAs. Because the administrator must accept EAs as payment, it is possible for participants to extinguish their EA obligations by "paying" their emissions levy with EAs. Following this reasoning there is the idea of a settlement "offset". Once received back by the administrator the EAs are matched to participants' emissions and then cancelled.

58. Approach 2, *Intangible Asset*, seems to accurately describe the economic phenomenon of EA creation, since the administrator is creating "emission rights", which are then valuable items for transfer or sale to ETS participants. The "intangible asset" conceptualization has difficulties when the EAs become worthless at the point where they are returned to the administrator. That eventual lack of value (the EAs are cancelled) has implications for the administrator's reporting of revenue during the compliance period, as participants emit pollutants and incur EA obligations. Why should the administrator report an asset (the right to receive EAs) at an earlier point in time—before EA

return—when ultimately there will be no “service potential or the ability to generate economic benefits” for the administrator, when the EAs are returned?

59. For both Approach 1, *Financial Liability*, and Approach 2, *Intangible Asset*, the administrator reports revenue as ETS participants emit pollutants. On the one hand this is consistent with the idea that an ETS makes it expensive for participants to emit. Under an ETS pollution has a cost, participants must pay that cost and, since ETS participants are paying for their pollution, it follows logically that another entity receives benefits (payments) from their pollution. An alternative view is to ask what benefits (economic benefits or service potential) the administrator receives when ETS participants emit pollutants. Given that the administrator’s purpose in setting up an ETS is to reduce polluting emissions, the reporting of revenue as a consequence of emissions seems counter-intuitive. (Although the EU ETS requirement—noted above—that 50% or more of the revenue from EA auctions be used on emission reduction actions could indicate that the revenue received is a positive outcome for the policy aim of reducing emissions.)

60. Approach 3, *Revenue,* avoids the problems encountered by the other two approaches, because the value of EAs is very narrowly defined. EA may generate cash when sold, which results in revenue. EAs in circulation are not valuable to the administrator. However, the perspective also raises issues. Since EAs are valuable to ETS participants, logically it seems to follow that they are valuable to administrators. Participants’ increasing obligations to return EAs to the administrator is not reported as an asset in the administrator’s financial statements. Revenue from sale of EAs is only reported at the beginning of the compliance period when cash is received. (Potentially there are other sub–options for revenue recognition under Approach 3, *Revenue*. For example, revenue recognition could occur at the end of the compliance period, when EAs are submitted, on the basis that the original payments for EAs are “revenue received in advance”, which is “earned” as emissions occur. However, there appears to be no basis in either the Conceptual Framework or IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers),* for deferring revenue recognition in this manner.)

61. An issue that arises with all three approaches is classification of revenue from the sale of EAs. This is usually classified as tax revenue. The main factor that suggests tax revenue is the government’s use of its sovereign powers to *require* participants to purchase EAs if they are in certain industries that emit pollutants. The transfer of EAs to ETS participants at nil cost or at below-market prices indicates a non–exchange transaction. However, where EAs are purchased by non-participants, as an investment, there is no coercion involved and the transaction appears to be an exchange transaction.

Initial Evaluation of Accounting Approaches for Administrators’ ETS Involvement

62. Considerations with respect to economic phenomenon, argument by analogy from similar types of events/transactions, and the critical overarching consideration of support for the objectives of financial reporting all involve significant judgment. As a prompt for IPSASB members’ discussion of these three accounting approaches, staff proposes that, applying the evaluative criteria above, there is more support for Approach 3, *Revenue* than the other two approaches. The basis for this view is as follows:

    (a) Approach 1, *Financial Liability*, and Approach 2, *Intangible Asset*:

        (i) Report financial elements (assets and liabilities) that appear to be open to challenge from a definition perspective;

(ii) Provide information on EA related assets and liabilities (with related information on expenses and revenues) which may not be useful to GPFR users for holding the entity accountability and for decision making; and,

(iii) The significance of the financial impact of EA related assets and liabilities is unclear, such that the understandability of the information may be questioned.

(b) By contrast, Approach 3, *Revenue*, shows the financial impact of revenue from sale of EAs, without treating either participants' emissions or their obligations to submit (or redeem) EAs to the administrator as benefiting the administrator. Arguably this is a better representation of economic reality.

63. However, Approaches 1 and 2 have the following points in their favor:

(a) Both approaches attempt to deal with the on-going value of EAs, whether on issuance or at the point where a participant is obliged to return EAs to the administrator;

(b) Both approaches have support, by analogy, from existing accounting treatments (treatment of currency and treatment of intangible assets such as permits or licences); and

(c) By contrast, Approach 3, *Revenue*, focuses on cash flows from EAs, and does not address the value of EAs that are transferred to participants for free, with no cash flow involved.

Actions Requested:

1. The IPSASB is asked to indicate whether the CP should include:

(a) All three administrator accounting approaches (Approach 1, *Financial Liability*, Approach 2, *Intangible Asset* and Approach 3, *Revenue)*;

(b) Any further accounting alternative(s) for administrators; and

(c) The proposed evaluation criteria.

2. The IPSASB is also asked to provide initial views on the three approaches, including their reactions to the staff view in support of Approach 3, *Revenue*.

Issue 2: Participants' ETS involvement— Alternative Accounting Approaches

Overview of Alternative Accounting Approaches

64. Four alternative accounting approaches have been identified for participants' ETS involvement:

    (a) Approach 1, *Gross–Liability (A)*:

        (i) EAs recognized at fair value when received on transfer or purchased.

        (ii) Matching liability[11] (revenue received in advance) recognized, then revenue recognized on a systematic basis as emissions occur. (This applies if the EAs involve a government grant aspect i.e. they are transferred at nil cost or for a less–than–market price.)

        (iii) Liability recognized as emissions occur—measured at market value of EAs required.

    (b) Approach 2, *Gross–Liability (B)*: The same as Approach 1, except for measurement of the liability, which depends on the carrying value of EAs already held.

    (c) Approach 3, *Net*:

        (i) EAs recognized at cost.

        (ii) A liability due to emissions is recognized to the extent that there is a shortfall at reporting date between EAs held and those required to be submitted, given actual emissions. The "shortfall liability" is measured at the market value of EAs.

    (d) Approach 4, *Gross 1(A)—Revenue on Transfer*: This approach is the same as Approach 1, except that IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, is applied to recognize revenue, when EAs are transferred (at nil cost or a subsidized price).

65. How these alternative accounting approaches were identified is described below, along with further description, discussion and an initial evaluation of the different approaches.

Identification of the Four Accounting Approaches

66. These four approaches are those under discussion by the IASB. The IASB has not made its decision on which approaches will be included in its discussion paper. An IASB discussion on this question—which approaches to include—is expected to occur at its June 2015 meeting, which will take place from 22 to 26 June.

67. The first three approaches represent the main approaches used by preparers and those that, from the IASB's project staff's perspective, most warrant IASB consideration. Approach 4 was proposed by IPSASB staff, during development of the IASB's agenda papers, because its revenue recognition for transferred EAs is more aligned with IPSAS 23, rather than the IASB's IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Given the two

[11] Two different liabilities arise in these two approaches. First, there is a "deferred revenue" liability, which occurs immediately EAs are transferred. That liability arises because these two approaches apply the IAS 20, *Revenue from Government Grants*, approach to revenue recognition. Second there is a liability that arises during the compliance period as a participant emits the pollutant(s) targeted by the ETS. That liability arises because participants must provide a sufficient number of EAs to the Administrator, to sufficient to cover their emissions.

boards' collaborative approach on ETS accounting, IASB project staff agreed that Approach 4 should be included in the IASB agenda paper. Approach 4 is not an approach used in practice by preparers applying IFRS or other similar financial reporting standards. The revenue recognition treatment in Approach 4 is not consistent with IAS 20. (IAS 20 applies to accounting for government grants and other forms of government assistance. The IASB has, in the past, indicated a willingness to reconsider revenue recognition from first principles, which could affect its preferred accounting treatment for revenue from government assistance, including government grants.)

Financial Elements and Measurement—Summary of Alternative Accounting Approaches

68. Table 2 on the following page provides an overview of the first three accounting approaches (Approach 1, Approach 2 and Approach 3). Table 2 is from a preliminary IASB staff paper, which was prepared for discussion at the June 2015 IASB meeting[12].

69. As stated above, Approach 4 is the same as Approach 1, except that IPSAS 23 is applied to recognize revenue, when EAs are transferred (at nil cost or a subsidized price). Staff applied the IPSAS 23 definition of a condition on a transferred asset to reach the conclusion that there is no condition on the transferred asset i.e. the transferred EAs. On that basis revenue equal to the EAs' fair value is recognized when EAs are received by participants. Approach 4 has two differences in its accounting treatment, when compared to the overview for Approach 1 provided in Table 2. The two differences are as follows:

    (a) Initial recognition of allocated EAs:

    Debit—EAs (At market cost—Same as for Approach 1)

    Credit—Revenue (Difference: *No* "government grant" liability recognized.)

    (b) Subsequent treatment of government grant:

    (Difference: No amortization of government grant, since revenue was fully recognized on initial recognition of the allocated EAs, i.e. at step (a).)

[12] The final IASB agenda paper for its June 2015 meeting was not available when this IPSASB paper was posted.

TABLE 2—PARTICIPANTS' ALTERNATIVE ACCOUNTING APPROACHES [13]

		Approach 1	Approach 2	Approach 3
Initial recognition	*Allocated* allowances	Recognise and measure at **market value** at date of issue; corresponding entry to government grant.		Recognise and measure at cost, which for granted allowances is **nil**.
	Purchased allowances	Recognise and measure at **cost**.		
Subsequent treatment	of allowances	Allowances are subsequently measured at **cost or market value**, subject to review for impairment.		Allowances are subsequently measured at **cost**, subject to review for impairment.
	of government grant	Government grant **amortised** on a systematic and rational basis **over compliance period**.		Not applicable.
Liability	Recognition	Recognise liability when incurred (ie as emissions are produced).		Recognise liability when incurred (ie as emissions are produced). However, the way in which the liability is measured (see below) means that often no liability is shown in the statement of financial position until emissions produced exceed the allowances allocated to the participant.
	Measurement	Liability is measured based on the **market value** of allowances at each period end that would be required to cover actual emissions, regardless of whether the allowances are on hand or would be purchased from the market.	Liability is measured based on: the **carrying amount** of **allowances on hand** at each period end to be used to cover actual emissions (ie market value at date of recognition if cost model is used; market value at date of revaluation if revaluation model is used) on either a FIFO or weighted average basis; *plus* the **market value** of allowances at each period end that would be required to cover any **excess emissions** (ie actual emissions in excess of allowances on hand).	Liability is measured based on: the **carrying amount** of **allowances on hand** at each period end to be used to cover actual emissions (nil or cost) on a FIFO or weighted average basis; *plus* the **market value** of allowances at each period end that would be required to cover any **excess emissions** (ie actual emissions in excess of allowances on hand).

[13] As explained above, Approach 4 is the same as Approach 1 except that IPSAS 23 is applied to recognition of revenue arising from EAs being transferred to participants.

Discussion of the Four Accounting Approaches

70. Approach 1 and Approach 2 are termed "gross presentation" approaches. They apply the same accounting treatment, except for different measurement of the liability arising from emissions. Both approaches recognize EAs at fair value when transferred. An equivalent liability is recognized—government grant—which represents deferred revenue[14]. Revenue recognition is matched to the pattern of expenses expected due to obligations from emissions.

71. Approach 3[15] is sometimes described as a "net presentation" approach due to the calculation of the liability arising from emissions:

    (a) EAs are recognized at cost, which means there is nil value when allowances are transferred at nil cost to the entity.

    (b) Obligations related to emissions are recognized to the extent that there is a shortfall at reporting date between EAs held and those required to be submitted given actual emissions. The liability is measured as the market value of EAs necessary to address the shortfall.

Gross Presentation—Approach 1 and Approach 2: Recognition of Assets and Liabilities

72. *EAs received—Assets:* For these two approaches EAs are viewed as embodying future economic benefits. They meet the asset definition and recognition criteria when they are transferred to the entity or purchased by the entity[16]. Their measurement is at:

    (a) Fair value, when transferred at nil cost; or

    (b) Cost, when purchased.

73. Subsequent measurement is at either cost or fair value, which is consistent with the subsequent measurement choices available in IPSAS 31, *Intangible Assets*.

74. *EAs received—Revenue:* Revenue from the government grant is recognized on a systematic basis over the compliance period for which the allowances were issued, regardless of whether the EAs are held or sold. The government grant aspect (a liability representing "revenue received in advance") is calculated as the difference between the EAs' initial fair value and the cost, if any, of EAs received free of charge or for a discounted (subsidized) price.

75. *Emissions–liability and expense*: A liability is recognized as actual emissions occur. The liability arises from the entity's obligation to submit sufficient EAs to cover actual emissions. Expenses arise as emissions are produced and the liability is recognized. Measurement of the liability differs between Approach 1 and Approach 2—see below.

---

[14] If the EAs are sold at fair value—which includes situations where they are auctioned—the ETS participant records a normal purchase and the issues of accounting treatment for revenue from a government grant does not arise.

[15] A fourth possibility is mentioned but not treated separately because it produces the same results as Approach 3. The fourth approach used in practice involves off-setting or netting the allowances asset and the emissions liability and then presenting only the net position. (Mentioned at paragraph 10 of the draft IASB paper.)

[16] The precise recognition point for assets arising from emission allowances (the point at which the entity has control over the asset and measurement/definition uncertainty is sufficiently low to recognize) is not discussed at this point, because it is viewed as a relatively minor point. It will be important to clarify this later, particularly when considering "credits" generated by baseline–and–credit ETSs.

Liability Measurement—Difference between Approach 1 and Approach 2

76. Approach 1 and Approach 2 have different measurement for the liability for their obligation to submit EAs to cover actual emissions produced. The two measurement treatments are as follows:

    (a) *Approach 1*: Liability is measured at market value (at period end) of the EAs required to cover actual emissions. (No reference to EAs actually held by the entity.)

    (b) *Approach 2*: Measurement depends on carrying amount of EAs already held. Amount of liability is:

        (i) The carrying amount of EAs on hand at each period end to be used to cover actual emissions (i.e. market value at date of recognition if cost model is used; market value at date of revaluation if revaluation model is used) on either a FIFO or weighted average basis; plus

        (ii) The market value of EAs at each period end that would be required to cover any excess emissions (i.e. actual emissions in excess of EAs on hand).

Recognition of Revenue from Government Grant (EAs)

77. Approach 1 and Approach 2 apply an IAS 20 approach to recognition of revenue from a government grant. Both approaches recognize a “government grant” liability initially, which is equal to the total value of the transferred EAs. That amount reduces as “government grant” revenue is recognized during the period. The “systematic approach” used to amortize the deferred government grant revenue is described as “using the portion of actual emissions to estimated total emissions”.) This revenue recognition approach is not consistent with IPSAS 23. There is no “condition on the transferred asset” and therefore no scope to recognize a “deferred income/government grant” liability. IPSAS 23 would require that the fair value of transferred EAs be recognized immediately as revenue, which is the Approach 4 revenue recognition treatment.

78. While one of the proposed evaluative criteria is consistency with existing IPSASs for similar transactions/events, other criteria apply. The IPSASB is not constrained by existing IPSASs—particularly given the application of the Conceptual Framework going forward and the recently approved IPSASB project on revenue recognition.

Discussion of Alternative Accounting Approaches

Measurement Difference between Approach 1 and Approach 2

79. The staff view is that Approach 1 is more consistent with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, (IPSAS 19) and the Conceptual Framework than either Approach 2 or Approach 3. Approach 1 provides more relevant and more understandable information about the size of the actual obligation for users. (Approach 4 applies the same accounting treatment for obligations, and staff considers that it also better meets these evaluative criteria.)

80. Approach 2’s use of amounts derived from an entity’s holding of EAs and their measurement is not a meaningful measurement basis under the Conceptual Framework. Measurement by reference to the EAs already held (i.e. the assets that will be used to meet the liability) could misrepresent the size of the liability. If it is accepted that the two things (asset and liability) are independent of each other, it follows that tying the liability measurement to the assets held (EAs held) will reduce the relevance and understandability of the information reported.

Approach 3—Derivation of the Liability

81. Approach 3's method to determine the liability arising from actual emissions appears to be conceptually flawed. However, that view depends on the idea that EAs and obligations arising from actual emissions are separate economic phenomena. Are they separate phenomena, and should they be reported as separate phenomena? This question is discussed below.

Economic Phenomena—Together or Apart?

82. There appear to be two basic economic phenomena with financial implications. The two phenomena are:

    (a) Emission allowances (EAs); and,

    (b) Obligations to submit EAs, where obligations are driven by emissions.

83. From an ETS participant's perspective, EAs are items that a participant will gain rights to (or control over) through a transaction, either an exchange purchase or non-exchange transfer, while a participant's obligation to submit (or redeem) EAs arises as the ETS participant emits the target pollutant.

84. The question arises of whether these two phenomena should be treated as either (a) separate and independent, or (b) connected. If separate and independent, then each separate transaction/event can (and should) be considered separately in order to reflect their economic reality. If connected, then their relationship (connectedness) needs to be understood, clearly documented, and then that economic reality should be reflected in the financial reporting.

85. Two of the four participant accounting approaches identified in this paper link the two phenomenon

    (a) Approach 2, where measurement of the emissions obligation is linked to the EAs (assets) held by the entity; and

    (b) Approach 3, where the emissions obligation liability is derived by combining values for EAs and the value of actual emissions in terms of allowances.

86. The CNOCP's Standard 21—mentioned in the first part of this paper—is a public sector accounting standard that addresses both the administrator's accounting and participants' accounting for their ETS involvement. Standard 21 also takes a netting approach to participants' accounting for the emissions liability. The liability recognized is derived from "netting off" the values of EAs held by the participant against any obligation arising from actual emissions that exceed those covered by EAs held.

87. There seem to be two arguments in favor of treating these two things (EAs and emission obligations) as connected, i.e. treating them as a single economic phenomenon:

    (a) EAs are used to cover obligations arising from emissions; and

    (b) So long as an entity holds sufficient EAs to fully cover its actual emissions, the entity will have no negative economic consequences due to its actual emissions. (So there is the idea that the one thing (EAs) cancels out the other thing (obligations arising from emissions.)

88. On this basis, the economic phenomenon at any given time seems to be "EAs held less the actual emissions denominated in EAs". Following this argument EAs could be described as a "shield" that provides economic benefits in the form of protection against a government fine for excessive emissions. The benefits provided by the shield reduce over time as emissions are produced. Then

an amount equal to "value of emissions denominated in EAs" could be considered a "contra-asset", similar in concept to accumulated depreciation. Taking this approach there would be no liability until the shield "failed", due to an excess of emissions.

89. The arguments in favor of treating these two things—EAs (the asset side) and obligations from emissions (the liability side)—as separate, independent economic phenomenon are:

(a) EAs and obligations arising from emissions have different causes, with different timing and different conditionality:

EAs are:

(i) Held by entities because they have received them through a government grant, by purchase (auction or wider market) or earned them through project work that qualifies for EAs (carbon sink creation, for example, through re-forestation).

(ii) Able to be bought or sold at different times during the reporting period, such that holding them is at the discretion of the entity.

Obligations to submit EAs:

(iii) Arise from the entity's production of emissions covered by an ETS;

(iv) Follow the timeline of the entity's emissions.

(v) Involve less discretion for the entity (i.e. emission production is relatively unavoidable, given the linkage between production of emissions and the entity's business activities).

90. Accounting separates out the calculation of the two different economic effects (EAs and emission obligations) into two different steps: First, the value of EAs is calculated, and second a separate determination is made to calculate the value of any obligation to submit EAs. Staff view is that they are separate, independent economic phenomena. On that basis, a financial accounting treatment that reflects this economic reality is likely to provide better financial reporting, when considered in terms of:

(a) Achievement of the qualitative characteristics of financial reporting; and,

(b) Support for the objectives of financial reporting.

Initial Evaluation of Accounting Approaches for Administrators' ETS Involvement

91. Considerations with respect to economic phenomenon, application of the Conceptual Framework (objectives of financial reporting, qualitative characteristics, financial elements (definition and recognition) and measurement) all involve significant judgment. As a prompt for IPSASB members' discussion of these four accounting approaches, staff proposes that, applying the evaluative criteria above, there is more support for Approach 4, *Gross 1(A)—Revenue on Transfer* than the other three approaches. The basis for this view is that Approach 4:

(i) Treats a participants' receipt or purchase of EAs and obligations arising from emissions as two separate, independent phenomenon, which better reflects their economic reality;

(ii) Avoids recognition of financial elements that do not meet the definition criteria in the Conceptual Framework (e.g. no liability for deferred revenue);

(iii) Has a more coherent, more Conceptual Framework consistent measurement approach compared to approaches that measure an entity's obligation to submit EAs by reference to both the historical cost of EAs held by the participant and the cost to purchase more EAs (i.e. their market price) if a shortfall exists; and

(iv) Has a revenue recognition treatment that is consistent with the IPSAS 23.

92. This initial, rough evaluation and staff view in support of Approach 4 are provided to prompt IPSASB members' discussion of the four approaches presented.

Actions Requested:

3. The IPSASB is asked to indicate whether the CP should include:

   (a) All four participant accounting approaches proposed:

      (i) Approach 1, *Gross–Liability (A)*

      (ii) Approach 2, *Gross–Liability (B)*

      (iii) Approach 3, *Net.*

      (iv) Approach 4, *Gross 1(A)—Revenue on Transfer.*

   (b) Any further accounting alternative(s) for participants; and

   (c) The proposed evaluation criteria.

4. The IPSASB is also asked to provide initial views on the four approaches, including their reactions to the staff view in support of Approach 4.

Section 3: International Agreements and Administrative Agents

93. This section describes two questions that arose during development of this issues paper. First, after an initial focus on the Kyoto Protocol as an international agreement that could have accounting implications, staff noted that other international agreements exist with different implications and different types of "enforceability". The discussion below provides an initial overview of issues and proposes that the CP discuss them in further detail. Second, the CNOCP's Standard 21, previously mentioned in this paper and discussed further below, raised the question of an administrative agent's accounting for its ETS involvement. Staff proposes that the CP discuss that issue.

94. In both cases (international agreements and administrative agent) there may be a project scope issue. Staff recommends that the CP remain focused on accounting for ETS involvement, rather than widen out into a more general discussion of accounting for (a) international agreements or (b) delegated responsibilities to manage a project or scheme. However, these two topics raise issues relevant to ETS accounting, for example the issue of identifying an ETS, whether created by a national government or by an international agreement.

International Agreements—For Example, the Kyoto Protocol

95. A national government[17] that has signed an international agreement to achieve emission reductions may need to report on commitments arising from that agreement. Those commitments may need to be reflected in the financial statements and involve financial elements such as assets and liabilities (provisions) or contingencies (contingent assets or contingent liabilities), depending on the specific circumstances. A commitment from such an agreement may initially result in a constructive obligation, if the government makes a public commitment and publishes a detailed plan, even where there is no legal enforceability. Legally binding obligations could arise either when:

   (a) A national government has already passed national legislation that binds it to certain types of international level agreements; or

   (b) Legislation passed at the national (or sub-national) level—to give force to the international agreement—then binds the government to the international level commitment.

96. A national government that has signed an international agreement to reduce emissions may not use an ETS to achieve that aim. Instead, the government may choose to use other types of intervention such as carbon taxes, command–and–control interventions or forestation projects.

97. The Kyoto Protocol, the EU ETS and the Western Climate Initiative (WCI)—applies to California and the Province of Quebec—are examples of international agreements on emission reductions, which either involve ETSs or have led to the creation of an ETS.

98. An international agreement may create an ETS which has the national government as either an administrator, administrative agent or ETS participant. If a national government is an ETS participant within an international ETS then participants' ETS accounting will apply. The Kyoto Protocol, for example, during its first commitment period (2008–2012) had ETS aspects. Emission reduction targets were established for each country. Countries could have surplus Kyoto units

[17] This discussion focuses on international level agreements that impact on national governments. Similar reasoning can be applied to international agreements that impact on either state/province governments or other local governments or that impact on a mix of national governments, state/provincial governments and other types of local government.

which they could sell to countries that needed to purchase Kyoto units to make up a deficit in meeting their Kyoto obligations. Alternatively, countries could choose to hold on to any surplus emission Kyoto units to count against emission obligations in future commitment periods.

Accounting by an Administrative Agent—Standard 21, Greenhouse Gas Emission Allowances

99. Standard 21, *Greenhouse Gas Emission Allowances,* (Standard 21) has been issued by the CNOCP and includes coverage of the State's financial reporting, i.e. France's national government, as it administers the EU ETS on behalf of the European Commission. Standard 21 takes the view that EAs are not assets for the national government, as Administrative Agent, only administers their issuance and collection of EAs on behalf of the European Commission. On this basis the national government reports revenue from sales, and would show the same accounting entries as those for Approach 4, *Regulation*.

100. Staff considers that the general issue—accounting by administrative agents—is outside of this project's scope. The issue could be noted in the ETS Consultation Paper and the general nature of this issue briefly described. For example, this issue applies where government departments have responsibility for payment of benefits or collection of taxes, but those economic flows are reported in the national government's financial statements.

101. However, the CP could note that respective responsibilities, powers and appropriate reporting level need to be considered for each reporting group and/or each ETS. The situation for a particular country in, for example the EU's ETS, could be different from that of a particular provincial or state government within, for example, the Western Emissions Initiative ETS. Similarly, the respective responsibilities and type of control established by a national government, for example the New Zealand Government or the Swiss federal Government, when it delegates responsibility for management of a national ETS to an agency could differ between countries.

102. Staff considers that the CP should address the:

    (a) Criteria that indicate creation of an ETS; and,

    (b) Criteria that indicate whether a public sector entity's involvement with an ETS is as an administrator, administrative agent or participant.

103. The discussion of ETS criteria should be applicable to both national and international agreements. The discussion of entities' different ETS involvements should address different levels of government and different types of ETS (international, national and subnational).

Action Requested:

5. The IPSASB is asked to indicate whether the CP should discuss (i) criteria that indicate creation of an ETS, and (ii) criteria to identify an entity's involvement with an ETS (as an administrator, administrative agent or participant) with reference to:

    (a) International agreements such as the Kyoto Protocol; and

    (b) EU Member States' responsibilities for administering the EU ETS.

Next steps:

104. Staff and the TBG will:

(a) Draft the CP; and

(b) Provide the draft CP and a third issues paper to the IPSASB's September 2015 meeting.

Action Requested:

6. The IPSASB is asked to note the proposed next steps.

APPENDIX A: IASB MEETINGS—EMISSIONS TRADING SCHEMES

As of June 10, 2015

Introduction

A1. This appendix provides a list of those International Accounting Standards Board (IASB) meetings that have involved discussion on the IASB's Emissions Trading Schemes (ETSs) project, since it restarted in September 2014.

A2. For a full understanding of the papers presented, IASB discussions and the ETS related meeting outcomes please refer to the relevant IASB papers. For each meeting below there is a link to the IASB agenda papers, where the audio discussion is also available. Meeting updates are available from: www.ifrs.org/Updates/IASB-Updates/Pages/IASB-Updates.aspx. Meeting agenda items can be accessed from the list of public meetings: http://www.ifrs.org/Meetings/Pages/Meetings-Page.aspx

June 2015

A3. ETS issues are expected to be discussed at the IASB's June meeting which is from 22 to 26 June. The IASB agenda paper was not available when this IPSASB paper was posted. It should be available at this website: http://www.ifrs.org/Meetings/Pages/IASB-Meeting-June-2015.aspx .

February–May 2015

A4. The ETS project was not discussed at the IASB's February, March, April and May meetings.

January 2015

A5. Agenda paper available at: http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2015.aspx.

A6. The IASB considered staff recommendations on:

(a) Scope of the project (and related name change);

(b) Approach to the project; and

(c) Direction of the project.

A7. IASB members supported the staff's recommendations that:

- *Scope*: The scope of the project should be set broadly to encompass:
  (i) A variety of schemes that involve the issue of allowances for emission reduction and absorption projects, as well as ETS, and
  (ii) Accounting by emitters, traders and entities that carryout projects to reduce or absorb emissions.
- *Project name*: The name of the project should be changed to "Emissions Management Schemes"
- *Approach*: Staff should:
  (i) Take a "fresh start" approach to the project, and
  (ii) Work collaboratively with other standard setters during the research phase.
- *Direction of project*: Staff should develop a discussion paper which outlines:

- o The common characteristics of a wider variety of schemes, the accounting issues raised and the possible accounting or approaches that could provide a faithful presentation of the overall effects of the schemes identified;
- o The approach should not be restricted to identifying separate assets and liabilities but also look at the relationships between rights and obligations; and
- o The IASB's developing Conceptual Framework should be the primary source for development of accounting approaches rather than existing Standards.

November 2014

A8. Agenda papers available at: http://www.ifrs.org/Meetings/Pages/IASB-Nov-14.aspx.

A9. First IASB meeting to discuss ETS issues since the project's restart in September 2014. This was an education session. No decisions were made.

A10. Staff provided the IASB with background information about the type of schemes in operation and related accounting issues. Two common types of ETSs were described: 'cap and trade,' and 'baseline and credit' schemes. Staff research shows that there are diverse accounting approaches in use today.

APPENDIX B: RELEVANT CONCEPTUAL FRAMEWORK COVERAGE

B1. In 2014 the IPSASB completed the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework). Application of the Conceptual Framework to ETS accounting issues is expected to involve evaluating the implications of the following Conceptual Framework coverage to this topic:

- The objectives of financial reporting and the qualitative characteristics;
- Definition of financial elements, particularly asset and liability definitions; and
- Recognition of financial elements; and
- Measurement approaches, including the Conceptual Framework's measurement objective.

Objectives of financial reporting and qualitative characteristics

B2. The objectives of financial reporting are set out in paragraph 2.1 of the Conceptual Framework:

> The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes").

B3. For accountability and decision-making purposes, service recipients and resource providers need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
    - Meeting its service delivery and other operating and financial objectives;
    - Managing the resources it is responsible for; and
- Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (ability to meet current obligations) and solvency (ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period;
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

B4. The Conceptual Framework describes the qualitative characteristics on information in GPFRs, which are relevance, representational faithfulness, understandability, comparability, timeliness and verifiability. It also describes the pervasive constraints, which are materiality, cost-benefit and a balance between the qualitative characteristics.

Identification of Financial Elements—Conceptual Framework

B5. Chapter 5 of the Conceptual Framework defines six financial elements. The following financial elements appear relevant to accounting for ETS involvement:

(a) Assets.

(b) Liabilities.

(c) Revenue.

(d) Expense.

Other Resources or Other Obligations

B6. Chapter 5 also explains that:

In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude IPSASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as "other resources" or "other obligations") when necessary to better achieve the objectives of financial reporting. [paragraph 5.4]

As explained in paragraph 5.4, in some cases, in developing or revising an IPSAS, the IPSASB may determine that to achieve the objectives of financial reporting a resource or obligation that does not satisfy the definition of an element defined in the Conceptual Framework needs to be recognized in the financial statements. In these cases, the IPSAS may require or allow these resources or obligations to be recognized as other resources or other obligations, which are items additional to the six elements defined in this Framework. [paragraph 5.27]

Assets—Events and Transactions Related to Emission Allowances

B7. When accounting for ETS involvement the identification of assets will focus on events and transactions related to control over EAs. Assets may arise at the point where:

(a) An administrator establishes the number and type of EAs available for transfer or sale, under the term of the ETS that the administrator has established.

(b) An entity receives (in a non-exchange transfer), purchases or otherwise obtains EAs (or EA equivalents).

B8. Assets may also relate to EAs in combination with an entity's emissions during a compliance period.

Definition of an Asset

B9. Within the context of an ETS assets in the form of EAs may arise for an administrator when it develops the ETS and establishes the number and type of EAs available for transfer or sale.

B10. The Conceptual Framework defines an asset as "[a] resource presently controlled by the entity as a result of a past event."

B11. The two key factors to consider when determining whether an ETS related event or transaction results in an asset for the entity are:

(a) Does the event or transaction result in a resource for the entity?

(b) What is the past event (or events) that gives rise to the entity's control over the resource?

Resources—Service Potential or Ability to Generate Economic Benefits

B12. A resource is described as "…an item with service potential or the ability to generate economic benefits". Resources include rights to benefits such as the right to:

(a) Use the resource to provide services;

(b) Convert the resource into cash through its disposal; or

(c) Benefit from the resource's appreciation in value.

B13. The Conceptual Framework describes economic benefits as "cash inflows or a reduction in cash outflows, then states that cash inflows (or reduced cash outflows) may be derived from, for example:

(a) An asset's use in the production and sale of services; or

(b) The direct exchange of an asset for cash or other resources.

Presently Controlled by the Entity

B14. The Conceptual Framework states that control of the resource is the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. Indicators of control include:

(a) Legal ownership;

(b) Access to the resource, or the ability to deny or restrict access to the resource;

(c) The means to ensure that the resource is used to achieve its objectives; and

(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

Past Event

B15. There are different past transactions or other events that could result in an entity gaining control of a resource and therefore an asset. Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum, are examples of public sector-specific powers and rights that may give rise to assets. In assessing when an entity's control of rights to resources arise the following events may be considered:

(a) A general ability to establish a power;

(b) Establishment of a power through a statute;

(c) Exercising the power to create a right; and

(d) The event which gives rise to the right to receive resources from an external party.

B16. An asset arises when the power is exercised and the rights exist to receive resources.

Liabilities—Events and Transactions Related to Emissions

B17. When accounting for ETS involvement the identification of liabilities could focus on:

(a) *Creation of EAs*: An administrator establishes the number and type of EAs available for transfer or sale, under the term of the ETS that the administrator has established.

(b) *Emissions*: Events and transactions related to an entity's emissions, when those emissions are covered by an ETS and have the potential to cause obligations for an ETS participant.

B18. Liabilities may also arise from EAs in combination with an entity's emissions during a compliance period.

Definition of a liability, recognition and related terminology

B19. The Conceptual Framework defines a liability as "[a] present obligation of the entity for an outflow of resources that results from a past event." [Paragraph 5.14.]

B20. The Conceptual Framework defines a present obligation as "a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.' [Paragraph 5.15.]

B21. There are two key factors to be considered in determining when a liability arises within the context of ETS related liabilities:

(a) What is the past event (or events) that gives rise to a present obligation?

(b) When does an entity have little or no realistic alternative to avoid settling the obligation?

B22. IPSAS 19 brings these ideas together in its definition of an obligating event as "an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation." However, IPSAS 19 was developed before the IPSASB developed its Conceptual Framework. In line with the Conceptual Framework, the CP will adopt an updated definition of an obligating event as "an event that creates a present obligation." This updated definition indirectly refers to "a legally binding obligation (legal obligation) or non-legally binding obligation" rather than a "legal or constructive obligation." The updated definition also considers whether an entity has "little or no realistic alternative to avoid" an outflow of resources.

B23. These updated definitions are then applied to the ETS events and transactions that could potentially result in obligations and liabilities.

Definitions of Revenue and Expense

B24. Revenue is:

Increases in the net financial position of the entity, other than increases arising from ownership contributions. [Paragraph 5.29]

B25. Expense is:

Decreases in the net financial position of the entity, other than decreases arising from ownership distributions. [Paragraph 5.30]

Recognition Criteria

B26. The Conceptual Framework states that all items that satisfy the recognition criteria are recognized in the financial statements. The recognition criteria are that:

(a) An item satisfies the definition of an element; and

(b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

B27. Recognition involves an assessment of uncertainty related to the existence and measurement of the element [paragraph 6.4]. If it is determined that an element exists, uncertainty about the amount of service potential or ability to generate economic benefits represented by that element is taken into account in the measurement of that element (see paragraphs 6.7 and 6.8). Preparers review and assess all available evidence in determining whether an element exists and is recognized, whether that element continues to qualify for recognition (see paragraph 6.9), or whether there has been a change to an existing element [paragraph 6.6].

Measurement Uncertainty

B28. In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements. The selection of an appropriate measurement basis is considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements* [paragraph 6.7].

Uncertainty Arising in the Context of ETS Involvement

B29. Within the context of accounting for ETS involvement it is likely that uncertainty with respect to both element definition and measurement is fairly low, with uncertainty over financial element existence being slightly more important as a consideration than measurement uncertainty. Uncertainty generally is expected to be low, because an ETS is created by an administrator to:

(a) Clearly establish rights and obligations; and

(b) Allow for trading of emission rights

B30. These two ETS characteristics suggest that measurement will be reasonably certain either because the administrator has clearly established values or because values are market driven. Similarly, events and transactions that bring into existence different financial elements are likely to be clearly established. For example, there should be clarity over responsibility for emissions, extent of emissions, and control over EAs, because an ETS will be developed to ensure such clarity, including monitoring and record-keeping for key elements such as EAs and extent of emissions. However, if assets and liabilities involve a combination of EAs and emission volumes, uncertainty with respect to measurement may arise, although that approach appears more likely to result in uncertainty as to financial element existence and recognition timing.

Measurement

B31. The Conceptual Framework states that the objective of measurement is:

> To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes. [Paragraph 7.2]

B32. The selection of a measurement basis for assets and liabilities is expected to contribute to meeting the objectives of financial reporting, if it is done by applying this objective. The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.

B33. The Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions. Instead, it identifies measurement bases as relevant to the measurement of assets and the measurement of liabilities. The following bases are identified for assets:

(a) Historical cost;

(b) Market value;

(a) Replacement cost;

(b) Net selling price; and

(c) Value in use.

B34. The following bases are identified for liabilities:

(a) Historical cost;

(b) Cost of fulfillment;

(c) Market value;

(d) Cost of release; and

(e) Assumption price.

B35. The Conceptual Framework provides further information on each measurement basis, and discusses relevant factors when evaluating the extent to which each basis, when applied to different types of transactions, events and conditions, is likely to:

(a) Meet the measurement objective; and

(b) Achieve the qualitative characteristics while taking into account the constraints.

APPENDIX C: ETS WORLDWIDE AND FINANCIAL REPORTING INFORMATION

Active Emission Trading Schemes (ETSs)

C1. As of February 2015 there were 17 active ETSs worldwide, with 14 further ETSs planned[18]. The 17 active ETSs are in the EU, which covers 28 countries, and a further eight individual countries, where the ETSs are at either the national or a subnational level. These active ETSs are in:

(a) Canada (Quebec, which is part of the Western Climate Initiative).

(b) China (Beijing, Guangdong, Hubei, Chongquing, Shanghai, Shenzhen and Tianjin).

(c) European Union (28 countries).

(d) Japan (Saitama and Tokyo).

(e) Kazakhstan[19].

(f) New Zealand.

(g) South Korea.

(h) Switzerland.

(i) United States of America (California, which is part of the Western Climate Initiative, and Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont, which are in the Regional Greenhouse Gas Initiative).

Governments with ETS and IPSAS–Similar Financial Reporting

C2. Of these 17 active ETSs, only six include administrators that report on an accruals basis and apply financial reporting standards that are similar to IPSASs. Table 3 below, on the following page, identifies those ETS administrators that report on an accruals basis and apply financial reporting standards that are similar to IPSASs.

---

[18] ICAP (2015) *Emissions Trading Worldwide International Carbon Action Partnership (ICAP) Status Report 2015*, February 2015

[19] Kazakhstan implemented IPSASs in 2013. The World Bank has a project to review the implementation and provide support on any remaining financial reporting issues. The project is likely to start in 2015.

Table 3: ETS Administrators that Report on an Accruals (IPSAS–Similar) Basis

Area—Government(s)	**Administrator Accounting Policy**	**Comment**
Canada—Province of Quebec	Unknown	Request for information made
European Union—Eight countries[20]	United Kingdom: Approach 4 France: Standard 21	Information available for United Kingdom and France.
New Zealand	Available—Approach 1 used.	Approach 2 was considered, but Approach 1 was preferred.
Switzerland	Unknown	Request in progress
Japan—City of Tokyo	Unknown	Request in progress
U.S.A.—Ten states and Federal Government (CSAPR)	Unknown	Request for information made. (GASB)

[20] As of 2012, eight EU countries had a high level (75% or more) of IPSAS similarity in their public sector financial reporting: Estonia, France, Hungary, Malta, Spain, Sweden, Poland and the United Kingdom. (See *Overview and comparison of public accounting and auditing practices in the 27 EU Member States*, December 2012.)

APPENDIX D: ACCOUNTING ENTRIES FOR ADMINISTRATOR ACCOUNTING APPROACHES

Approach 1, *Financial Liability*

D1. Approach 1, *Financial Liability*, can be represented, in the administrator's books, by the three accounting entries below:

(a) *Administrator issues EAs to participants.*

Dr Cash (or Expense if EAs are issued free of charge)

Cr Administrator's EA liability (financial liability)

(b) *Administrator recognizes a right to sovereign revenue as a result of participants' emissions throughout the compliance period. Timing of revenue will be dependent on the 'taxable event' and when it can be reliably measured.*

Dr Sovereign Receivable

Cr Levy/tax revenue

(c) *Participants' EAs surrendered to the administrator. Participants' outstanding receivables are settled and administrator's EA financial liability is extinguished.*

Dr EA liability

Cr Sovereign Receivable

Approach 2, *Intangible Asset*

D2. Approach 2, *Intangible Asset*, can be represented, in the administrator's books, by the four accounting entries below. These entries assume that the EAs' are valued at zero (their historical cost), so that there is no impact for (i) their creation, and (ii) transfer for nil sale price. So the first entry would only occur if EAs were sold. The entries below are:

(a) *Administrator sells EAs to participants (at subsidized or market price)[21].*

Dr Cash (or Accounts receivable)

Cr Revenue

(b) *Administrator recognizes a right to sovereign revenue as a result of participants' emissions throughout the compliance period. Timing of revenue will be dependent on the 'taxable event' and when it can be reliably measured.*

Dr Accounts receivable (EAs owed by participants)

Cr Revenue (Levy or tax revenue)

(c) *Administrator receives EAs from participants, to settle their obligation.*

---

[21] An alternative approach would be to revalue the EAs to their market prior to transfer/sale, in which case the entry would reflect the Asset reduction and, for a transfer at nil cost, an expense on transfer:

Dr Expense (loss on transfer of EAs)

Cr EA assets

Dr EAs asset

Cr Accounts receivable (EAs owed by participants)

(d) Value of EAs written off to reflect their "impairment" at end of compliance period.

Dr Impairment of EAs

Cr Impairment expense

D3. The proposed impairment in (d) reflects the idea that EAs are worth nothing at the end of the compliance period, when they are returned to the administrator.

Approach 3, *Revenue*

D4. Approach 4, *Revenue*, only involves accounting entries when the administrator issues EAs and receives payment for them. Depending on whether the payment is more or less than the book value of the EAs, the administrator will show either a gain or loss or the EA sale/transfer. (The book value of the EAs is assumed to be non–zero.) The entries below assume that EAs are exchanged for cash, but there could also be an account receivable entered, before cash is received.

(e) Administrator transfers or sells EAs to participants.

Dr Cash (if EAs are sold) Expense (if EAs transferred for nil charge))

Cr EA asset

Cr Gain on sale (if EAs are sold. Gain is equal to "payment less book value of EAs)

D5. Then, for this approach there would be no subsequent accounting entries to reflect participants' emissions and their related obligations to submit EAs to the administrator. There would also be no accounting entries for the ultimate submission of EAs to the administrator.

Service Performance Reporting—All Three Approaches

D6. For all three approaches there would be internal administrative record–keeping so that information was available on actual emissions and participants' obligations to submit EAs. Internal records would cover emission limits, EAs issued, and a reconciliation between each participant's actual emissions and their end–of–period actual submission of EAs.

D7. The administrative records would be available to generate summary information as part of any service performance reporting. Such reporting could focus on the ETS intervention's outputs and outcomes, with particular emphasis on its effectiveness in terms of reduction of pollution. For example, the New Zealand Government, which applies Approach 1 to show its ETS involvement in its financial statements, has a website dedicated to its ETS at http://www.epa.govt.nz/e-m-t/Pages/default.aspx. That website provides data such as

(a) ETS transaction trends and historical data;

(b) Annual ETS reports; and

(c) Annual emissions data for each activity in the ETS.

D8. The EU ETS has its main information site at http://ec.europa.eu/clima/policies/ets/index_en.htm, where a sub–link provides access to "annual progress reports" which cover individual EU countries' progress in reducing emission at: http://ec.europa.eu/clima/policies/g-gas/documentation_en.htm#Reports