



Memorandum

To:	AASB members	Date:	20 August 2013
From:	Ahmad Hamidi	Agenda Item:	12.1 (M 133)
Subject:	Emission Trading Schemes – Project Plan and Recognition of Emission Liabilities	File:	

Action

Consider:

- (a) a draft project plan for the Emissions Trading Scheme (ETS) project with a view to directing staff as to the way forward; and
- (b) issues paper on the approaches to recognition and measurement of emission liabilities arising from ETSs with a view to clarifying the AASB's position on the application of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and considering consultation with the IFRS Interpretations Committee on this matter.

Attachments

Appendix to this Memorandum: Draft Plan for the AASB's Emission Trading Schemes Project
Agenda paper 12.2: Issues paper: Approaches to Recognition and Measurement of Emission Liabilities arising from Emissions Trading Schemes

Background and Overview

Following the withdrawal of IFRIC 3 *Emission Rights* in 2005, the IASB added the topic of ETSs to its agenda at its September 2005 meeting which was activated in December 2007. Deliberations on the subject continued but were deferred in November 2010 when the IASB and the FASB decided to amend the timetable of some projects. The IASB then included the project as part of its agenda consultation process. At its May 2012 meeting, the IASB supported initiating a research programme, focusing, among other topics, on the ETSs.

The Australian CPM

The fixed price (carbon tax) phase of the Australian carbon pricing mechanism (CPM) began on 1 July 2012. The AASB staff papers¹ discussing the possible financial reporting implications of the carbon tax for emitters and Government state that in the fixed price phase, a carbon tax does not

1 See [http://www.aasb.gov.au/admin/file/content102/c3/Staff_Paper-Fin_Report_Implications_Carbon_Tax_for_Emitter_Entities_\(V3\)July2013.pdf](http://www.aasb.gov.au/admin/file/content102/c3/Staff_Paper-Fin_Report_Implications_Carbon_Tax_for_Emitter_Entities_(V3)July2013.pdf) and http://www.aasb.gov.au/admin/file/content102/c3/Government_Financial_Reporting_Carbon_Tax.pdf.

appear to raise any recognition, measurement, presentation or disclosure issues for emitter entities beyond those dealt with under current Australian Accounting Standards for other non-income taxes.

In relation to the flexible price phase of the CPM, the AASB staff papers while acknowledging the intended research work by the IASB, note that the AASB will consider providing any necessary financial reporting guidance under Australian Accounting Standards in regard to the flexible price phase of the CPM, should it be established that a pronouncement from the IASB will not be forthcoming in time to provide a basis for accounting treatments in the flexible price phase.

Draft project plan

The flexible price phase of the Australian CPM was initially planned to begin on 1 July 2015. However, the Australian Government confirmed in July 2013 that the flexible phase would be brought forward by one year, beginning on 1 July 2014.

Considering the time needed to provide financial reporting guidance by the AASB using the usual due process, it seems that the AASB would need to consider proceeding on the assumption that an IASB pronouncement would not be available in time for Australian entities to apply in accounting for the flexible phase of the CPM.

A draft project plan showing tentative dates and major steps leading to the publication of an AASB pronouncement (Interpretation) is provided in the Appendix to this memorandum for Board's consideration.

Recognition and measurement of emission liabilities under ETSs

In the absence of an IASB pronouncement after the withdrawal of IFRIC 3 in 2005, diverse treatments have been followed in accounting for emission liabilities under ETSs. In particular, there has been a tendency to apply a mixed measurement approach that links the measurement of the emission liabilities to the valuation of assets (permits) to be used in extinguishing them.

Models that have been recently contemplated in Europe also try to utilise the notion of 'linkage' between permits and emission liabilities by differentiating between the use of permits for production /compliance and trading purposes. Agenda paper 12.2 discusses these developments with a view to seeking the Board's position on the issue of recognition and measurement of liabilities under AASB 137. The paper also includes a staff recommendation to seek IFRS Interpretations Committee's view/affirmation on the matter.

Memorandum

Appendix: Draft Plan for the AASB's Emission Trading Schemes Project

Dates	Activity
September 2013 meeting	The recognition of emission liabilities under the emission trading schemes
September 2013 (out of session)	Letter to IFRS Interpretations Committee seeking the Committee's view/affirmation on the measurement of liabilities under IAS 37.
October 2013 meeting	Deliberation of issues involved in accounting for assets, liabilities, expenses and revenues in the context of ETSs.
December 2013 meeting	Deliberation of a draft document showing how the AASB intends to approach different issues under ETSs for dispatch to IFRS Interpretations Committee per relevant protocol.
April 2014 meeting	Discuss the draft AASB pronouncement (Interpretation) on accounting for ETSs.
May 2014 meetings:	Consider possible response from IFRS Interpretations Committee on the measurement of liabilities under IAS 37. Discuss and finalise the draft AASB pronouncement (Interpretation) on accounting for ETSs.
June 2014 meeting	Publish Exposure draft of the AASB pronouncement on accounting for ETS (with 3 or 4 months exposure period)
October/December 2014	Comment letter analysis and making decisions on final positions.
First quarter 2015	Publication of the AASB pronouncement (Interpretation) on accounting for ETSs