Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	11 October 2011
From:	**Ahmad Hamidi**	**Agenda Item:**	5.1
Subject:	**Financial Reporting Implications of a Carbon Tax – Further Considerations**	**File:** P 171	

Action

1. Consider Staff paper discussing possible financial reporting implications of a future carbon tax in the light of information available about the proposed Australian carbon price mechanism to date, with a view to directing staff to finalise the paper.

Background

2. In February 2011, the Australian Government made public its decision to introduce a carbon price scheme comprising a fixed price phase and a flexible price phase. In July, more details were released of the Government's Climate Change Plan followed by publication of the exposure draft of relevant legislation that is planned to be passed by parliament by the end of 2011. According to the Government proposals, a fixed price phase would run from 1 July 2012 to 30 June 2015 and a flexible price phase involving an emissions trading scheme (ETS) would begin on 1 July 2015. The ETS is a cap and trade scheme, where the Government sets the cap on emissions and the market determines the price of permits.
3. At the September 2011 meeting staff provided a memorandum containing a preliminary discussion of financial reporting implications of a future carbon tax. Based on members' views at that meeting and further analysis of the draft legislation Agenda paper 5.2 has been prepared.

Overview

4. Agenda paper 5.2 sets out pertinent views in relation to recognition and measurement of assets, liabilities, gains and losses relating to emissions schemes with a view to facilitating deliberation in the Australian context. It tentatively concludes that emitter entities and the Government would need to account for transactions and other events relating to a fixed price phase as follows:

   Accounting by emitter entities

   - a gross approach for the recognition of assets and liabilities arising from the carbon tax mechanism should be adopted;
   - permits, whether purchased or received free of charge, should be recognised as intangible assets under AASB 138 *Intangible Assets*, using a cost-impairment model;

- a liability for emissions should be recognised as the entity emits under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, with relevant expenses either capitalised or taken to profit or loss based on the circumstances;
- free permits would be recognised using a government grant approach. For consistency with recognising purchased permits, an approach not leading to the recognition of free permits at a nominal amount is preferable; and
- a provision for a shortfall charge should be recognised under AASB 137 based on the occurrence of obligating events relating to provisional and final shortfalls.

Accounting by Government

- carbon tax proceeds should be considered as non-income tax revenue;
- the surrender of purchased permits by emitter entities should be regarded as carbon tax received in advance by the Government which is taken to revenue progressively as a reliable measurement of emissions by the emitter entity becomes available; and
- free permits issued by the Government should remain a liability until surrender in the extinguishment of debt or for a refund, or cancellation if no surrender takes place by the date stipulated in the regulations.

Attachment

Agenda paper 5.2: Staff paper – Possible Financial Reporting Implications of the Fixed Price Phase of the Carbon Price Mechanism