

STAFF PAPER

June 2015

IASB Meeting

Project	Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)		
Paper topic	Cover note		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose of Agenda Papers 6A-6B

1. In January 2015, the IASB decided to take a fresh approach to looking at how to account for pollutant pricing mechanisms. In this meeting, the staff want to encourage the IASB members to think freely about how best to reflect the economic substance of a specific type of pollutant pricing mechanism; that is, a cap-and-trade type of emissions trading scheme (ETS).
2. At this time, we do not want the IASB's thinking to be restricted by existing Standards or past efforts or analysis. We are looking for the IASB to express non-binding, free-thinking ideas as a first-step to developing our thinking about which possible accounting models could be developed for consideration in a Discussion Paper about this project.
3. The staff present two papers to aid in the discussion:
 - (a) Agenda Paper 6A: Why do we need a fresh approach? This paper highlights some of the difficulties encountered in earlier approaches to the issue, which tried to fit emission allowances and the related obligations created by the mechanisms into existing Standards.
 - (b) Agenda Paper 6B: provides a simple numerical example of a typical cap-and-trade type of emissions trading scheme. It shows how different accounting approaches produce different results in the statements of

financial position and profit and loss and other comprehensive income.

The approaches outlined represent some common approaches used in practice. The purpose of the paper is to demonstrate the accounting entries and resulting financial statement line items that have developed in the absence of specific guidance in IFRS.

4. Although the staff are interested in hearing IASB members' views about these accounting approaches, they are not intended to be used as a list of options. They are intended as a starting point for discussion to enable the staff to analyse views about the advantages and disadvantages of various approaches. Other approaches may be more appropriate.
5. The fact pattern used for the examples presented in Agenda Paper 6B is the same as that contained in Agenda Paper 4B for the joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF) to be held on 11-12 June 2015. That paper contains further examples, which are intended to draw out further issues to demonstrate a wider view of the economic effects of the emission trading scheme. The CMAC/GPF paper is reproduced in Appendix B of IASB Agenda Paper 6B for this meeting.
6. We encourage IASB members use the further examples to take a fresh approach to the issues raised in Agenda Paper 6A, as demonstrated in Agenda Paper 6B. At this stage, we are looking at generating thought-provoking ideas and possible approaches. The staff will then analyse any possible models that the IASB would like to explore in more detail through the Discussion Paper. This analysis will involve comparison to the concepts in the *Conceptual Framework* and the existing requirements of IFRS.

Next steps

7. At the IASB meeting, the staff will give a verbal update to the IASB about the outcome of the discussion held at the joint CMAC/GPF meeting. We will then combine the views and ideas expressed in the CMAC/GPF meeting with the views and ideas of the IASB members that are expressed in this meeting. The staff will use the views and ideas in an analysis of possible accounting approaches, which will be brought to a future IASB meeting.