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IASB withdraws IFRIC Interpretation on Emission Rights

At its meeting in June, the International Accounting Standards Board (IASB) decided to withdraw IFRIC 3 *Emission Rights* with immediate effect.

IFRIC 3 was developed by the IASB's International Financial Reporting Interpretations Committee (IFRIC) to explain how to apply existing International Financial Reporting Standards (IFRSs) to 'cap and trade' emission rights schemes. It was finalised in December 2004 to be ready for the launch of the European Union Emissions Trading Scheme in January 2005.

Commentators have indicated that the markets for emission rights necessary for the proper functioning of the EU Scheme, although developing rapidly, are at present thin. In addition, some European governments have yet to issue emission rights to companies. The IASB has therefore concluded that it is questionable whether there is as urgent a need for an Interpretation as originally concluded by the IFRIC in 2004.

The IASB affirmed that IFRIC 3 is an appropriate interpretation of existing IFRSs for accounting for the EU Scheme. Nonetheless, both the IFRIC and the IASB acknowledge that as a consequence of following existing IFRSs, IFRIC 3 creates unsatisfactory measurement and reporting mismatches.

At its three most recent meetings, the IFRIC has developed for the IASB's consideration possible solutions to eliminate these mismatches. However, because the IASB has an active project to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (another Standard that is applicable to emission rights issued by governments), the IASB decided not to pursue these solutions before it has considered the effects of the revised IAS 20 on the accounting for allowances received from government. The IASB is concerned that short-term amendments to Standards might result in a series of changes in accounting for

emission rights, which would be unhelpful to both preparers and users of financial statements.

In the light of the reduced urgency for an Interpretation, the IASB decided to withdraw IFRIC 3, with immediate effect. This will enable the IASB to address the underlying accounting in a more comprehensive way than originally envisaged by the IFRIC.

Further information about the decision to withdraw IFRIC 3 can be found in the June edition of *IASB Update*.