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Kevin Stevenson, Chairman  
International Financial Reporting Interpretations Committee  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr. Stevenson,

Deloitte Touche Tohmatsu is pleased to comment on the International Financial Reporting Interpretations Committee's (IFRIC) Draft Interpretation—Emission Rights (D1).

We have concerns as to the effects this interpretation may have on the accounting for government grants not within the scope of this Interpretation. Specifically, the prohibition of the allowed alternatives in IAS 20 because "...this would not be a faithful representation of the resources that the entity controls..." could be interpreted as a removal of this option from IAS 20. That is, when would an understatement of the assets received as a result of the allowed alternative be a faithful representation? This does highlight an issue with respect to IAS 20, but the issue is not particular to emission rights and should be considered at a wider level. If it is concluded that the options in IAS 20 undermine the quality of financial information reported, IAS 20 should be amended.

The conclusion by the IFRIC (as directed by the IASB) to prohibit options in a Standard creates confusion as to the role of the IFRIC. We understand the mandate of the IFRIC allows it to set new standards and interpret existing standards. However, this decision apparently allows (and encourages) the IFRIC to take on its own improvements project—a result we do not support.

We also understand the IASB has two projects (IAS 20 and IAS 38) that could, when finalised, potentially amend the requirements of this Interpretation. As a general matter, we question whether the IFRIC should interpret a Standard the IASB intends to replace or withdraw in the near term.

Despite the above concerns, we believe there are aspects of the Interpretation that provide useful guidance, such as:

- λ emission rights are intangible assets and not financial assets;
- λ receipt of the emission right is a government grant that should be accounted for;  
and
- λ emission rights received can not be offset against the liability caused by emitting pollutants.

The consensus should be amended to concentrate on these issues.

Please find below our comments regarding other specific matters.

## **Scope**

We support the scope exclusion for emission rights related to a scheme that is not operational and for brokers or other position-taking institutions for the reasons set out in the basis for conclusion. However, we request the final Interpretation make clear that brokers and dealers should apply IAS 2 for emission rights schemes (as noted during the IFRIC meetings).

## **Consensus**

We support the conclusion that involvement in an emission rights scheme gives rise to an asset for the allowances (rights) held, a government grant for the allowances received, and a potential liability relating to the delivery of assets (rights or cash) as a result of actual emissions. Furthermore, we support the conclusion that any liability should be presented separately from the asset and government grant. However, the Interpretation could be improved if guidance is provided on how to measure the liability when either the fair value of the emission rights can not be determined, or when settlement of the liability may occur at an amount different from the fair value of the emission rights. Additionally, as noted above, we believe the Interpretation should refer to the requirements in IAS 20 for the accounting for the government grant received and the resulting deferred income.

We support the IFRIC's conclusion that emission rights are intangible assets. We also support the Interpretation's clarification of the application of IAS 38.91 to emission rights in paragraph Basis for Conclusion 7 (BC7). However, paragraph 6 of the Interpretation seems to contradict BC 7 by requiring non-amortisation for emission rights that are not traded in an active market, an approach inconsistent with IAS 38. Therefore, we request paragraph 6 be redrafted to be consistent with BC 7. We also note that the interpreted application of IAS 38.91 has broad applicability to the application of that paragraph, IAS 16.46 and the definitions of residual values in IAS 16.6 and 17.3.

IAS 36.58 requires an impairment loss to be recognised when the carrying amount exceeds the higher of the net selling price and value in use. The Interpretation seems to require that impairment be measured only on the basis of the net selling price. The carrying amount of the emission rights may be recovered through the use of Cash Generating Units (CGU) to which the emission rights belong, in which case there is not an impairment where the value in use of the CGU exceeds the carrying amount. Therefore, we recommend that the example and Basis for Conclusion clarify that impairment should be performed in accordance with IAS 36.

We agree that a separate liability for the obligation to deliver emission rights should be recognised as a provision under IAS 37, to the extent emissions have been made. We also agree with the IFRIC's interpretation of IAS 37 that the best estimate of the expenditure required to settle the present obligation may be the fair value of the assets to be delivered (whether emission rights or cash).

## **Other comments**

It is unclear whether the net expenses resulting for the emission rights scheme can be capitalised or not as an inventory cost under IAS 2.14. We request guidance on whether these net expenses should be viewed as a cost of manufacturing product, or as a penalty for polluting.

We appreciate the opportunity to provide our comments. If you have any questions concerning our comments, please contact Ken Wild in London at (0207) 007 0907.

Sincerely,

Deloitte Touche Tohmatsu

A single, long, horizontal blue ink stroke, likely representing a signature or a decorative underline.

**Deloitte Touche Tohmatsu**