



International Accounting Standards Board®

Press Release

For immediate release

15 May 2003

Proposed new accounting Interpretation – Greenhouse gas emissions

The International Financial Reporting Interpretations Committee (IFRIC)* has today released proposals for new accounting requirements for companies participating in government schemes aimed at reducing greenhouse gas emissions. The proposals are open for public comment until 14 July 2003.

The proposals are set out in a draft IFRIC Interpretation D1 *Emission Rights*. They would require companies to account for the emission allowances they receive from governments as intangible assets, recorded initially at fair value. Emissions of pollutant would then give rise to a liability for the obligation to deliver allowances to cover those emissions.

Introducing the draft Interpretation, Kevin Stevenson, IFRIC Chairman, said:

“Emission control schemes that utilise marketable allowances are becoming widespread as a result of the Kyoto Agreement and companies are looking for timely guidance. The IFRIC and the IASB are also intent on eliminating the risk that divergent accounting practices will develop in this new area.

In these proposals, we have focused on the important common features of the new schemes. We may have to go further as practice develops. At present some companies are not accounting for the assets, liabilities or government grants involved or at least are very uncertain about the appropriate accounting treatment.”

In welcoming the draft Interpretation, Sir David Tweedie, IASB Chairman, said:

“It is vital that the IFRIC responds to emerging issues like gas emission schemes. The accounting matters involved in such schemes are challenging and may need work beyond the current proposals. I would urge the industries affected by these schemes to take an active part in the IFRIC exposure process. The Board will be monitoring developments closely.”

Subscribers to the IASB’s Comprehensive Subscription Service can view the draft Interpretation from the secure online services area of the IASB’s Website (www.iasb.org.uk). From 16 May the complete text of the draft Interpretation will be freely available from the Website.

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* The IFRIC is the interpretive arm of the International Accounting Standards Board (IASB).

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NOTES TO EDITORS

About the proposals

1. In the light of the Kyoto agreement, several governments have, or are in the process of developing, schemes to encourage reductions in greenhouse gas emissions. The draft Interpretation focuses on the accounting to be adopted by participants in a 'cap and trade' scheme, although its requirements also apply to other schemes that share one or more of the features of a cap and trade scheme.
2. Typically in cap and trade schemes, a government (or government agency) allocates participating entities rights (allowances) to emit a specified level of pollutant. (The government may allocate the allowances free of charge or the participant may be required to pay for them). Participants in the scheme are able to buy and sell allowances and therefore, in many schemes, there is a liquid market for the allowances. At the end of a specified period, participants are required to deliver allowances equal to their actual emissions or incur a penalty.
3. The main proposals in the draft Interpretation are:
 - Rights (allowances) to emit pollutant are intangible assets that should be recognised in the financial statements in accordance with IAS 38 *Intangible Assets*.
 - When allowances are allocated to a participant by government (or government agency) for less than their fair value, the difference between the amount paid (if any) and their fair value is a government grant that is accounted for under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.
 - As a participant emits pollutant, it recognises a provision for its obligation to deliver allowances or pay a penalty in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This provision is normally measured at the market value of the allowances needed to settle it.

About the IFRIC and the IASB

4. The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds and meets about every two months. The IFRIC's principal role is to consider, on a timely basis within the context of existing International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus as to the appropriate accounting treatment. In developing interpretations, the IFRIC works closely with similar national interpretation committees.

5. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

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