



Canadian
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Association

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Trading Schemes meet Tax Accounting or How Accounting Became Difficult



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There is some experience with trading

- Look to Europe – EU ETS experience
- Look to USA – NO_x and SO₂ trading
- Look to Canada – NO_x trading in Ontario

International Accounting Standards Board in 2008 asked:

- Are emission allowances assets? Is the answer affected by how the allowance is acquired?
- What is the nature of the allowance? Is it a licence to emit or a form of currency? If allowances are assets, should they be recognized and, if so, how should they be measured initially?



IASB - continued

- What is the corresponding entry for an entity that receives allowances from government free of charge?
- Does a liability exist? If so, what is the nature of the liability and how should it be measured both initially and subsequently?

IASB - continued

- How should allowances be accounted for subsequently?
- Is the existing model for intangible assets appropriate? If not, what is the appropriate accounting?

IASB - continued

- When should an entity recognize its obligations in an emissions trading scheme and how does this relate to IAS guidance on contingent liabilities and assets?
- What are the overall financial reporting effects of the above decision?



Accounting for emissions trading schemes

- IASB answered most questions and issued a paper in December 2004. Withdrew the paper in 2005 and promised to re-issue in spring of 2009.

<http://www.iasb.org.uk>

USA

- A Financial Accounting Standards Board project is underway where credits maintained as part of an active trading pool are treated as an inventory but at Fair Value (FV).



USA - continued

- FERC has its own accounting standard which suggests that if credits are used internally they are inventory for use (as opposed to for sale), excess credits become available for sale. Allocated credits are zero valued and purchased credits are FV. Thus, an inventory of credits is maintained at a weighted average by vintage (since some expire).



USA - continued

- Consequently, there is an asset created and a liability is triggered when the emission limit is surpassed.



The Canadian Experience

- An attempt was made to develop standards that align with IASB standard
- Nothing to turn to other than the treatment of 'intangibles'
- Valuation of purchased credits determined by FV but allocated credits remain unresolved—zero or FV?

The Canadian Experience

- Taxes and the Environment: Tax Consequences of Emission-Reduction Regulations by Diana E. Stevens, CA and Jay Pon, CA.
- Available from the Canadian Tax Foundation-2006

