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Mr. H Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

30 November 2011

Dear Mr Hoogervorst,

IASB Agenda Consultation 2011

The Climate Disclosure Standards Board (CDSB) welcomes the opportunity to put forward views about the IASB's Agenda. By way of introduction, CDSB is an international organization committed to the integration of climate change-related information into mainstream corporate reporting. In support of its objectives, CDSB has developed a Climate Change Reporting Framework "CCRF" (available at www.cdsb.net/climate-change-reporting-framework/). The CCRF draws on the work of CDSB's Board Members (listed in the front cover of the CCRF), on international developments in corporate disclosure and on the work of the International Accounting Standards Board (IASB).

Please note that the views expressed in this letter are the collective views of CDSB's Technical Working Group and Secretariat, but not necessarily of the organizations represented.

Resumption of the Emission Trading Schemes Project

We would very much like to see the resumption of the Emission Trading Schemes Project by the IASB and FASB, for the following reasons:

- 1) there is wide variation in accounting practices for emission allowances across Europe and internationally, making it difficult for investors to compare financial statements;
- 2) there is evidence that account preparers and users would welcome clarity on emission allowance accounting rules: stakeholders would respond promptly to due process requirements because they want to have a resolution;
- 3) timing: in the European Emissions Trading Scheme (EU ETS) there is a shift in 2013 to auctioning emission allowances which will require in any case a change in accounting practices (for reasons explained below), so it would be ideal to issue new guidance to coincide with auctioning;
- 4) IASB and FASB have already done a considerable amount of work on the Emission Trading Schemes project and it would make sense to bring it to completion. It should be possible to complete the project relatively quickly and it will provide a solid basis

- for work on related climate change and integrated reporting issues which can be expected to become more important to IASB's remit over the next ten years;
- 5) the project demonstrates IASB's commitment to the public interest, and the need to give guidance to what is still a poorly formed emissions trading market.

Background

The absence of accounting guidance on emission allowances following the withdrawal of IFRIC-3 in 2005 has coincided with confusion and uncertainty for those companies participating in emissions trading (notably large European companies, where emission allowances are worth millions of euros), as well as for the users of their financial statements. Research has shown there to be significant variation in how companies account for emission allowances.¹ This situation is not helpful for the reputations of the public accounting profession and carbon markets. It would be of considerable benefit if the IASB (in partnership with FASB) were to resume its Emission Trading Schemes Project in order to resolve the various uncertainties in the capital markets.

Looking forward

Phase 3 of the EU ETS (Directive 2009/29/EC) commences in 2013 and runs until 2020. In accounting terms the ETS marks an important transition because for most companies it means they will no longer be given emission allowances for free. It is the free issuance of allowances that has encouraged variations in accounting and disclosure practices by companies, and therefore a lack of certainty in reporting. From 2013 at least 50 percent of EU ETS allowances will be auctioned (compared with just 4 percent in Phase 2), amounting to c.1 billion allowances per year. Auctioning will start in the second half of 2012. The shift to auctioning in the EU ETS is likely to prompt a review of accounting practice for preparers of accounts, and it provides a valuable window of opportunity for the IASB. Without accounting guidance at this critical juncture there is scope for even more confusion amongst account preparers and users.

The international scope of emissions trading is likely to grow and it will be important for the IASB to keep abreast of it. Although the EU ETS is currently the largest emissions trading scheme worldwide (the value of emission allowances traded in 2008, for example, was 63 billion euros), there are other countries with plans to implement emissions trading (e.g. Australia, Japan, China), which may well in the future be just as big.

Much work on emissions trading has already been done by the IASB in partnership with FASB. For example, tentative decisions have been taken on the recognition of assets and liabilities in situations where allowances have been handed out for free. Although there are still outstanding issues to discuss and resolve, there is evidence of strong stakeholder support for IASB guidance which will help facilitate and speed up the process for IASB.²

The CDSB Technical Working Group (comprising a diverse group of accounting and climate change experts, see <http://www.cdsb.net/about/governance-and-leadership/technical-working-group/>) is willing to provide practical support and help to IASB. Discussions have been held about the possibility of CDSB including in its 2012 work plan a project to build on the work already done by IASB and FASB on accounting for and reporting emissions allowances. We believe that CDSB's work could pave the way for something more formal from the IASB in the future, while providing valuable feedback and boosting stakeholder awareness of the issues surrounding carbon disclosures and accounting.

¹ see Lovell, H., T. Sales de Aguiar, et al. (2010) *Accounting for Carbon* - ACCA & IETA Research Report 122; PricewaterhouseCoopers and the International Emissions Trading Association (2007) *Trouble-entry Accounting Revisited*.

² see Lovell, H., T. Sales de Aguiar, et al. (2010) *Accounting for Carbon* - ACCA & IETA Research Report 122

Looking further ahead at strategic issues for financial reporting, climate change reporting and integrated social and environmental reporting will almost certainly be more central to the IASB's remit as the effects of climate change and resource scarcity begin to manifest themselves more clearly, and mitigation and adaptation action ramps up. Early work on the Emission Trading Schemes Project is likely to reap rewards, paving the way for other climate- and environmental-related research and reporting guidance.

IASB's development of a Disclosure Framework

We support the IASB's development of a Disclosure Framework and refer you to CDSB's Climate Change Reporting Framework as an example of an approach that seeks to make information more relevant for users.

Yours sincerely,

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