

**Opinion n° 2015-01
of 15 January 2015
relating to the new Standard 21
of the Central Government Accounting Standards Manual
on greenhouse gas emission allowances**

1. Background

The Kyoto Protocol, adopted on 11 December 1997 as part of the United Nations Framework Convention on Climate Change (UNFCCC), was the first stage in obtaining international commitment to the reduction of the emission of greenhouse gas (GHG).

The ultimate goal was to create scarcity in a universal commodity and set up a market for emission rights in order to fix a price for the use of this resource, which was previously considered unlimited and freely accessible at no charge.

The Protocol provides the parties with the market mechanisms and flexibility enabling them to discharge their obligations to meet quantified GHG emission reduction targets.

Since 2005, the European Union (EU) has introduced its own market mechanism, the EU Emission Trading System¹ (EU ETS), dealing with the release of GHG by specifically identified entities (participants). GHG emissions that are not attributable to identified participants (particularly in the building and transport sectors) and are not covered by the EU ETS, were monitored at international level up until 2012.

¹ Introduced by Directive 2003/87/EC of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community. The latter has since been amended by several other Directives and Regulations.

Since 2013, EU ETS has introduced a new period of commitment up until 2020, characterised by market consolidation and in particular the development of emission allowance auctioning. Henceforth, the volume of emission allowances allocated free of charge or by auction is supervised by the European Commission for the benefit of all participating States.

Since 2013, a second mechanism, the *Effort Sharing Decision*² (ESD) set up at European level, deals with those emissions that are not covered by the EU ETS. The ESD only deals with trading between Member States of those emission allowances that are not covered by the EU ETS.

These changes in the way emission allowance trading operates at European level made it necessary to define the accounting treatment to reflect European regulations for the period 2013-2020 in the Central Government's accounts.

This Standard sets out to describe the accounting treatment of emission allowances from the Central Government's point of view, reflecting its:

- Responsibility for the policy to prevent the most severe impacts of climate change,
- Responsibility for operating polluting plants, in other words its status as a participant.

2. Main requirements

Standard 21 "Greenhouse gas emission allowances" stipulates that emission allowances under the ETS, allocated to public and private sector participants, are not assets of the State responsible for the policy to prevent the most severe impacts of climate change. The Standard also stipulates that emission allowances managed by the effort sharing mechanism (emission allowances that are not covered by the EU ETS) are not assets of the State. Appropriate disclosure in the notes of the effects of existing mechanisms is required.

² Decision n°406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020.

The production model described in the National Accounting Standard Authority (“ANC”) regulation n°2012-03 of 4 October 2012 relating to the accounting treatment of emission allowances for greenhouse gas and equivalent units has been adopted for the purposes of the accounts of the Central Government where the State acts as a participant. According to this model, emission allowances are considered to have the characteristics of inventories that are consumed as the greenhouse gas is released. A nil value is initially recognised for emission allowances issued free of charge. Emission allowances purchased on the market are initially recognised at acquisition cost. The obligation to surrender allowances gives rise to a liability only where actual emissions are in excess of the allowances held, so that the State has to buy emission allowances.

3. Qualification of the change

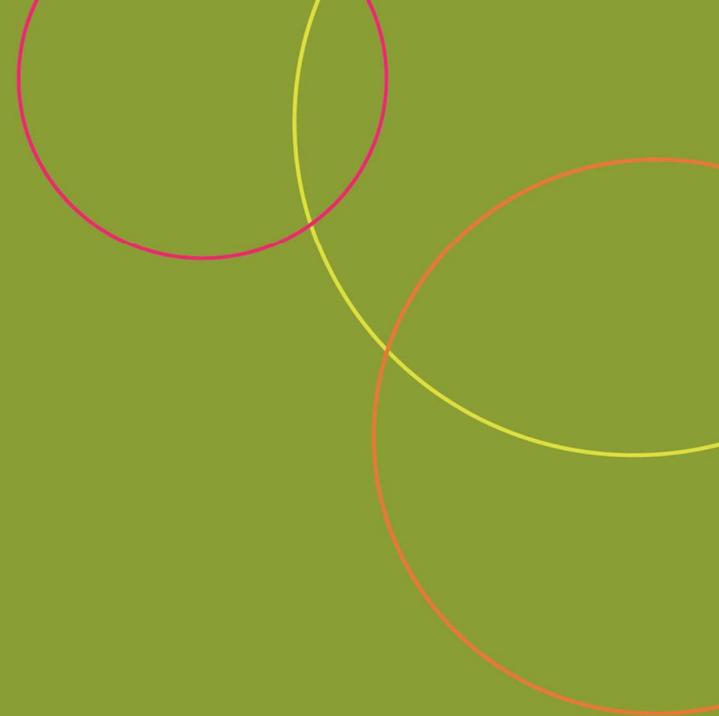
The first-time application of the Standard constitutes a change in accounting policy.

The accounting treatment is determined by the requirements of Standard 14 of the Central Government Accounting Standards Manual (RNCE) relating to changes in accounting policy, changes in accounting estimates and the correction of errors.

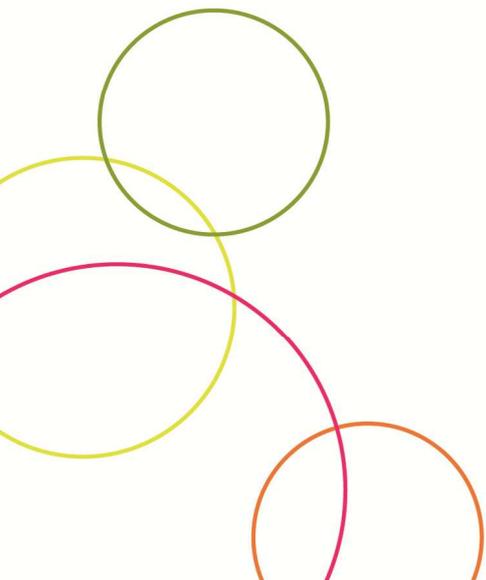
If it is impracticable to determine the effects of the change on the relevant elements of assets, liabilities, net assets/equity and/or the surplus/deficit statement for all previous periods, this change is applied prospectively as from the beginning of the first period for which the effects can be calculated and does not take into account the cumulative adjustment to assets, liabilities, net assets/equity arising from transactions or events prior to that date.

4. Effective Date

The Public Sector Accounting Standards Council is of the opinion that these requirements should be effective as from the 1 January 2014 (accounts for the year ended 31 December 2014).



**STANDARD 21
GREENHOUSE GAS
EMISSION
ALLOWANCES**



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STANDARD 21 – GREENHOUSE GAS EMISSION ALLOWANCES

INTRODUCTION

I. GREENHOUSE GAS EMISSION RIGHTS TRADING SCHEMES

I.1. International background

The Kyoto Protocol, adopted on 11 December 1997 as part of the United Nations Framework Convention on Climate Change, was the first stage in introducing an international carbon market with a view to reducing greenhouse gas emissions.

Alongside public policy recommendations and measures in favour of sustainable development, it provides the Parties, with different market mechanisms (emission rights trading schemes) and flexibility (Kyoto credits³), to enable an effective and global reduction of pollution.

The objective is to fix a price for using a common universal commodity by setting up a market for trading emission rights; the latter resource which was previously unlimited and freely accessible at no charge is henceforth traded in order to reduce greenhouse gas emissions. The scheme works on a “cap and trade” basis whereby a cap or limit is set on the total volume of greenhouse gas emissions allowed to participants, and this cap is converted into tradable emission rights. As a result, a State that is a party to the protocol, with emissions below the determined level may sell the surplus rights to other States which have not met their emission reduction targets.

The CO₂ emission right is the instrument underlying this international policy to prevent the most severe impacts of climate change which enables public authorities to regulate economic activities that generate greenhouse gas whilst maintaining economic development and employment. Each emission right represents the equivalent of a tonne of CO₂.

In order to maintain the incentive for reducing emissions and the overall balance of the scheme, the rights traded are limited to 10% of the total emission rights initially allocated under the Kyoto Protocol; these 10% represent:

- > Emission rights allocated to polluting site operators, referred to below as participants,
- > Emission rights arising from diffuse sources which are not directly attributable to polluting entities (emissions in sectors such as transport, construction, etc.).

The remaining 90% constitute a reserve of emission rights not available for trading.

³ Kyoto credits are similar to emission allowances and are subject to the same accounting treatment.

At the Doha conference on climate change in December 2012, an extension of the Kyoto Protocol was approved in principle for the period from 2013 to 2020. The terms of the new Protocol are set to be decided at the conference “Paris Climat 2015”.

I.2. European background

At European level, the international policy to prevent the most severe impacts of climate change led to the introduction with effect from 1 January 2005 of the EU ETS⁴ which applies to the 10% tradable portion of total emission rights in accordance with the Kyoto Protocol.

In this context, the responsibility of France exists at the three following international and European levels:

- > As a State that is party to the Kyoto Protocol;
- > As a Member State of the European Union, party to the Kyoto Protocol;
- > As a Member State of the European Union, responsible for the internal policy to prevent the most severe impacts of climate change in respect of the greenhouse gas emissions of participants, both in the public and private sectors.

The European emission allowance trading system has been developed over the three following phases.

I.2.1 Pilot period between 2005 and 2007

This pilot period was instrumental in determining a price for carbon as well as the volume of national emission allowances to be allocated to participants. The founding text of the EU ETS is Directive 2003/87/EC⁵.

I.2.2 Commitment period 2008-2012

The EU ETS provided for allocation of emission allowances free of charge to participants by Member States under the supervision of the European Commission. In France, participants were identified in the National Allocation Plan (NAP). The latter allocated emission allowances under an administrative authorisation to emit greenhouse gas. The participants had to surrender allowances equivalent to their actual emissions. For the period 2008-2012, these emission allowances were recorded in a national register kept by the Caisse des Dépôts, also in charge of checking the surrender of allowances by participants.

Allowances for emissions not covered by the EU ETS continued to be covered exclusively by the Kyoto protocol (not included in the NAP) and were recorded and monitored in an International Transaction Log.

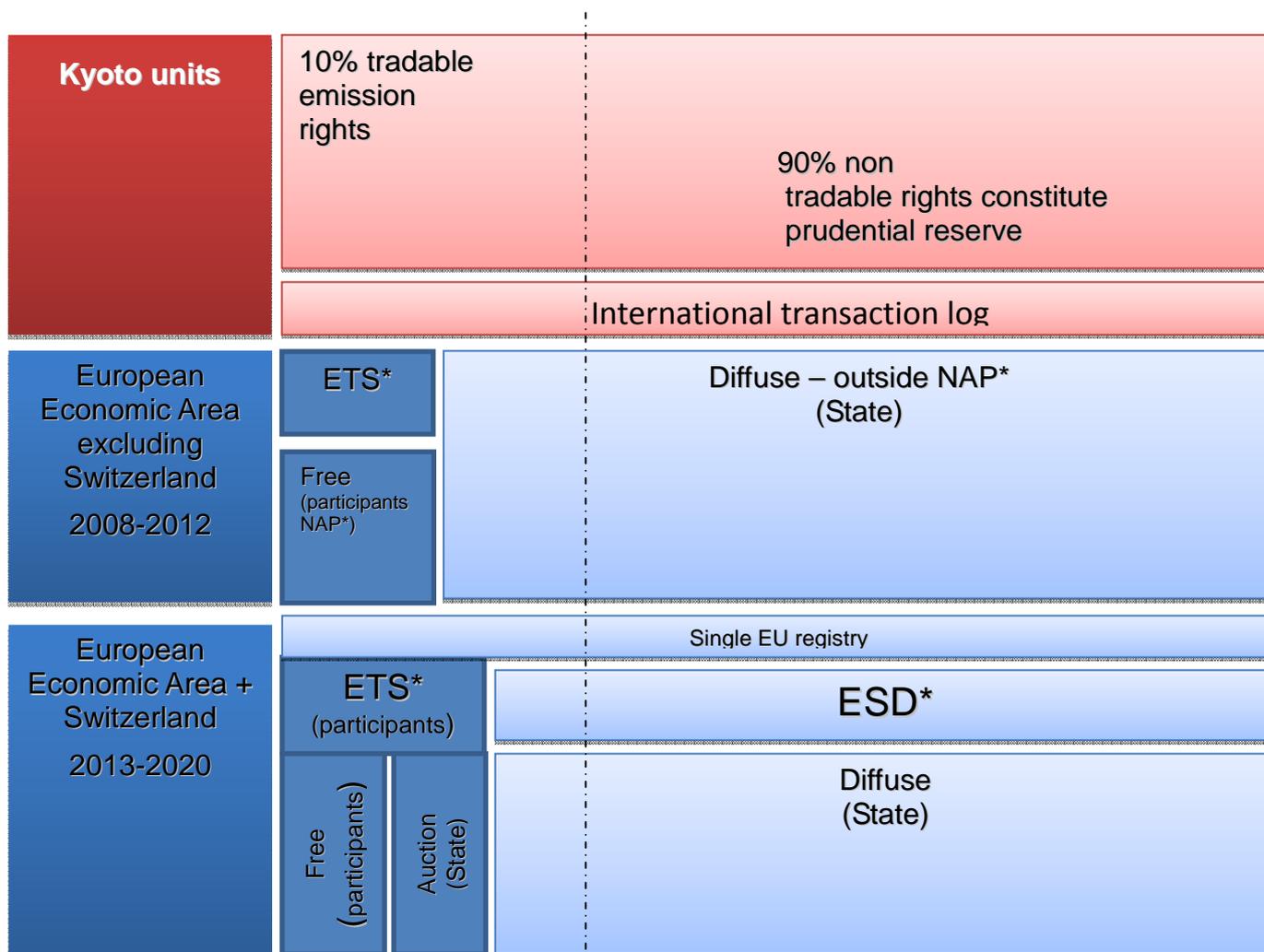
⁴ *European Union Emission Trading Scheme* (EU ETS).

⁵ Directive 2003/87/EC of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community. The latter has since been amended by several other Directives and Regulations.

I.2.3 Commitment period 2013-2020

This period represents a consolidation of the ETS and reinforces the role of the European Commission in the allocation system including the recording of emission allowances in a single EU registry. In addition, a second mechanism applicable only to States, known as the ESD (*Effort Sharing Decision*⁶) was introduced at European level to address emissions not covered by the EU ETS.

The interaction of Kyoto and European mechanisms and the new features introduced by the European Union in the period 2013-2020 are summarised in the following diagram:



* ETS: Emissions Trading System; NAP: National Allocation Plan; ESD: Effort Sharing Decision

⁶ Decision n°406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020.

In France, the changes introduced by the plan for 2013-2020 affected each of the parties differently:

- > Participants (State and other public and private entities that operate polluting plants):
 - gradual reduction of the amount of free emission allowances allocated,
 - introduction of auctioning as a means of procuring emission allowances for participants, in particular for electricity producers. This system is intended to develop and eventually replace free allowance allocation. In this way a primary market is emerging as opposed to the secondary market⁷ on which previously auctioned or provided for free emission allowances are traded, which has a major structural role in that it acts as a price signal⁸. Broad participation is ensured by the use of a common auction platform; Member States may “opt out” of the common platform, provided that they select platforms included on the list in the appendix to Regulation 1031/2010/UE.

- > State with regard to its responsibility for policy to prevent the most severe impacts of climate change :
 - investment of at least 50% of the revenue from auctions in the fight against global warming,
 - management of specific emission allowances created under the European effort sharing decision system,
 - the European Commission now centralises emission allowance allocation procedures, monitors the surrender of allowances and keeps the emission allowance registry; registries can no longer be kept at national level as was the case during the 2008-2012 period.

Certain aspects still require clarification at international and European levels for the periods 2013-2020 and post 2020, including the following:

- > extension of the Kyoto Protocol beyond 2020,
- > the possibility of carrying forward emission allowances in excess after 2020,
- > the future of surplus emission allowances held at the end of the period 2008-2012.

⁷ For the record, these are regulated markets – Title VII of the general regulations of the AMF for 2014, “Regulated markets for emission allowance trading”.

⁸ PRADA report dated April 2010 : “The regulation of CO₂ markets”.

II. DEFINITION OF GREENHOUSE GAS EMISSION ALLOWANCES

II.1. Lack of a common definition

There is no common definition of greenhouse gas emission allowances at European level because of the specific characteristics of each Member State. The following approaches have been examined in France:

- > The Environmental Code defines emission allowances as tradable personal property⁹.
- > The creation of a new legal instrument and the administrative authorisations as proposed in the PRADA Report, would require implementation at European Community level.
- > The European financial market authorities treat allowances as financial instruments to enable trading to be regulated and monitored; conversely, emission allowances do not meet the accounting definition of a financial instrument as they do not confer upon their holder the right to receive cash or equity instruments.
- > On 4 October 2012, the Accounting Standards Authority (ANC) published Regulation n°2012-03 relating to the accounting treatment of emission allowances by private sector participants following the introduction of the auctioning system. This regulation introduces the notion of raw material of an administrative nature that is consumed in the production process¹⁰.
- > The classification as a tax has been rejected: States do not fix the price of emission allowances for trading between participants; the latter is fixed by the market and may vary over time.

II.2. Approach adopted

Considering the lack of common definition for emission allowances and the fact that they are used in systems of a different nature (ETS for participants and ESD¹¹ for emissions not covered by the EU ETS), it was decided to adopt the following classification for accounting purposes:

- > Emission allowances within the scope of the European ETS system:
 - emission allowances allocated free of charge to participants
 - auctioned emission allowances
- > Emission allowances within the scope of the ESD system

Using this classification as a basis, the characteristics of emission allowances were examined with respect to the definitions of assets and liabilities and their respective recognition criteria as set out in the conceptual framework for public accounts.

⁹ “Code de l’environnement” – Article L.229-15-I.

¹⁰ See §3.1 of the introductory note to ANC Regulation n° 2012-03 of 4 October 2012.

¹¹ ESD : *effort sharing decision*.

III. CHARACTERISTICS OF EMISSION ALLOWANCES FOR THE PERIOD 2013-2020

III.1. ETS system and emission allowances allocated free of charge

Emission allowances allocated free of charge concern the State both with respect to its political responsibility to prevent the most severe impacts of climate change and as a participant that receives emission allowances for operating polluting sites.

III.1.1 Responsibility of the State for policy to prevent the most severe impacts of climate change

The allocation of emission allowances to participants for the period 2013-2020 is based on the rules¹² determined by the European Commission: each Member State proposes an allocation schedule to the Commission for validation. This schedule is updated annually to reflect changes in composition: new entrants, closures and variations in production.

Each year, the European Commission makes an allocation of emission allowances free of charge to participants who may either keep them or trade them on attribution. In all cases, participants must surrender allowances equivalent to the amount of their actual emissions.

Since 2013 the European Commission centralises and validates the way emission allowances are allocated, as well as monitoring the surrender of allowances and administering the European registry. This is a major change as compared to the period 2008-2012 which supports the conclusion that the State does not control emission allowances allocated to participants free of charge.

It follows that the accounting treatment adopted for the financial statements of Central Government (CGE) for the period 2008-2012 does not apply to the period 2013-2020¹³.

If private or public participants do not comply with the European regulations, the latter do not stipulate whether the State could be held liable in their place. One cannot be certain from an accounting point of view that there is no obligation for non-compliant participants, or if not for the State; indeed, there remains the possibility that proceedings for infringing Community rules could be brought.

III.1.2 State as a participant that operates polluting sites

The list of operators to which greenhouse gas emission allowances are allocated free of charge is published by ministerial order; this list identifies the polluting sites operated directly by the State.

These allocated emission allowances are recorded in the single European registry and may be traded on attribution.

They have a positive economic value for the entity, either as a means of discharging their obligations with respect to greenhouse gas emissions or because they can be sold. They have no

¹² Decision 2011/278/EC of 27 April 2011.

¹³ For information, tradable ETS emission allowances were initially recognised as an asset, measured at their market value on the first quotation date whilst a balancing liability of the same amount was also recognised.

physical substance. On the other hand, the emission right associated with them is considered to be consumed in the operating process of the polluting plant. They are generally held for less than an accounting period. The economic benefits which they provide are limited in time.

There is a penalty for non-compliance with the annual obligation amounting to 100€ for each tonne of CO₂ emissions for which the participant has not surrendered the equivalent emission allowance. This payment does not however discharge the participant's liability to surrender the missing emission allowances.

The ETS is a system based on the allocation and surrender of emission allowances. The surrender obligation provides the participant with an incentive to reduce its production of greenhouse gas. This obligation is the consideration given for receiving free emission allowances. Consequently, emission allowances are recognised at nil value.

III.2. ETS system and auctioned emission allowances

The period 2013-2020 is one of reinforcement of the ETS with a view to obtaining a reduction of 20 % of greenhouse gas emissions in 2020 as compared to 1990, pursuant to the Climate and Energy package adopted by the European Commission in 2009. The system of ETS allocation free of charge is intended to make way for a system of acquisition of emission allowances by participants through an auctioning procedure.

The amount of auctioned emission allowances for the period 2013-2020 is the difference between the total amount of emission allowances, representing the total amount of participants' emissions, and the amount of allowances allocated to the latter free of charge over the period. The amount may vary in function of the number of sites opened or closed.

Any participant holding an operator's deposit account in the European registry, acting on its own behalf, may apply for admission to bid in the auctions¹⁴. Participants that do not receive all their emission allowances free of charge must satisfy their needs via the auction procedure (in particular electricity producers).

III.2.1 Responsibility of the State for policy to prevent the most severe impacts of climate change

Because the Central Government has chosen to join the common European platform, a fixed share of revenue from auction sales made on this platform determined by regulation¹⁵ is allocated to France. There is no system of compensation for unsuccessful auction sales.

The European Commission requires Member States to use at least 50%¹⁶ of auction revenue for climate and energy-related purposes. In France, the Budget Act determines the allocation of auction revenue¹⁷, according to the Directive.

¹⁴ Regulation 1031/2010/EU of 12 November 2010 on the timing, administration and other aspects of auctioning greenhouse gas allowances pursuant to Directive 2003/87/EC, article 18.

¹⁵ Directive 2003/87/EC amended by Regulation 1031/2010/EU.

¹⁶ Directive 2009/29/EC of 23 April 2009, article 10.

¹⁷ The Budget Act for 2013 provides for the annual transfer of total auction revenue with a ceiling of M€590 to the National Agency for Improving Housing (ANAH). Revenue in excess of M€ 590 is reallocated to the budget of Central Government.

If private or public participants do not comply with the European regulations, the latter do not stipulate whether the State could be held liable in their place. One cannot be certain from an accounting point of view that there is no obligation for non-compliant participants, or if not for the State; indeed, there remains the possibility that proceedings for infringing Community rules could be brought.

III.2.2 State as a participant that operates polluting sites

Emission allowances purchased by the State as a polluting entity (State as a participant) have a positive economic value as a means of discharging the State's obligations with respect to greenhouse gas emissions: the allowances must be surrendered as part of the participant's compliance obligations. In addition, these emission allowances may also be sold. After purchase, auctioned emission allowances may be freely traded by market participants.

There is a penalty for non-compliance with the annual obligation amounting to 100€ for each tonne of CO₂ equivalent emissions for which the participant has not surrendered the corresponding emission allowance. This payment does not however discharge the participant's liability to surrender the missing emission allowances.

III.3. ESD system and emission allowances not covered by the EU ETS

The ESD, or Effort Sharing Decision, addresses the trading of emission allowances that are not covered by the EU ETS.

Those emissions, which represent the majority of global greenhouse gas emissions, concern in particular construction, agriculture and transport sectors (other than air transport dealt with by the ETS since 2012).

The ESD system is distinct from the ETS¹⁸ in that it applies only to Member States and does not give rise to an allocation to third parties. Although emission allowances issued under both systems are recorded in the single European registry, they are not interchangeable.

The State has political responsibility for reducing those emissions; it exercises this responsibility through the policy to prevent the most severe impacts of climate change. In that sense, the State's action is dictated by environmental constraints rather than by market considerations and it is not therefore a trading activity.

Each year an assessment of the State's compliance is carried out on the basis of a comparison of emission allowances allocated to the actual amount of greenhouse gas emissions¹⁹. Where the balance is negative (actual emissions greater than allocated allowances), the latter is carried forward to the following year with a penalty of 8%²⁰.

Under European legislation in force in 2014, there is uncertainty about the nature and extent of penalties that might be applicable if the balance remained negative at the end of the 2013-2020

¹⁸ ETS which manages the trading of emission allowances by identified participants in certain sectors of the economy at European level is based on free allocation and auctioning.

¹⁹ Regulation 389/2013/EU of 2 May 2013 establishing a Union Registry pursuant to Directive 2003/87/EC, article 78.

²⁰ Decision 406/2009/EC, article 7 and Title IV of Regulation 389/2013/EU, articles 74 to 80 (application of article 7 of the ESD).

period. There is always the possibility that proceedings could be brought for failure to fulfil an obligation under the general functioning of the European Union.

ESD emission allowances are instruments that can only be traded between Member States subject to certain conditions (for example, a Member State with surplus emission allowances may trade up to 5% of its annual emission allowances). ESD emission allowances cannot therefore be traded by participants.

IV. RECOGNITION OF THE SURRENDER OBLIGATION

Two views of the accounting treatment of the annual emission allowance surrender obligation for public sector participants were examined:

- > View 1 : the surrender obligation only gives rise to a liability when the entity's actual emissions are greater than the allowances it holds, so that it has to purchase allowances on the market;
- > View 2: the surrender obligation generates a liability for the entity progressively as emissions occur.

View 1 was adopted on the grounds that the Constitutional Bylaw for Budget Acts (LOLF) stipulates that business accounting rules apply unless there are specific features of public policy which justify a different treatment.

V. PERIOD 2008-2012: ACCOUNTING TREATMENT IN CENTRAL GOVERNMENT ACCOUNTS

It should be noted that the total amount of emission allowances in the National Allocation Plan for the period 2008-2012 were recognised in intangible assets, initially measured at their original market value in the accounts of Central Government. Subsequent measurement was at cost. The corresponding accrued liability²¹ of the same amount was recognised, representing the State's obligation to destroy allowances equivalent to its actual emissions. As emission allowances were allocated evenly over the five year period 2008-2012, the asset and the accrued liability were reduced by one fifth in each period without effect on the surplus/deficit. The emission allowances not in the National Allocation Plan, held in respect of emissions not covered by the EU ETS, were not recognised but were disclosed in the notes.

Over the same period 2008-2012, emission allowances were accounted for by public sector participants, according to instructions based on the opinion 2004-C of 23 March 2004 of the Urgent Topic Committee of the National Accounting Council (CNC): emission allowances received were recognised in intangible assets at their undepreciated cost and impairment recognised, where applicable, to take account of any decrease in the value of the allowances.

²¹ And not a liability.

VI. POSITION OF THE STANDARD COMPARED TO OTHER ACCOUNTING STANDARDS

The Standard sets out to prescribe the accounting treatment of emission allowances from the State's point of view in respect of:

- > its responsibility for the policy to prevent the most severe impacts of climate change,
- > its status as a participant operating polluting sites.

The Standard is not based on any existing standard with respect to the accounting treatment of emission allowances relating to the State's responsibility for the policy to prevent the most severe impacts of climate change.

In France, the Accounting Standards Authority (ANC) has provided guidance on the accounting treatment of emission allowances in the financial statements of private sector participants in Regulation n°2012-03 of 4 October 2012. In application of the provisions of the Constitutional Bylaw on Budget Acts that stipulates that business accounting rules apply to the accounts of Central Government except where identified specific features of its action justify otherwise, and given that no such features have been identified, the accounting requirements of the private sector apply to public sector participants.

At international level, the latest discussions of the IASB²² go back to November 2010; at the end of 2014 the project appears to be on standby. The IPSASB²³ has included a project in its Work Program and approved the outlines of the project in September 2013.

²² IASB: *International Accounting Standards Board*

²³ IPSASB: *International Public Sector Accounting Standards Board*

STANDARD 21 – GREENHOUSE GAS EMISSION ALLOWANCES

REQUIREMENTS

1. SCOPE

1.1. Scope of transactions

The Standard prescribes the accounting treatment for Central Government's greenhouse gas emission allowance trading transactions in application of systems introduced by the Kyoto Protocol, and in particular by the introduction of ETS and ESD²⁴ systems at European level for the period 2013-2020.

This Standard sets out the accounting treatment of emission allowances and obligations from the State's point of view with respect to:

- > Its responsibility for the policy to prevent the most severe impacts of climate change, and
- > Its status as a participant operating polluting sites.

1.2. Different emission allowance allocation systems

1.2.1. ETS system

1.2.1.1. Emission allowances allocated free of charge

Free emission allowances have the following characteristics:

- > Annual allocation on a basis decided ultimately by the European Commission;
- > Direct allocation of allowances to participants via the single European registry kept by the European Commission;
- > Positive economic value for the participant;
- > Annual surrender by participants to the European Commission of a volume of emission allowances corresponding to their actual emissions subject to a fine that does not discharge their surrender obligation;
- > Emission allowances are freely tradable by participants on allocation;
- > Responsibility of the State for compliance with European legislation; nevertheless, this legislation does not explicitly stipulate that the State may be held responsible where participants do not fulfil their obligations.

²⁴ Trading transactions within the scope of the Standard include Kyoto credits (see Introduction, § I.1. International background). N.b. ESD : *effort sharing decision*.

1.2.1.2. Auctioned emission allowances

The State is involved because of its political responsibility to prevent the most severe impacts of climate change and not as an operator of polluting sites. Indeed, only participants that are not allocated all their emission allowances free of charge (in particular electricity producers) are obliged to acquire emission allowances through the auction system.

Auctioned emission allowances have the following characteristics:

- > Total amount to be auctioned determined as the difference between the ceiling fixed for participants by the European Commission and the allowances allocated free of charge;
- > Positive economic value for the participant;
- > Annual surrender by participants to the European Commission of a volume of emission allowances corresponding to their actual emissions subject to a fine that does not discharge their surrender obligation;
- > Emission allowances auctioned on a regular basis, according to a pre-determined timetable via a common European platform; after the initial auction transaction, the emission allowances are freely tradable;
- > Distribution to the State of a share in auction revenue based on a fixed proportion defined by regulation²⁵. There is no system of compensation for unsuccessful auction sales;
- > 50% of auction revenue must be used by the State as part of its policy to prevent the most severe impacts of climate change;
- > Responsibility of the State for compliance with European legislation; nevertheless, this legislation does not explicitly stipulate that the State may be held responsible where participants do not fulfil their obligations.

1.2.2. ESD system and emission allowances not covered by the EU ETS

ESD emission allowances have the following characteristics:

- > Total volume of allowances fixed by the European Commission at the beginning of the period 2013-2020 and allocated on an annual basis to Member States;
- > Annual monitoring of the State's climate policy commitments:
 - If actual emissions are greater than the allocated allowances, the difference is carried forward to the following year increased by a penalty coefficient of 1.08. A State may purchase allowances from other Member States in order to meet its emission targets;
 - If actual emissions are less than the allocated allowances, then the surplus allowances may be traded with other Member States, subject to certain conditions.

²⁵ Regulation 1031/2010/EU of 12 November 2010 on the timing, administration and other aspects of auctioning greenhouse gas emission allowances pursuant to Directive 2003/87/CE.

2. INITIAL RECOGNITION OF EMISSION ALLOWANCES FOR THE PERIOD 2013-2020

2.1. ETS system and emission allowances allocated free of charge

2.1.1. Responsibility of the State for policy to prevent the most severe impacts of climate change

Emission allowances allocated free of charge to participants from the private or public sector, do not meet the definition of an asset for recognition in the Central Government's financial statements. This is because the latter does not control them; the European Commission has sole responsibility for their allocation, their recording in the European registry, and monitoring surrender obligations.

Emission allowances allocated free of charge to participants under the ETS system are not therefore recognised in the Central Government's financial statements.

2.1.2. State as a participant that operates polluting sites

Emission allowances meet the definition of an asset for the participating entity, in this case the State: they may either be used for discharging the entity's obligations in respect of greenhouse gas emissions or sold. They therefore represent an economic resource controlled by the State.

Emission allowances allocated free of charge are in theory only used to meet the surrender obligation arising from actual emission levels. Nevertheless, it may be necessary for the State to become actively involved in managing emission allowance transactions, without actually engaging in a trading activity.

The emission right associated with an emission allowance is considered to be consumed in the operating process of the polluting entity. It is held for a short period, generally for an accounting period. As a result emission allowances are classified as inventory in accordance with the requirements of this Manual²⁶.

Emission allowances allocated free of charge are attributed each year on the basis of the authorised volume of greenhouse gas and in consideration for the obligation to surrender allowances corresponding to the actual emissions for the same year. Consequently, emission allowances received by the State as a participant are initially recognised in inventory at nil value.

2.2. ETS system and auctioned emission allowances

2.1.1. Responsibility of the State for policy to prevent the most severe impacts of climate change

Emission allowances auctioned for the benefit of participants do not meet the definition of an asset²⁷ for the purposes of the financial statements of Central Government. This is because the

²⁶ Standard 8 *Inventories*, definition of inventory.

²⁷ As set out in the conceptual framework for the accounts of Central Government.

latter does not control the conditions of use of the resource emission allowances which is put up for auction on the basis of a ratio fixed by the European Commission for Member States. Because of the pooling system for auction sales in operation on the European platform, France's share in auction revenue is not directly related to the emission allowances put up for auction. In addition the European Commission offers no compensation for unsold emission allowances.

Therefore, auctioned emission allowances are not an asset of the State.

Auction revenue is effectively earned at each auction. Although the volume of emission allowances allocated to Member States was fixed at the beginning of the period 2013-2020, auction revenue is not effectively earned at the beginning of this period.

2.1.2. State as a participant that operates polluting sites

This paragraph deals with emission allowances acquired by the State via the auction system as a participant in respect of polluting plants. These emission allowances meet the definition of an asset for the State as a participant: they may either be used for discharging the State's obligations in respect of greenhouse gas emissions or sold. They therefore represent an economic resource controlled by the State. More precisely they have the characteristics of inventory.

The acquisition cost of emission allowances purchased at auctions includes purchase cost and costs directly attributable to acquisition, such as commissions paid to financial intermediaries.

Forward purchases of emission allowances are accounted for, on the basis of the terms of the contract, in accordance with the Standard on financial instruments²⁸.

2.3. ESD system and emission allowances not covered by the EU ETS

The ESD system applies only to the State in respect of its responsibility for public policy aimed at reducing greenhouse gas emissions. The European Commission fixes emission targets and allocates ESD emission allowances accordingly.

The State acts to reduce emission levels by implementing public policy to prevent the most severe impacts of climate change. These emission levels are in principle uncontrollable and there is no direct relationship between the public policy implemented, allowances allocated under the ESD system and the actual emission reductions.

In addition, if actual emissions are above target, the negative balance increased by a penalty of 8%²⁹ is carried forward to the following year. The application of this penalty mechanism means there is no direct link between emission allowances allocated and the actual emission of tonnes of carbon dioxide equivalent.

Moreover, the main objective of the State is not to trade emission allowances with other Member States: emission allowances under the ESD system only have a marginal effect on cash flows.

²⁸ Standard 11 *Financial debts and derivative financial instruments*.

²⁹ Regulation 389/2013/EU, article 76.

Because the State does not control the resource and the economic benefits, emission allowances under the ESD system do not meet the definition of an asset³⁰.

3. SUBSEQUENT MEASUREMENT

Only the emission allowances received or acquired by the State as a participant are considered to be controlled assets requiring recognition in the Central Government's financial statements.

As emission allowances allocated free of charge are measured at nil value³¹ on initial recognition, the issue of measurement at the reporting date only arises in respect of emission allowances acquired over the counter or in an auction.

Emission allowances are inventories. Their subsequent measurement is therefore determined by reference to the requirements for inventories, including recognition of impairment when their value has decreased.

4. RECOGNITION OF THE SURRENDER OBLIGATION

4.1. ETS system and emission allowances allocated free of charge

4.1.1. Responsibility of the State for policy to prevent the most severe impacts of climate change

In terms of commitments under ETS, to the extent the State is not held responsible under European legislation in the place of non-compliant participants, it has no legal obligation to surrender emission allowances and must not therefore recognise a liability in this respect. On the other hand, infringement proceedings for non-compliance may be brought by the European Union under general community regulations and the latter could give rise to a liability recognised according to the requirements of this Manual³².

4.1.2. State as a participant that operates polluting sites

Emission allowances have the characteristics of inventories and are consumed as greenhouse gas is released.

As a participant, the State has an annual obligation to surrender greenhouse gas emission allowances. This obligation only gives rise to a liability for the State as a participant when actual emissions are greater than the allowances held. It gives rise to the obligation to purchase emission allowances. The liability is settled by the purchase of emission allowances.

When emission allowances are traded, the resulting profits and losses are recognised in surplus/deficit.

If the State does not comply with its annual surrender obligation, it recognises the penalties payable, which do not discharge its obligation, according to the requirements of this Manual.

³⁰ As set out in the conceptual framework for the accounts of Central Government.

³¹ See paragraph 2.1.2.

³² RNCE Standard 12 *Non-financial liabilities*.

4.2. ETS system and auctioned emission allowances

4.2.1. Responsibility of the State for policy to prevent the most severe impacts of climate change

In terms of commitments under ETS, to the extent the State is not held responsible under European legislation in the place of non-compliant participants, it has no legal obligation to surrender emission allowances and must not therefore recognise a liability in this respect. On the other hand, infringement proceedings for non-compliance may be brought by the European Union under general community regulations and the latter could give rise to a liability recognised according to the requirements of this Manual³³.

Each Member State certifies³⁴ that it has complied with the conditions of use of auction revenue (see above 1.2.1.2.).

In France, these European regulations are transposed into the Budget Act. Any liabilities arising therefrom are recognised according to the recognition requirements for liabilities³⁵.

4.2.2. State as a participant that operates polluting sites

As a participant, the State is subject to auctioning regulations; it may have to purchase emission allowances in an auction if its initial allocation of free allowances does not cover its actual greenhouse gas emissions. Emission allowances have the characteristics of inventories and are consumed as greenhouse gas is released.

As a participant, the State has an annual obligation to surrender greenhouse gas emission allowances. This obligation only gives rise to a liability for the State as a participant when actual emissions are greater than the allowances held. It gives rise to the obligation to purchase emission allowances. The liability is settled by the purchase of emission allowances.

When emission allowances are traded, the resulting profits and losses are recognised in surplus/deficit.

If the State does not comply with its annual surrender obligation, it recognises the penalties payable, which do not discharge its obligation, according to the requirements of this Manual.

4.3. ESD system and emission allowances not covered by the EU ETS

Under the ESD system, the State has annual greenhouse gas emission reduction targets. On the other hand, there is no surrender obligation as under the ETS system.

If actual emissions are above target, the negative balance increased by a penalty of 8%³⁶ is carried forward to the following year; this penalty does not therefore give rise to an outflow of resources at the year end. Moreover, European legislation gives no indication of whether this non-compliance will give rise to an outflow of resources at the end of the period (2020).

Consequently, the State's compliance obligation does not meet the definition of a liability.

³³ As per note 32.

³⁴ Directive 2009/29/EC amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission trading scheme of the Community of 23 April 2009, article 10, paragraph 3 last sub-paragraph.

³⁵ As per note 32.

³⁶ Regulation 389/2013/EU, article 76.

5. DISCLOSURES IN THE NOTES

Emission allowance trading systems and the related accounting treatment are explained in the notes. Disclosures include:

- > A description of the different schemes and the related responsibility of the State;
- > Changes as compared to the previous period, only for the year changes occur;
- > Assumptions on which the measurement of the liability is based (surrender obligation);
- > Measures taken to ensure compliance with the European requirements to allocate auction revenue to the fight against global warming.