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Berlin, 28 May 2013

Dear Françoise

### **EFRAG Draft Comment Paper: Emissions Trading Schemes**

On behalf of the Accounting Standards Committee of Germany, I am writing to comment on the Draft Comment Paper *Emissions Trading Schemes* (hereinafter the “DCP”) issued by the European Financial Reporting Advisory Group (EFRAG) in December 2012.

In reaching out to German entities, we received the feedback highlighting the fact that accounting best practice for emission certificates was developed by affected industries in accordance with IFRS and has been applied for several years, accepted by analysts and thus should not be ignored. In this context there is emphasis on the fact that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* provides necessary and sufficient guidance for the accounting of free allowances. However, for more and more industries allowances will no longer be granted for free, but will have to be acquired. Hence, other issues around the reporting of the assets and liabilities incurred in the wake of emissions could be dealt with in more depth. In this light we think EFRAG also needs to provide more information and explanation whether the proposals in the DCP relating to free allowances from governments, i.e. initial measurement at fair value and the separate presentation in the statement of financial position, are considered as specific requirements in context of the European Emissions Trading Scheme or should be applied to non-monetary government grants in general.

We acknowledge that a variety of potential accounting policies and related interpretations and suggestions for changes to IFRS have been discussed in the context of the European Emissions Trading Scheme. However, at this stage we think it would be premature to start the development of proposals for specific accounting guidance without conducting further

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research into different kinds of schemes and current reporting practice. For example we think it would be necessary to address the issues surrounding the accounting policies for mechanisms of converting entity's climate change project activities into corresponding emission certificates (i.e. accounting for Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs)).

Furthermore, we noticed that the proposals in the DCP mainly focus on the distinction of different accounting policies for Emissions Trading Schemes arising from the identification of two different business models – labeled as compliance model and a trading model in the DCP. We do not believe that a “compliance model” is a suitable description of a business model and we object to the term “business model” in this context. In our view a reflection of accounting policies based on the entity's application of emission certificates would be more appropriate; a reference to a business model could be the potential source of a wide range of interpretations by different constituents. Additionally, we received feedback from German preparers indicating that the wording of “*systematic transfers or sales*” of emission certificates as described in the DCP would not necessarily be a helpful and appropriate criterion in order to separate portfolios with trading activities from non-trading portfolios of emission certificates or even form a reasonable definition for a trading business model.

More generally, we believe it is important to maintain a robust set of principle-based standards covering a wide range of transactions and other events rather than increasing the number of standards that address on a case-by-case basis specific transactions in specific industry environments. Therefore we do not encourage the development of specific accounting guidance solely on the basis of a specific European Emissions Trading Scheme but approaching any identified issue from a holistic perspective in the scope of existing IFRSs. This process should also include careful evaluation whether improvements and clarifications can be considered as necessary changes to long-standing standards, such as IAS 2 *Inventories*, to reflect the changes in business environments over the time.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely

*Liesel Knorr*

President