SCHOOL OF BUS
THE UNIVERSITY OF NEW SOU

Australian
hool of Business

Financial Reporting of Emission Permits in the UK: Lessons for Australia

www.business.unsw.edu.au

Summary of Presentation

- Importance of accounting and reporting for carbon emissions
- Research question
- Current status of accounting guidance
- Data Sample
- Methodology
- Current state of financial reporting for and accounting of carbon emission permits
- Lessons to be learnt from EU-ETS experience

AUSTRALIAN

nportance of reporting for carbon emissions

Reduction of GHG is in the agenda of most governments, entities and individuals

Emission trading schemes or other form of tradable carbon rights have emerged and expanded in the last decade

Accounting implications

- Financial consequences imposed by carbon markets and other schemes (EUAs, CERs, etc.)
- Recognition, measurement and disclosure issues on the treatment of emission permits and other tradable rights

esearch Question

'hat policies are adopted by **exposed entities** in the accounting and reporting for carbon emission permits?

xposed entities

- Covered by the national allocation plan under EU-ETS Scheme (limited to UK installations)
- NAUs versus VEUs
- NAUs > VEUs = ASSET
- NAUs < VEUs = LIABILITY
- Subject to materiality threshold of individual companies

)ata sample

Sample
Coverage

- First phase of EU-ETS (UK installations) covering reporting periods 2005 to 2007

Sample
entification

- 548 installations from Europa database
- 333 private and public entities

nal Sample

- 68 public entities with annual reports

lethodology

- Peruse annual/financial report of carbon exposed entities for the three-year period 2005 to 2007
- Search for accounting policies in the annual/financial report thru search tools using keywords such as: emission, greenhouse, carbon, CO2, GHG, global warming, climate change, UK ETS or Emissions Trading Scheme
- Confirm search results to avoid Type 2 errors (performed by two researchers)
- Validate that there are 22 disclosing firms representing 55% of NAUs and 58% of VEUs of UK's national allocation plan
- Perform content analysis of all items disclosed in the financial report related to carbon emission permits

cognition of allocated allowances

Accounting Policy	2005	2006	2007
disclosure	4	3	2
cost – intangible set	6	5	9
cost - inventory	3	3	2
arket or fair value	4	6	5
t recognised	2	3	2
ability/Equity		1	1
Total	19	21	21

counting for purchase of allowance permits

Accounting Policy	2005	2006	2007
disclosure	9	8	8
cost	3	5	4
cost – intangible asset	4	5	6
entory	3	2	3
ner asset		1	
Total	19	21	21

counting for liabilities

Accounting Policy	2005	2006	2007
disclosure	4	4	4
liability approach	12	13	13
rued as incurred – fair ie	3	4	4
Total	19	21	21

Lessons to be learnt from the EU ETS

- Lack of guidance on how to account and report for carbon emission permits results to:
  - Inconsistency in financial reporting
  - Lack of comparability between entities
- Inadequate disclosure on recognition and measurement of carbon emission permits
- Measurement bases varies for a similar element
- Current policies induces volatility in P/L results
- Lack of transparency on who is accountable for covered installations
- Implications/consequences on valuation and pricing of equity securities