



Draft Comment Paper
Emissions Trading Schemes
Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeûs
Brussels B-1000
Belgium

Dear Sir/Madam,

In the present letter ICAC gives its view on EFRAG's Draft Comment Paper about the recognition and measurement of greenhouse gases emission rights under an Emission Trading Scheme.

Firstly, ICAC supports the initiative and the development of a specific accounting guidance for the greenhouse gases emission rights. Indeed, the ICAC issued a regulation on the accounting treatment of Emission Rights in 2006. Notwithstanding, we consider that an effort should be done in order to classify the emission rights in one of the existing categories of assets. Therefore, excessive complexity in assets classification would be avoided. We propose to consider the emission rights as intangible assets or as inventory depending on the two business models exposed in the Comment Paper.

That being said, ICAC agrees with the two different approaches depending on the use to which the emission rights are put. In one hand, when the entity purchases the emissions rights with the purpose of compliance surrendering the rights to the state (compliance model) we propose to consider the emissions rights as intangible assets. In the other hand, when the entity purchases the emission rights with the purpose of selling them (trading model), we propose to consider the emissions rights as inventory.

Due to internal legal reasons, we cannot agree with the rights measurement at fair value in the trading model, because in our legislation the inventory is measured at cost, the acquisition price.



Regarding the derivative contracts on emission rights we think that the entity must always recognise derivatives and carry them at fair value.

Changing the subject to the compliance model, we agree with the measurement at fair value of the free allowances at the date they are received by the entity. Respect to the credit side of the entry, we consider that it should be recognised directly in equity and, as the production costs related to that allowances are registered, an income should be released to the gain and loss account. As the production is made, the entity should recognise an expense and a provision, as it is a certain expense with an undetermined value. The provision and the emission rights will be derecognised when the allowances are surrendered to the authority.

Concerning the measurement of the provision, we propose a different method to the one exposed in the Comment Paper. First, we consider the free allowances connected with the period emissions. Second, the weight average cost of the emissions rights purchased that are in the Balance Sheet. Finally, in case of any deficit of rights, the deemed cost of the rights that the entity foresees to use.

Consequently, ICAC agrees with the separate presentation of the asset and the provision. We also agree with the fact that the provision and the asset should be derecognised when surrendering rights to the authority.

The subsequent measurement of all rights should be at cost less impairment, being the free allocations cost their fair value at the moment of receiving. Likewise, we think that the subsequent measurement of rights as inventory should be at cost less impairment.

With regard to the segregation of models, ICAC believes that it would be reasonable to accept occasional transfers to the trading model of marginal quantities of rights when actual consumption differs of the entity's forecast.



MINISTERIO
DE ECONOMÍA Y
COMPETITIVIDAD

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

Finally, ICAC believes that the most appropriate next step to tackle the emissions trading schemes is to have the IFRS Interpretations Committee work on an interpretation.

Please don't hesitate to contact us if you would like to clarify any point of this letter,

Yours sincerely,

Ana M^a Martínez-Pina
Chairman of ICAC