INVITATION TO COMMENT

The International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC) has issued its first draft Interpretation. IFRIC D1 addresses the accounting for emission rights.

The IFRIC invites comments on any aspect of its proposed Interpretation. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The IFRIC draws attention to the IASB's tentative decision at its meeting in January 2003 to withdraw and replace IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. This draft Interpretation proposes that the difference between the fair value of allowances awarded and the amount paid for them is a government grant that should be accounted for in accordance with IAS 20. The accounting proposed in this Interpretation may therefore be affected if the Board withdraws and replaces IAS 20.

Comments should be submitted in writing so as to be received no later than **14 July 2003**.

IFRIC *International Financial Reporting Interpretations Committee*

IFRIC [DRAFT] INTERPRETATION X

Emission Rights

IFRIC [draft] Interpretation X *Emission Rights* ([draft] IFRIC X) is set out in paragraphs 1-11 and the Appendix. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the IFRIC *Mandate and Operating Procedures*. [Draft] IFRIC X is accompanied by an Illustrative Example, which is designed to assist in the application of this [draft] Interpretation, and a Basis for Conclusions.

References

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (reformatted 1994)
- IAS 36 *Impairment of Assets* (1998)
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (1998)
- IAS 38 *Intangible Assets* (1998)

Background

1 This [draft] Interpretation deals with how to account for emission rights that arise from a 'cap and trade' scheme having one or more of the following features:

(a) Rights (allowances) to emit pollutant at a specified level (the cap) are allocated to entities participating in the scheme (participants) by a

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government or government agency. Allowances may be allocated free of charge, or participants may pay the government for them.

(b) The scheme operates for defined—often annual—compliance periods. Allowances for a compliance period are often allocated or issued to each participant at the beginning of a period. Actual emissions are verified at the end of the period in question.

(c) Participants are free to buy and sell allowances. Thus a participant has three options:

- it can emit pollutants equal to the level of allowances it was initially allocated
- it can emit a lower level of pollutants than is represented by the allowances it was initially allocated and sell (or carry forward—see (e) below) the excess allowances
- it can emit a higher level of pollutants than is represented by the allowances it was initially allocated, in which case it must buy additional allowances for the excess emissions or pay a penalty (see (d) below).

A participant can also sell some or even all of the allowances in the expectation of later buying allowances equal to actual emissions.

(d) At the end of a compliance period (and any additional 'reconciliation period', during which actual emissions are verified and participants may undertake any further trading necessary to ensure they hold enough allowances to meet actual emissions), a participant is required to deliver allowances equal to its actual emissions. If a participant does not deliver sufficient allowances, it will incur a penalty. The penalty may take a variety of forms, including a cash payment, reductions in the allowances allocated to the participant for subsequent periods, and restrictions on its operations.

(e) In some schemes, unused allowances may be carried forward to be used against future emissions either within the current scheme or, in some cases, into subsequent schemes.

(f) The scheme provides for brokers or other position-taking institutions, ie entities that are not themselves allocated an allowance, but who buy allowances from and sell allowances to participants in the scheme. The presence of such brokers may result in there being a liquid market in allowances.

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Scope

2 This [draft] Interpretation deals with the accounting by a participant for a scheme that is operational. It does not address the purchase of emission rights by entities that are not yet subject to a scheme but expect that they may be in the future. Nor does it address the accounting treatment to be adopted by brokers or other position-taking institutions that are themselves not allocated allowances.

3 Whilst this [draft] Interpretation focuses on, and provides an example of, a cap and trade scheme as described above, its provisions are relevant to similar schemes. One particular example, which is described in the Appendix, is a scheme that encourages energy to be produced from renewable sources by requiring scheme participants to deliver tradeable certificates (a 'Renewable Energy Certificates' scheme).

Issues

4 The issues addressed in this [draft] Interpretation are:

(a) Does an emission rights scheme give rise to (i) a net asset or liability or (ii) an asset (for allowances held) and a liability, deferred income and/or income?

(b) If a separate asset is recognised, what is the nature of that asset?

(c) If a separate liability, deferred income and/or income is recognised, what is the nature of that item and how is it measured?

(d) When should a potential penalty, which will be incurred if a participant fails to deliver sufficient allowances to cover its actual emissions, be recognised, and how should it be measured?

Consensus

5 An emission rights scheme gives rise to:

(a) an asset for allowances held, as set out in paragraph 6;

(b) a government grant, as set out in paragraph 7; and

(c) a liability for the obligation to deliver allowances equal to emissions that have been made, as set out in paragraph 8.

It does not give rise to a net asset or liability.

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6 Allowances, whether allocated by government or purchased, are intangible assets that shall be accounted for under IAS 38 *Intangible Assets*. Allowances that are allocated for less than fair value shall be measured initially at their fair value. Allowances shall not be amortised but may be impaired.

7 Where allowances are allocated for less than fair value, the difference between the amount paid and fair value is a government grant that shall be accounted for under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Accordingly, the grant is initially recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period for which the allowances were allocated.

8 As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision that falls within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The liability is settled by delivering allowances, incurring a penalty or a combination of both. The liability shall be measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. This will normally be the present market price of the number of allowances required to cover emissions made up to the balance sheet date. However, if the participant's best estimate is that some or all of the obligation will be settled by incurring a cash penalty, it shall measure that part of its obligation at the cost of the penalty rather than at the market price of the relevant number of allowances.

9 The existence of an emission rights scheme may cause certain assets to become impaired if the cash flows expected to be generated by those assets are reduced as a result of the scheme.

Effective date

10 This [draft] Interpretation shall apply to annual financial statements for periods beginning on or after [date to be set at approximately three months after issue]. Earlier adoption is encouraged. If an entity applies the [draft] Interpretation to financial statements of periods beginning before [above date], it shall disclose that fact.

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Transition

11 Changes in accounting policies shall be accounted for according to the transition requirements of paragraph 46 of IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*.

Illustrative Example

This example is not part of the [draft] Interpretation. It is designed to illustrate the application of the [draft] Interpretation to assist in clarifying its meaning.

Facts

IE1 Company A is a participant in an emission rights scheme. The scheme operates for annual compliance periods that coincide with Company A's reporting periods. On the first day of the first period, Company A is allocated, free of charge, allowances for the year to emit 12,000 tonnes of carbon dioxide (CO_2). The market price of the allowances on that day is 10 per tonne, giving a fair value of 120,000.

IE2 Six months later (at its interim reporting date) Company A has emitted 5,500 tonnes of CO_2. It expects its emission for the whole year to be 12,000 tonnes (ie equal to its allocated allowances). The market price for allowances has risen to 12 per tonne.

IE3 At the year-end, Company A measures its emissions for the year at 12,500 tonnes. On the last day of the year, it buys 500 allowances to cover the emissions in excess of the allowances it holds. The market price of allowances at the year-end (and which Company A pays for the extra 500 allowances) is 9 per tonne[*].

IE4 As Company A expected to need all of its allocated allowances to cover its emissions, it did not sell any of those allowances in the year.

IE5 Because Company A is a participant in a scheme in which allowances are traded in an active market, it is able to use the allowed alternative treatment in IAS 38 to account for the allowances. It therefore elects to measure the

[*] In this example, the participant is required to buy only a small number of additional allowances. In some cases, however, a participant may be required to buy a quantity of allowances that is large compared with the number of allowances available in the market. In these cases, it may be inappropriate to measure the liability using the marginal market price of an allowance.

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allowances at fair value with changes in value above cost reported in equity and changes in value below cost reported in the income statement.

Accounting entries

On the first day of the year

IE6 Company A makes the following accounting entry to record the allocation of allowances free of charge (all amounts are in 000s):

Dr Allowances (an intangible asset)	120	
Cr Government grant (deferred income)		120

To recognise the allocation of allowances at their fair value (12,000 tonnes at 10 per tonne).

At the end of the first six months

IE7 Company A makes the following accounting entries:

Dr Allowances (an intangible asset)	24	
Cr Equity (revaluation surplus)		24

To recognise the increase in the fair value of the allowances held (12,000 tonnes whose price has increased from 10 to 12 per tonne).

Dr Government grant (deferred income)	55	
Cr Income statement		55

To recognise as income the portion of the government grant that matches the cost of emissions in the period[†].

Dr Expense	66	
Cr Liability to return allowances		66

To recognise the increase in the liability for emissions to date (5,500 tonnes measured at 12 per tonne).

IE8 The net effect is to report:

- an expense of 66 in the income statement for the liability for emissions to date

[†] In this example, Company A has chosen to amortise the deferred income using the proportion of actual emissions to estimated total emissions.

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- income of 55 in the income statement for the amortisation of the government grant
- a gain of 24 in equity from the increase in the value of the allowances held
- an intangible asset of 144 for allowances held
- a liability of 66 for emissions made in the year.

At the end of the year

IE9 Company A makes the following accounting entries in respect of the last six months of the year:

Dr Equity (revaluation surplus)	24	
Dr Income statement	12	
Cr Allowances (an intangible asset)		36

To recognise the decrease in the fair value of the allowances held (12,000 tonnes whose price has decreased from 12 to 9 per tonne).

Dr Government grant (deferred income)	65	
Cr Income statement		65

To recognise as income the remaining portion of the government grant.

Dr Expense	46.5	
Cr Liability to return allowances		46.5

To recognise the increase in the liability for emissions to date (12,500 tonnes measured at 9 per tonne, less the 66,000 recognised at the interim reporting date).

Dr Allowances (an intangible asset)	4.5	
Cr Cash		4.5

To recognise the purchase of an additional 500 tonnes of allowances at 9 per tonne.

IE10 The net effect is to report:

- an expense of 46.5 in the income statement for the increased liability for emissions to date
- income of 65 in the income statement for the amortisation of the government grant

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- a loss of 24 in equity from the decrease in the value of the allowances held
- a loss of 12 in the income statement for the decrease in the value of the allowances held below their cost
- an intangible asset of 112.5 for allowances held
- a liability of 112.5 for emissions made in the year
- a reduction in cash of 4.5 (500 tonnes of allowances purchased at 9 per tonne).

In its financial statements for the full year

IE11 Company A will report:

- an expense of 112.5 in the income statement for emissions made in the year
- income of 120 in the income statement for the amortisation of the government grant
- a loss of 12 in the income statement for the decrease in the value below cost of the allowances held during the year
- an intangible asset of 112.5 for allowances held
- a liability of 112.5 for emissions made in the year
- a reduction in cash of 4.5 (500 tonnes of allowances purchased at 9 per tonne).

When the entity settles its obligation

IE12 Company A makes the following accounting entries when its settles the liability for emissions made in the year:

Dr Liability to return allowances	112.5	
Cr Allowances		112.5

To recognise the settlement of the obligation.

IE13 If Company A had a revaluation surplus at the end of the period (ie the value of the allowances had not decreased below their cost) it could transfer the revaluation surplus directly to retained earnings in accordance with IAS 38.78.

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A note on the benchmark treatment under IAS 38

IE14 If Company A had not elected to use the allowed alternative treatment in IAS 38 to account for the allowances, it would have used the benchmark treatment in IAS 38. The following differences would result:

- although the allowances would have been recognised initially at their fair value, this would represent their cost. The allowances would subsequently be measured at this cost less any accumulated impairment losses. Therefore, the allowances would have been recorded at the end of the first six months at 120 and at the end of the year at 112.5 (being their cost of 124.5 less an impairment loss of 12).
- there would have been no items recognised directly in equity.

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Appendix—Description of a Renewable Energy Certificates Scheme

This appendix is an integral part of the [draft] Interpretation.

A1 As noted in paragraph 3, whilst this [draft] Interpretation focuses on a cap and trade scheme as described above, its provisions may be relevant to other similar schemes. This appendix describes one such scheme—that for Renewable Energy Certificates (RECs).

A2 A REC scheme, as its name suggests, encourages energy to be produced from renewable sources, rather than encouraging emissions to be reduced.

A3 Under a REC scheme, specified producers or purchasers of electricity (or other energy) are required to deliver a specified amount of RECs to the government. This amount is typically set as a percentage of electricity generated or used. RECs are created by producing electricity using renewable energy sources.

A4 Typically, RECs—like allowances in a cap and trade scheme—are traded. Thus, a company with a REC requirement may meet it either by producing energy from renewable sources itself (thus creating the necessary RECs), or by buying RECs that have been created by other companies' renewable energy generation.

A5 Two other similarities to a cap and trade scheme are that RECs may be carried forward from one period to the next and there may be brokers or other position-taking institutions whose role is to buy RECs from and sell RECs to participants.

A6 Many of the accounting issues are the same as those that arise in a cap and trade scheme that are dealt with in this [draft] Interpretation. In particular:

(a) the scheme gives rise to both an asset (for RECs held—see below) *and* a liability (see (c) below).

(b) RECs held by participants are intangible assets.

(c) a liability to deliver RECs in respect of energy production arises only as energy is produced or consumed using non-renewable sources.

A7 However, additional issues arise that are not present for a cap and trade scheme and are not dealt with in this [draft] Interpretation. Two examples are when to recognise an asset for a self-generated REC and how to measure that asset initially.

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Basis for Conclusions

This Basis for Conclusions is not part of the [draft] Interpretation. It summarises the IFRIC's considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

Background

BC1 The IFRIC noted that several governments have, or are in the process of developing, schemes to encourage reduced emissions of pollutants. In particular, schemes are being developed to encourage reductions of greenhouse gas emissions in the light of the Kyoto agreement, which comes into effect in 2008. Some such schemes are based on a cap and trade model as described in paragraph 1 of the [draft] Interpretation.

BC2 The IFRIC observed that many companies are, or will be, subject to such schemes. It also noted that there is at present no guidance on the accounting for such schemes. The IFRIC was informed that no consensus had emerged among market participants on what the accounting treatment should be. As there is a risk of divergent practices developing, the IFRIC concluded that it should develop an Interpretation.

Scope and issues

BC3 The IFRIC noted that some companies that are not yet subject to such a scheme but expect that they may be in the future are buying emission rights in the hope of being able to use them in a future scheme. Also, some companies are entering into contracts for emission 'credits', ie emission rights that are not yet verified. For example, a company may pay a cash sum to a second company to enable that second company to undertake a project to reduce emissions, which it is hoped will result in verified emission rights that would then be delivered back to the first company. Since these cases raise the issue of whether allowances should be recognised as assets, the IFRIC decided to limit the scope of this [draft] Interpretation to participants in a scheme that is operational.

BC4 The IFRIC noted that there is not a single form of scheme being developed. Rather, individual countries (or, in some cases, groups of countries) are developing schemes tailored to local circumstances. As a result, features that are present in some schemes are not present in others. The IFRIC also noted that there are many accounting issues arising from the various schemes that have been (or are being) developed. The IFRIC decided to focus in this [draft] Interpretation on those features that are common to most schemes and give rise to the biggest issues in practice. As a result,

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this [draft] Interpretation addresses only the four issues set out in paragraph 4 of the [draft] Interpretation. However, the IFRIC agreed that, if necessary, it would amend this [draft] Interpretation, once more experience had been gained with emission rights schemes and it was clearer what the exact terms are likely to be.

Consensus

BC5 The first issue addressed in this [draft] Interpretation is whether an emission rights scheme gives rise to (i) a net asset or liability or (ii) an asset (for allowances held) and a liability, deferred income and/or income. For the following reasons the IFRIC concluded that an emission rights scheme gives rise to an asset (for allowances held) and a liability, deferred income and/or income.

- An allowance meets the definition of an asset in the *Framework*, namely it is "a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise." This is evidenced by the nature of an allowance as a transferable certificate, which the entity can either sell or use to settle an obligation.
- Similarly, once emissions have occurred the entity has a liability within the definition in the *Framework*, namely it has "a present obligation … arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits." The obligation is to deliver allowances or pay a penalty.
- The allowance and the obligation have independent existences. Whilst an entity may intend to use the allowances it holds to settle its obligation, it cannot be compelled to do so. Instead it may choose to sell allowances and either reduce emissions, buy allowances at a future date or pay a penalty. Thus, there is no contractual link between the asset and the liability, even though many entities will hold the allowances solely for the purpose of settling their obligations.
- In some cases, an entity may be able to choose which of a number of different allowances (allocated under different schemes) it uses to settle its obligation. This feature is likely to become more common as schemes are developed in various countries, with provision to use allowances allocated under one scheme to settle obligations arising in another.
- Some companies purchase allowances from other participants for cash. Since purchased allowances would be recognised as assets, and since purchased allowances are indistinguishable from allocated ones, this confirms that allocated allowances are assets in their own right.

- There is no right of offset between the allowances and the obligation to deliver allowances, nor is there a debtor/creditor relationship. Thus, the offsetting requirements of IAS 32 *Financial Instruments: Disclosure and Presentation* are not met.

BC6 The second issue addressed in this [draft] Interpretation is the nature of the asset for allowances held by participants. The IFRIC concluded that such allowances are intangible assets that fall within IAS 38 *Intangible Assets* because they meet the definition of an intangible asset in IAS 38.7: "an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes." The IFRIC also noted that IAS 38.8 lists fishing licences and import quotas as examples of intangible assets, and these are similar to emission allowances in many respects.

BC7 The IFRIC noted that under IAS 38.93 the residual value of an intangible asset is estimated using prices prevailing at the time of initial recognition (or at the time of a subsequent revaluation if the entity adopts the alternative treatment under IAS 38). The IFRIC therefore concluded that the residual value of an allowance is the same as its cost (or revalued amount), and thus that an allowance should not be amortised. However, the IFRIC agreed that in accordance with IAS 36 *Impairment of Assets*, an impairment loss should be recognised if the market value of an allowance falls below its cost.

BC8 The IFRIC considered whether allowances should be accounted for as financial assets under IAS 39 *Financial Instruments: Recognition and Measurement*. However, it noted that allowances do not meet the definition of a financial asset in IAS 39, since they are neither equity instruments nor contracts for cash or other financial assets. Being readily tradeable does not make them financial assets any more than, say, a readily tradeable commodity.

BC9 However, the IFRIC noted that allowances have some features that are more commonly found in financial assets than intangible assets. In particular many are traded in a ready market and are a mechanism for 'pricing' a particular product (eg a tonne of CO_2). As a result of these features, some members believe that allowances are best measured at fair value with changes in fair value being reported in the income statement. They noted that such a treatment is not possible under IAS 38—IAS 38 only permits fair value as an allowed alternative, and if fair value is used most changes in fair value are reported in equity. The IFRIC considered whether to ask the Board to amend IAS 38, to *require* all intangible assets that are traded in an active market to be measured at fair value with changes in value reported in the income statement. It decided not to pursue this approach in the light of the Board's project on reporting

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financial performance. That project is considering the removal of the present distinction, reflected in IAS 38, between changes in value reported in equity and those that are reported in the income statement.

BC10 The third issue dealt with in this [draft] Interpretation is the nature of the separate liability, government grant and/or income that is recognised. The IFRIC first discussed when a liability arises for the obligation to deliver allowances equal to actual emissions or pay a penalty (for the excess of actual emissions over allowances delivered). The IFRIC concluded that a liability for this obligation arises only as emissions are made. This follows from IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which states that there is no liability until an 'obligating event' occurs. In an emission rights scheme, the obligating event—ie the thing that obliges the company to deliver allowances or pay a penalty—is the emission of pollutant (not the receipt of allowances). At the start of the compliance period when allowances are allocated this has not yet happened, and hence there is no liability for the obligation to deliver allowances or pay a penalty. This view is supported by IAS 37.19, which states: "It is only those obligations arising from past events existing independently of an enterprise's future actions (i.e. the future conduct of its business) that are recognised as provisions." The IFRIC noted that the obligation to deliver allowances or pay a penalty depends entirely on the entity's future actions, ie whether it emits.

BC11 However, the IFRIC agreed that once emissions are made, a liability will arise that should be provided for under IAS 37. IAS 37.36 requires a provision to be measured at "the best estimate of the expenditure required to settle the present obligation at the balance sheet date." This is explained as the amount that an enterprise would rationally pay to settle the obligation or to transfer it to a third party. In the case of the obligation to deliver allowances or pay a penalty for past emissions, the IFRIC concluded that this amount is normally the present market price of the number of allowances required to cover emissions made at the balance sheet date. The IFRIC noted that in some cases a participant's best estimate might be that some or all of its obligation for past emissions will be settled by incurring a cash penalty rather than by delivering allowances. It concluded that, in such a case, the penalty should be taken into account in measuring the obligation rather than being treated as a separate liability.

BC12 Having concluded that there is no liability to deliver allowances or pay a penalty at the start of the compliance period when allowances are allocated, the IFRIC then considered if there is an element of government grant. The IFRIC concluded that an allocation of allowances for less than their fair value (eg free of charge) gives rise to a government grant. Such an award comes within the definition of a government grant in IAS 20

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Accounting for Government Grants and Disclosure of Government Assistance: "assistance by government in the form of transfers of resources to an enterprise in return for past or future compliance with certain conditions relating to the operating activities of the enterprise." In particular, the IFRIC noted that the obligation imposed by an emission rights scheme to reduce emissions, deliver allowances or pay a penalty is a condition "relating to the operating activities of the enterprise." It also noted that an award of allowances for less than their fair value comes within IAS 20.23, which states: "A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the enterprise."

BC13 The IFRIC agreed that where allowances are allocated for less than fair value, they should be recognised initially at their fair value. It noted that IAS 20.23 states that it is "usual" for non-monetary grants to be recognised at fair value, although it does permit them to be recognised at a nominal amount. However, the IFRIC observed that if this alternative treatment were to be adopted, entities would not recognise allocated allowances on their balance sheet but they would recognise purchased allowances. As it considered this would not be a faithful representation of the resources that the entity controls, the IFRIC agreed that it should not permit entities to adopt the alternative accounting treatment.

BC14 The IFRIC also discussed what method should be used to recognise the grant as income and where in the balance sheet (ie as a deferred credit or as a reduction in the carrying amount of an asset) the grant should be presented if not recognised as income on initial recognition. It noted that IAS 20.12 requires grants to be recognised in income "over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis." The question therefore is: what are the costs that an award of allowances for less than fair value is intended to compensate for?

BC15 The IFRIC noted that the grant is intended to compensate for higher operating costs in the compliance period. Accordingly, the IFRIC agreed that the grant should initially be recognised as deferred income in the balance sheet. Subsequently the requirement in IAS 20.12 is met by amortising the deferred income on a systematic basis over the compliance period for which the allowances were allocated. The IFRIC observed that the appropriate amortisation method will depend on how the participant chooses to react to the emission rights scheme, and accordingly decided that it should not specify a particular method.

BC16 Finally, the IFRIC noted that the existence of an emission rights scheme might cause certain assets to become impaired, since it might have the effect of reducing the future cash flows expected to arise from an asset

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(eg a power station) and hence reducing that asset's value in use. The IFRIC considered whether it should give detailed guidance on when an impairment loss arises and how it should be measured. The IFRIC decided not to give such guidance for two reasons. First, as noted in paragraph BC4 above, the IFRIC decided to focus in this [draft] Interpretation on those features that are common to most schemes and on which there is no consensus about the appropriate accounting. Given the guidance in IAS 36, the IFRIC decided that the issue of impairment does not fit into this category. Second, given the range of schemes that exists in practice, the IFRIC doubted whether it could add much to the present requirements of IAS 36. However, the IFRIC agreed it would be useful to include a reminder in the [draft] Interpretation that an emission rights scheme falls within the indicator in IAS 36.9(b) that an asset may be impaired.

Effective date and transition

BC17 The IFRIC noted that emission rights schemes are still in their infancy—most have been implemented only in recent years or are still being developed. Accordingly, it is likely that few entities will have been subject to material emission rights schemes for many years. For this reason the IFRIC decided that no special transitional provisions are required and that the effective date of the Interpretation should be for periods beginning approximately three months after it is issued. The IFRIC decided for similar reasons that no special transitional provisions are required for those adopting IFRSs for the first time.

This draft Interpretation is issued by the International Accounting Standards Board for comment only. The consensus in the draft may be modified in the light of comments received before being issued as an IFRIC Interpretation. Comments should be submitted in writing so as to be received by **14 July 2003**.

All replies will be put on the public record unless confidentiality is requested by the commentator. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to **CommentLetters@iasb.org.uk** or addressed to:

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