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OECD/EUROSTAT TASK FORCE ON EMISSION PERMITS
UPDATE REPORT

Paper prepared by OECD/EUROSTAT Task Force

(for information)

OECD/Eurostat Task Force on Emission Permits

Update Report

This note provides an update on the conclusions of the OECD-Eurostat Task Force on Emission Permits, which met twice in July and November 2009. A number of proposals were considered by the TF. Two strong positions (summarized below) emerged, with a broad split between those supporting the split-asset (two asset) approach and those supporting the financial asset approach.

Financial asset

> Permits are financial assets[1] sold by governments (which therefore retain the liabilities). At surrender the financial assets are returned to government in lieu of tax. Free permits can be ignored but it is preferable to impute them. The financial asset approach, works very well in a purely national context, but the international dimension introduces, at the very least, presentational difficulties for international comparisons of government debt.

Split asset

> At issue, a financial asset is created, valued at the price of purchase from government and, at any point in time the difference between the market-price and the original purchase price is treated as a non-produced non-financial asset[2]. The non-produced non-financial asset is created through an OCV (other change in volume) in the accounts of the acquiring unit. A liability corresponding to the financial asset is recorded in the government account, and remains the same value (initial purchase price) throughout the life of the permit. At surrender the non-financial part of the asset disappears as an OCV and the financial part of the asset is surrendered to government in lieu of its tax payment, which is recorded. The approach, by design ensures that that tax recorded = cash. There are measurement and presentational difficulties but these can be managed via a modeling approach that considers the totality of permits rather than individual permits.

The views were sufficiently strong for it to be apparent to the TF and the TF Secretariat that further meetings would not bridge the gap between the two camps. As such the TF agreed that the decision would need to be referred to the ISWGNA who would be requested to make a recommendation for one of the approaches, even if that decision was based purely on convention.

The TF Secretariat has finalised the TF report. TF members have been asked to provide comments on the report by 17 June. The Secretariat aims to integrate these comments in the report as soon as possible such that a final report can be circulated to the ISWGNA before the end of June.

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[1] The precise category of financial instrument was not settled – the task force discussion included the possibility of securities other than shares, other accounts receivable and payable, and a possible new category of instrument specifically for this case – but could be resolved in follow-up.

[2] As with the financial asset option, the precise classification of the non-produced non-financial asset was not determined, but this could be subject to a follow-up.