



# Follow up on Guidance Note WS.7 Treatment of Emission Trading Schemes

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Drafting Team

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# Background

- GN WS.7 underwent global consultation in mid 2022
  - 5 options were put forward for consideration (with option 4 having two sub-options)
- The results of the global consultation were discussed at the October 2022 AEG Meeting
  - The AEG noted that the global consultation revealed no clear consensus on the preferred treatment
  - It recognized that there are valid arguments for various recordings and agreed that Option 4. Emissions Permits recorded as Financial Assets with taxes on production recorded at surrender is the preferred option
    - A minority of members saw option 4 as only the second-best option
    - The feasibility of sub-options (a) and (b) of option 4 needed to be further discussed
    - This should also involve consultation with the IMF Committee on Balance of Payments Statistics (BOPCOM)
- BOPCOM was informed of the AEG discussion at the subsequent joint AEG/BOPCOM meeting
  - It was agreed that the GN (mentioning the decision at the AEG meeting together with the other options) would be updated and then circulated to BOPCOM for their comments via written procedure. A revised note would then be circulated to AEG and BOPCOM for final endorsement.



# BOPCOM consultation

- An updated version of the GN, which addressed issues regarding the sub-options of option 4, was circulated to BOPCOM members for consultation in March 2023
- 16 members provided comment
- Two members explicitly disagreed with option 4
- Other members, while not expressing a concern with option 4, considered that the GN would benefit from a better elaboration of the sub-options for option 4
- Some members expressed concerns about the practicality of implementation
- The GN Drafting Team has subsequently prepared a note in response to the BOPCOM comments



# The preferred option

- The SNA and BPM Update Teams, in consultation with the drafting team, have discussed whether option 4 should remain the preferred option
- It is not considered that the concerns raised are sufficient to overturn the preference for option 4
  - The preferred treatment has been significantly debated and while there are differences of view the majority view of the AEG is in favour of option 4
  - Most BOPCOM members either explicitly or implicitly supported option 4
  - The BOPCOM consultation did not identify any new issues that would cause the preference for option 4 to be changed
  - It is noted that any solution where there are valid differences of view may be seen as a convention



# Issues for discussion

- Five issues have been identified
  - Should emission permits be valued at the price of issuance (cash) or at the prevailing market price at the time they are surrendered?
  - How should permits provided freely be treated?
  - What type of instrument should emission permits be classified to?
  - Practical implications with regard to multi-country emission schemes
  - The commercial accounting of emission permits



# Valuation

- The GN Drafting Team propose to record emission permits as a financial asset with taxes on production recorded at surrender, at issuance cost
- The treatment of any differences between the the market valuation of emission permits and the issuance price – particularly for permits that are traded across borders – remains open
  - However, in determining the appropriate treatment, taxes (and government debt associated with emission permits that have been issue but not surrendered) will be valued at issuance cost



# Permits issued freely

- The GN Drafting Team proposes that taxes will remain at issuance price (ie zero), but that it may not be reasonable to treat these permits as a financial asset
- Further guidance is needed to account for any differences between the market value and the issuance price, particularly for permits that are traded across borders



# Type of financial instrument

- The GN Drafting Team proposes that if emission permits are valued at issuance value at the time of redemption, then other accounts/receivable payable (AF.8) is the most appropriate instrument classification, which aligns with the recording of tax in the government accounts
- This is seen as preferable to treating them as negotiable debt instruments (AF.3), although it is recognized that there are good arguments for either approach.





# Multi-country schemes

- The GN Drafting Team acknowledges that the proposed option poses certain practical challenges for compilers that will need to be resolved



# Commercial accounting

- There is no clear guidance on the business accounting of emission permits
- Consequently, it is likely to be difficult to obtain consistent information from a corporation's financial statements, and the GN Drafting Team recommends accessing government information on the issuance and redemption of emission permits if available and accessible



# Way forward

- It is proposed to hold a workshop to provide practical guidance on the measurement of cross-border transactions and the treatment of emission permits provided freely
- More broadly, the treatment of emission permits would be added to the list of implementation issues that will be dealt with in the lead-up to the endorsement of the updated SNA and BPM in 2025



# Questions

1. Do you agree with treating emission permits as a financial asset with taxes on production recorded at surrender at the issuance price?
  2. Do you agree with the classification of emission permits as accounts receivable (pre-paid taxes)/accounts payable?
  3. Do you agree with the proposal to hold a workshop to provide practical guidance on the measurement of cross-border emission permit transactions and the treatment of emission permits provided freely?
- The Update Teams propose that the GN be updated to reflect the discussion at the meeting and then circulated to AEG and BOPCOM for final endorsement
    - This would avoid keeping the issue open for longer, and thus impacting on the drafting of the updated Manuals, for which the timetables are very tight
    - The outcome of the proposed workshop would be reported to AEG and BOPCOM and provide guidance for the implementation of the recommendations



▶ THANK YOU

