



Financial Reporting for Pollution Reduction Programs

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Overview

- No explicit accounting guidance in the U.S. or internationally
- Significant implications for financial statements of affected entities



Accounting for credits

- Are credits assets?
 - Definition: An asset is a probable future economic benefit obtained or controlled by an entity because of a past event or transaction.
- How should they be measured?
 - Cost
 - Fair value
- What type of asset are they?
 - Intangible asset
 - Inventory
 - Investment



Accounting for obligations

- When should an entity recognize a liability?
 - Definition: A liability is a probable future economic sacrifice that arises from a present obligation of an entity to transfer assets or provide services to other entities as a result of a past event or transaction.
 - Accrue when entity exceeds baseline pollution
 - Accrue as entity pollutes
- How should liability be measured?
 - Fair value
 - Cost
- The obligation is settled by transferring credits to the program administrator.



Accounting for baseline

- Does a permit to emit pollutants up to the level specified by a baseline create an asset?
- Comparability between accounting for baseline-and-credit and cap-and-trade programs



Conclusion

- No explicit guidance in the U.S. or internationally
- Significant implications for financial statements of affected entities



Thank You



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