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