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Kevin Stevenson  
Chairman of the  
International Financial Reporting Interpretations Committee  
30 Cannon Street

Berlin, 6 October 2004

London EC4M 6XH  
United Kingdom

Dear Kevin

### **Comment letter on IFRIC Interpretation D1**

We appreciate the opportunity to comment on the pre-ballot draft IFRIC D1 *Emission Rights*.

In light of the many comment letters with a lot of fundamental disagreement with certain proposals of IFRIC D1 we disagree with the IFRIC's decision to finalise IFRIC D1 in substantially its present form because this will result in an inadequate accounting treatment of emission rights. The major problem in IFRIC D1 arises from applying different measurement principles for the asset and the liability. This issue was also emphasised in the comment letter of the GASB dated 15 July 2003.

AIC did not comment on IFRIC D1 during the comment period since it was founded at a later date. We understand that the IFRIC wants to avoid a further delay of the Interpretation and that no guidance at all would bear the risk of divergent accounting practices. However, this cannot justify an inappropriate accounting treatment, which also carries the inherent risk that this practise is continued ad infinitum.

We agree with the recognition rules proposed by the IFRIC, i.e. that an emission rights scheme gives rise to an asset, a government grant – if the allowances are allocated for less than fair value – and a liability as emissions are made. We also support the proposal regarding fair value measurement of allowances at the date of initial recognition. However, like the GASB, we object to the measurement of the liability at fair value at each balance sheet date with fair value changes recognised in net profit or loss since this results in a mismatch of income and expenses that contradicts the economic substance of the transaction.

The proposal made by IFRIC clearly ignores the close link between allowances granted and allowances to be surrendered to the government in order to settle the obligation that arises from emissions. This link is acknowledged by IFRIC in BC 12 and BC 23, but the substance is not reflected in the accounting treatment proposed by IFRIC.



IFRIC also disagreed with a potential offsetting but, in our view, the reasoning is clearly not convincing: "There is no right of offset between the allowances and the obligation to deliver allowances, nor is there a debtor/creditor relationship. It is therefore inappropriate to offset the asset and liability". There are good arguments against this view in that at the date when the final calculation of the obligation is made by the government the obligation is settled by means of surrendering the allowances previously granted. We also do not understand why the relationship between the entity and the government is not seen as a debtor/creditor relationship but no further arguments are given by IFRIC.

In our view, IFRIC should thoroughly consider the proposal of the GASB, i.e. measuring the provision at the carrying amount of the emission rights used to settle the obligation as far as allowances are on hand. Otherwise the outflow of resources embodying economic benefits required to settle the obligation will be incorrectly measured and will result in potentially significant mismatches in the entity's results inappropriately reflecting the economic substance and reality of the transactions.

With best regards

*Liesel Knorr*  
Chairman