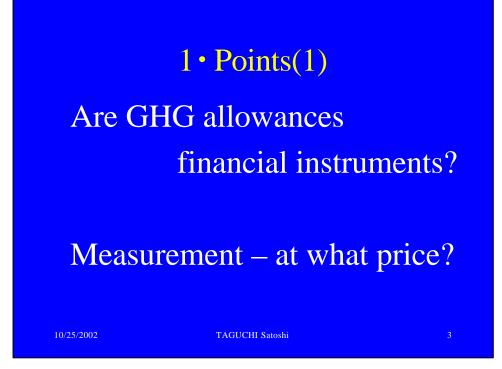


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The purpose of this study

The purpose of this study is to consider accounting for GHG allowances under Japanese accounting standards from theoretical standpoint.

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1 • Points(2)

Should treatment of GHG allowances purchased or received at nil cost be consistent in the balance sheet?

Are GHG allowance-based derivatives financial assets?

2 • Conclusions(1)

GHG allowances are non-financial instruments.

Measurement - entry price

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2 • Conclusions(2)

The treatment of GHG allowances purchased or received at nil cost should be consistent in the balance sheet.

GHG allowance-based derivatives are non-financial assets.

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3 • Are GHG allowances financial instruments?(1)

•GHG allowances are

non-financial instruments

• GHG allowances are not financial assets but operating assets (non-monetary assets), application of IAS No.38 *Intangible Assets*

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3• Are GHG allowances financial instruments?(2)

-Our theoretical background-

·Subjective goodwill

(Edwards&Bell(1961), Feltham&Ohlson(1995), Saito(1995), Kasai(2000))

Difference between value-in-use

and market price

When managers use assets and earn some <u>profits characteristic of</u> <u>their company</u>, the assets have <u>Subjective goodwill</u>.

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3. Are GHG allowancesfinancial instruments?(3)*-Our theoretical background-*

Saito(1995),Kasai(2000) Assets are classified into 2 types according to whether they have subjective goodwill or not.

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3• Are GHG allowancesfinancial instruments? (5)*Our theoretical background* -

Are GHG allowances financial assets?

It depends on whether they have subjective goodwill or not.

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3• Are GHG allowances financial instruments? (6) -Does GHG allowances have subjective goodwill?-

GHG allowances have subjective goodwill

because · · ·

• They are used in various ways

(Ex. Some entity may use them for compliance purposes Other entity may use them for trading purposes)

their value-in-use are different from company to company value-in-use market price

) GHG allowances are not financial assets but operating

assets. application of IAS No.38(intangible assets) TAGUCHI Satoshi



3 • Are GHG allowances financial instruments? (8) -Application of IAS No.38-

IAS No.38 Para.7

"An intangible asset is an identifiable <u>non-monetary</u> <u>asset without physical substance</u> held for use in the production or supply of goods or services, for rental to others, or for administrative purposes."

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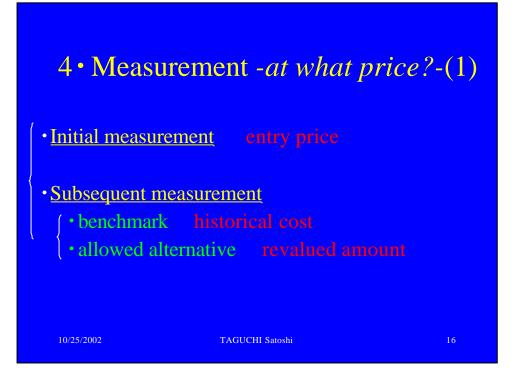
3 • Are GHG allowances financial instruments? (9) -Application of IAS No.38-

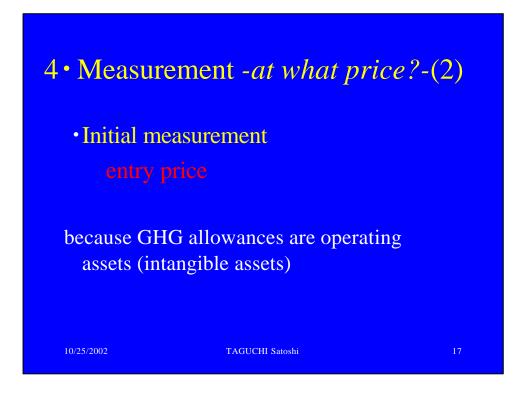
IAS No.38 Para.8

"Common examples of items encompassed by these broad heading are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights."

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IAS No.38 Para.64

"After initial recognition, an intangible asset should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses."

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19

4 • Measurement -*at what price?*-(5)

revalued amount

entry value or exit value?

difference between operating assets and financial assets in revalued amount

- (operating assets entry value
- financial assets exit value

entry value

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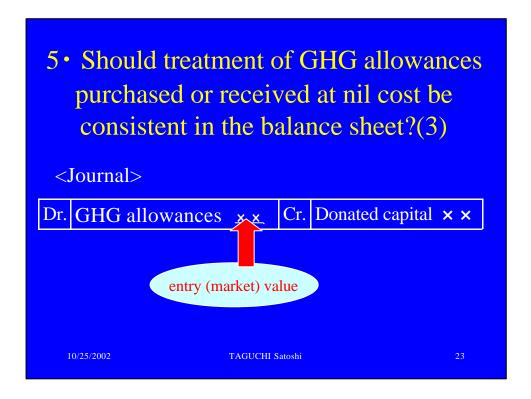
5. Should treatment of GHG allowances purchased or received at nil cost be consistent in the balance sheet?(1) Treatment of GHG allowances purchased or received at nil cost should be consistent in the balance sheet. Both allowances purchased and received at nil cost have subjective goodwill (the same characteristics).

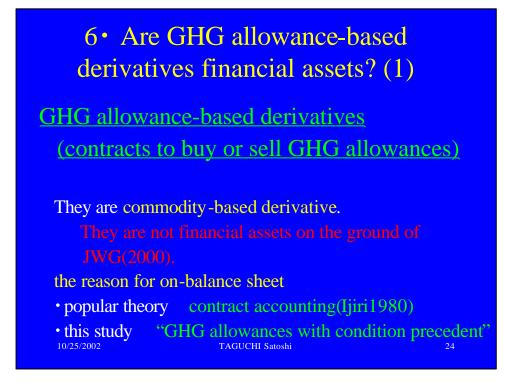
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Measurement
 entry (market) value

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6• Are GHG allowance-based derivatives financial assets? (2) -commodity-based derivatives-

GHG allowances are operating assets.
 They belong in the same category as commodity.
 GHG allowance-based derivatives are commodity-based derivatives.

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25



According to JWG(2000), a commodity-based derivative doesn't meet the definition of a financial instrument.

(JWG(2000) basis for Conclusions 2.14(e))

GHG allowance-based derivatives are nonfinancial assets.

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6• Are GHG allowance-based derivatives financial assets? (4) -commodity-based derivatives-

However, JWG(2000) also says when commodity-based derivatives <u>are settled</u> <u>net</u> by a financial instrument, they should <u>be</u> <u>accounted for in the same manner as</u> <u>financial instruments.</u> (*JWG*(2000) *Draft Standard* 2 (*a*))

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27

6• Are GHG allowance-based derivatives financial assets? (5) -the reason for on-balance sheet-

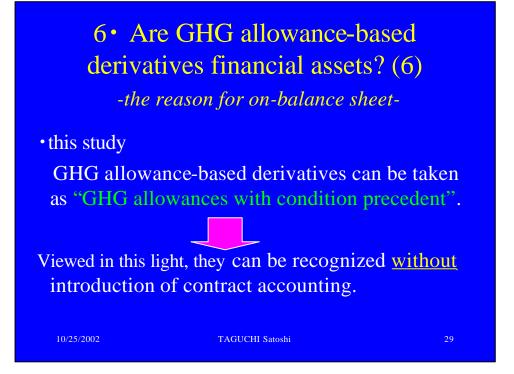
• the reason for on-balance sheet popular theory <u>contract accounting (Ijiri(1980))</u>

> expansion of accounting recognition (based on delivery based on contract)

Viewed in this light, GHG allowance-based derivatives can be recognized **only** by introducing contract accounting.

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$7 \cdot \text{summary}(2)$

The treatment of GHG allowances purchased or received at nil cost should be consistent in the balance sheet.

GHG allowance-based derivatives are non-financial assets.

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