**MINUTES**

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| **To:** | Board Members | | |
| **From:** | Detling (ext. 354), Jolla (ext. 231) | | |
| **Subject:** | Minutes of the February 21, 2007, Board Meeting: Emission Allowances | **Date:** | February 23, 2007 |
| **cc:** | Bielstein, L. Smith, Golden, MacDonald, Lott, Fanzini, Mechanick, Chookaszian, Carney, Polley, Sutay, Gabriele, Allen, Leisenring, Upton, Bean, Attmore, FASB Intranet | | |

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.*

Topic: Emission Allowances

Basis for Discussion: Board Memorandum 1 (dated February 2, 2007)

Length of Discussion: 9:00 a.m. to 9:25 a.m.

Attendance:

- Board members present: Herz, Batavick, Crooch, Linsmeier, Trott, and Young
- Board members absent: Seidman
- Staff in charge of topic: Jolla
- Other staff at Board table: Detling, Golden, and L. Smith
- Outside participants: None

Summary of Decisions Reached:

The Board discussed whether to provide guidance on accounting for emission allowances and decided to add a project to its agenda to provide comprehensive guidance for participants in emission trading programs. The project will provide guidance for emission allowances as well as liability recognition and measurement as a result of an entity emitting pollutants. In a future meeting, the Board will determine whether the scope of this project will include guidance for traders of emission allowances or whether that guidance should be provided in another potential project, such as accounting for traded physical commodity inventory or phase 2 of the fair value option project.

Objective of the Meeting:

The objective of the meeting was for the Board to consider whether to add a project to its agenda to provide guidance for the accounting for emission trading programs. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Ms. Jolla opened the meeting by stating that emission trading programs for the reduction of greenhouse gases have expanded globally in recent years. Cap and trade programs are a common emission trading approach. In cap and trade programs, a government (or government agency) typically issues rights (allowances) to participating entities to emit a specified level of emissions (pollutants). Participants in the program can choose to buy and sell allowances with others. At the end of a compliance period, participants are required to deliver allowances equal to their actual emissions or pay a fine.

2. In cap and trade programs, each individual emission allowance has a vintage year designation (that is, the year an allowance may be used). Emission allowances with the same vintage year designation are fungible and can be used by any party to satisfy pollution from any source. Vintage year exchanges are common among participants in a U.S. cap and trade

program. In a vintage year exchange, a company with a current allowance shortfall exchanges its allowances that have a later vintage year designation for allowances that have a current designation with an entity that has an opposite exposure. Brokers and other nonparticipants also buy and sell emission allowances in secondary markets. Many believe worldwide markets will continue to develop for the trading of emission allowances.

3. The guidance contained in the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts is the only accounting guidance available in the United States that explicitly addresses emission allowances. FERC requires companies to recognize emission allowances on a historical cost basis. In instances in which a government grants the allowance to an emitter for no consideration, the entity would not record anything because the historical cost is $0. The FASB staff is aware of diversity in practice, however, as some companies follow an intangible asset model for emission allowances. The FASB staff is also aware that this diversity is present for participants (emitters) in emissions trading programs. The staff is aware that traders of allowances may account for emission allowances differently than participants.

4. Guidance for emission allowances has been considered by the EITF, TA&I Committee, and the IASB. Ms. Jolla stated that the FASB staff has spoken to the IASB staff about the IASB's planned project on emission allowances and that the IASB staff did not raise any objections to the FASB taking on this project. In addition, the IASB staff thought that, depending on the FASB's decisions, it might accelerate the IASB project.

5. Ms. Jolla asked the Board to discuss whether it wished to add a project to its agenda to provide guidance on the accounting for emissions allowances by participants in emissions trading programs. She presented the Board with the following three alternatives:

a. Alternative A—Issue limited guidance to define the characteristics of emission allowances (that is, the nature of the asset).

b. Alternative B—Issue comprehensive guidance on the accounting for emission allowances and emission trading programs, including asset recognition, measurement and impairment, revenue recognition, cost allocation, liability recognition, presentation, and disclosures.

c. Alternative C—Do not issue guidance on the accounting for emission allowances at this time.

6. Mr. Golden stated that the staff is only asking the Board to discuss whether it wants to add a project to its agenda to address the accounting for participants (emitters) in emission trading programs. The FASB staff plans to bring the issue of how this project might affect the accounting for emission allowances by traders to the Board in conjunction with the planned discussion on the potential project on traded physical commodity inventory. At that discussion the staff also will discuss potential interactions with phase 2 of the Board's project on fair value options.

7. Mr. Trott stated that there has been substantial evidence that emissions trading programs are growing in importance. The Board has the chance to issue timely guidance at an opportune time. Mr. Trott stated that he supported Alternative B to address the issue comprehensively. He stated that the Board needs to address both the accounting for emission allowances and the potential liability for emitting. The TA&I Committee attempted to deal with the issue narrowly, but constituents stated that comprehensive guidance is needed. Mr. Batavick agreed that Alternative A falls short and supported Alternative B. He also stated that now is the appropriate time to address the issue. Mr. Crooch also supported Alternative B. He stated that he has little hope that it will be an easy project because it seems that there is a classic timing difference between when the emission allowance is received and when a liability might be recognized. In addition, there is very little guidance on accounting for government grants and it will need to be addressed in this project.

8. Mr. Young agreed that comprehensive guidance on this issue is needed. Based on discussions that the staff has had with analysts who cover companies that are heavily involved with emission allowances, it is apparent that there is inadequate disclosure and recognition. He stated, however, that he does not believe participants and traders can be separated because many companies are involved in both activities.

9. Mr. Linsmeier stated that unique aspects of this circumstance require the Board to address these issues. This is a result of the growth of the programs and the lack of guidance in the area. The Board needs to address both the asset and liability parts of the programs. He stated that he hoped this issue can be addressed without necessarily providing extremely specialized guidance. Existing guidance perhaps can be leveraged to address certain aspects of the emission allowances model. In addition, the Board needs to be thinking about how traders deal with allowances, whether it is in this project or another project. Some symmetry should exist between traders and participants. Therefore, he stated that he supported Alternative B, but felt that many of the issues could be addressed by applying existing guidance.

10. Mr. Herz read Ms. Seidman's proxy vote. Ms. Seidman did not support Alternative A. Similar to Mr. Linsmeier, she supported a variation of Alternative B. She supported issuing comprehensive guidance but believed that many of the issues could be addressed by existing guidance. In addition, similar to Mr. Young's views, she stated that it would be premature to scope traders of allowance because many participants (emitters) in trading programs also trade the allowances. Therefore, she supported coordinating efforts to address the accounting by traders with the possible project on traded physical commodity inventory.

11. Mr. Herz also supported Alternative B. He stated that this is an important and growing issue. It is apparent that the Board will need to address the accounting by traders either in this project or a parallel project. The Board can decide how to coordinate the two projects when it discusses the possible project on traded physical commodity inventory in the future.

12. The Board agreed to add a project to its agenda to address participants' accounting in emissions trading programs. The Board will determine the interaction of this project with the possible project on traded physical commodity inventory to address the accounting for traders of emission allowances at a later Board meeting.

Follow-up Items:

13. Determine the interaction of this project with the possible project on traded physical commodity inventory.

General Announcements:

None.