MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Sperry (ext. 445)		
Subject:	Minutes of the April 8, 2009, Board Meeting: Emissions trading schemes	**Date:**	April 13, 2009
cc:	FASB: Golden, Bielstein, Lott, Proestakes, Stoklosa, Elsbree, Sperry, C. Smith, Chookaszian, Posta, Gabriele, Sutay, Glotzer, Mechanick, Cropsey, Wilkins, McGarity, Klimek, FASB Intranet; GASB: Galloway; IASB: Leisenring, Clark, Rees, Starbatty		

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, Interpretation, or FASB Staff Position.

Topic:	Accounting for Issue Offsets in a Cap and Trade Scheme
Basis for Discussion:	Board Memorandum Nos. 3A and 3B
Length of Discussion:	9:00 to 10:10 a.m.
Attendance:	
Board members present:	FASB: Herz, Linsmeier, Seidman, Siegel, and Smith
Board members present:	IASB: Leisenring
Board members absent:	None
Other participants:	IASB: Clark, Rees, and Starbatty (by phone)
Staff in charge of topic:	Elsbree, Sperry
Other staff at Board table:	Golden, Stoklosa

Summary of Decisions Reached

The Board did not reach any conclusions on the accounting questions related to initial recognition and measurement of tradable offsets that are issued to an entity free of charge (*issued offsets*) in a cap and trade emissions trading scheme. The Board noted that the accounting for assets and liabilities in an emissions trading scheme involves issues that are also being discussed in the joint Conceptual Framework project and the IASB project to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Board directed the staff to conduct additional research to ensure that conclusions the Board may reach on this project are consistent with conclusions reached on those other two projects.

Objective of Meeting:

The objective of this meeting was for the Board to decide on the initial accounting for tradable offsets that are issued for free to entities in a cap and trade emissions trading program. The Board will continue discussion of this topic at a subsequent meeting.

Matters Discussed and Decisions Reached:

1. Mr. Elsbree stated that the objective of the meeting was for the Board to decide on the initial accounting for tradable offsets that are issued for free to entities in a cap and trade emissions trading program.

2. Mr. Elsbree noted that, due to the strong negative connotations of the word *scheme* in the United States, the staff elected to refer to emissions trading *programs* in the Board handout and for purposes of this meeting.

3. Mr. Sperry stated that the staff prepared two Board memoranda, an addendum based on the views expressed by one of the Board members in a small group meeting, and the Board handout for the meeting. He stated that Memorandum 3A gives background information, particularly related to *clawback* features, which are requirements that some emissions trading programs have for entities to return issued tradable offsets if they shut down a plant mid-year. He noted that this issue was of particular interest to Board members at the joint education session in October. Mr. Sperry stated that the staff does not intend to discuss this memorandum in detail.

4. Mr. Sperry stated that Memorandum 3B addresses the initial accounting for issued tradable offsets and also contains the questions for the Board. He stated that at a future meeting, the staff will ask the Board to address other accounting issues related to emissions trading programs, such as the subsequent accounting in a cap and trade program, the accounting for other types of programs (such as baseline and credit programs), and the accounting for future installments of tradable offsets.

5. Mr. Sperry stated that the staff held a meeting with the IASB to discuss the initial accounting for issued offsets on March 19. At that meeting, the IASB reached tentative decisions to support the staff recommendations on both Questions 1 and 2.

Issue 1: Initial Measurement Attribute for Issued Offsets

6. Mr. Sperry stated that Section A discusses the initial measurement attribute for issued offsets. He said that if the Board decided that issued tradable offsets should be initially measured at cost (that is, zero) that it would not be necessary to address the corresponding entry (Issue 2). He also stated that if the Board chose fair value as the initial measurement attribute, the Board would need to discuss the models to address the corresponding entry presented in Section B.

7. Mr. Sperry stated that the first part of Memorandum 3B addresses whether an issued tradable offset meets the asset definition and recognition criteria. He stated that tradable offsets provide future economic benefits. He also stated that an entity can either use a tradable offset to settle an emissions obligation or it can sell tradable offsets on the market for cash. He stated that as to measurement, an entity could either recognize tradable offsets at cost, that is zero, or it could recognize tradable offsets at fair value.

8. Mr. Sperry stated that the staff believes that the main argument for initially recognizing issued offsets at cost is that it avoids the accounting complexities that may arise from recognizing issued offsets at fair value. He noted that, alternatively, issued offsets could initially be measured at fair value. He stated that the staff believes that the strongest argument in support of fair value is the fact that the issuance of tradable offsets may be seen as a nonreciprocal transaction, in which

case the guidance from paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is directly on point. He noted that paragraph 18 requires an asset received in a nonreciprocal transfer be measured at fair value.

9. Mr. Sperry stated that the staff believes that fair value is the most relevant initial measurement attribute for issued tradable offsets. He stated that, in addition, fair value best reflects the fact that tradable offsets are valuable items that an entity is free to trade.

10. **Staff Recommendation**: The staff recommended that tradable offsets initially be measured at fair value.

11. **Board Vote:** The Board did not vote on this issue.

12. **Board Comments:** Mr. Golden stated that the scope of the question relates only to government grants of the emissions offsets and would not affect other government grants. Mr. Elsbree agreed with Mr. Golden that the premise of the question is limited to emissions trading programs.

13. Mr. Herz asked for an update of where the United States stands in developing a cap and trade program and whether a program was proposed in the budget. Mr. Elsbree stated that a program was proposed that differs from the one proposed in the Liebermann-Warner bill. Mr. Sperry stated that there is a program included as part of the proposed budget, and Messrs. Golden and Elsbree clarified that the current status of the program is that it has been separated from the budget for independent discussion.

14. Mr. Herz stated that we did not know fixed details of the proposed plan, but that this was an important question to address. Mr. Golden clarified that there are programs active that are not federal. Mr. Elsbree stated that there is an active program on the West Coast, the RGGI program in several northeastern States, and the Acid Rain program that has been in place since 1995. Mr. Herz noted that entities using U.S. GAAP also may be subject to programs in other parts of the world.

15. Mr. Linsmeier stated that he is troubled by the inconsistent reasoning by the staff. He observed that the staff is recommending that issued offsets be initially measured at fair value accounting because fair value is required for a nonreciprocal transfer. At the same time, in Issue 2 the staff is arguing that the transfer is *not* nonreciprocal and is therefore recommending that a liability be recognized instead of a gain (Issue 2). Mr. Elsbree stated that many offsets are traded on active markets and many users have indicated that it is more transparent to record offsets at a fair value amount than at a cost of zero. Mr. Elsbree stated that the nonreciprocal transfer argument is one of many that can be made to support initial recognition of issued offsets at fair value.

16. Mr. Linsmeier stated that if the Board decides to reject a nonreciprocal transfer on the credit side of the transaction, using a nonreciprocal transfer argument to support the initial measurement attribute on the debit side will be inappropriate. Ms. Seidman agreed.

17. Ms. Seidman stated that the public policy objective is for the government to impose a penalty on entities who emit above a certain level and that an entity could remedy the penalty by using issued offsets or by purchasing more efficient equipment, but either way it is a cost. Ms. Seidman stated that looking at the substance of the program in total would be appropriate. Mr. Linsmeier agreed.

18. Mr. Linsmeier stated that the program effectively is a tax, but that it is unusual because an entity receives a tax credit before incurring the increased costs. The fact that the tax credit has value before an entity has taxable income makes it even more unusual. He stated that the intent of the tax credit is to ease entities into the tax regime and that the credit will go away over time. Mr. Linsmeier stated that the fact that the tax credit is tradable and has value affects how he thinks about the accounting. Mr. Elsbree stated that an IASB member expressed a similar view.

19. Mr. Herz stated that Mr. Linsmeier's view would still require initial measurement at fair value. Ms. Seidman clarified that the determination of the initial measurement attribute cannot be made in isolation.

20. Mr. Golden agreed with Mr. Linsmeier's view and clarified that he wants to ask the scope question because there are many tax credits (related to property tax, not income) that are not accounted for at fair value. Mr. Golden stated the substance of a program is a tax to encourage entities to stop emitting. If an entity emits less, it will be able to retain more value from the credits.

21. Mr. Leisenring indicated that he does not understand Ms. Seidman's comments about isolation. He stated that not viewing the transaction in isolation would require consideration of future tax payments being made. Ms. Seidman disagreed. She stated that upon acceptance of the issued offsets, the value is in either (a) selling the offsets (and potentially needing to buy them back in the future), or (b) remitting the allowances back. She stated that she views the program as giving an entity potential rights and potential obligations, and that she does not see the need for an entity to recognize either of them until used, or until the entity emits. She noted that if an entity emits while holding allowances, then it does not have an obligation, because that obligation is already satisfied by holding the allowances. She stated that if the entity sold the allowances, it would be exposed and would have an obligation to book the liability.

22. Mr. Leisenring asked Ms. Seidman to whom the entity is obligated. Ms. Seidman stated that it is obligated to the government. Mr. Leisenring stated that there is no present obligation to the government. Mr. Linsmeier stated that he now has a different view from the one he expressed in a small group meeting—unless a clawback is present, he believes no liability exists on *Day One* (that is, upon receipt of the offsets). Mr. Golden asked Ms. Seidman whether there should be a gain on Day One if an entity sells the offsets immediately, before it emits. Ms. Seidman stated that she does not support recognizing a gain and views the sold offsets as a short position.

23. Mr. Golden asked whether Ms. Seidman would support recording a liability if the government issued offsets that were insufficient to cover an entire year's use. Ms. Seidman stated that she would not support recognizing a liability until the entity emits. Mr. Golden asked why there is a difference. Ms. Seidman stated that by

viewing the offsets and the liability as related (that is, when offsets are provided to an entity, they are intended to satisfy an obligation), recording a gain indicates that an entity does not have an obligation to remit the offsets.

24. Mr. Golden stated that if an entity can sell the offsets to invest in equipment that reduces emissions, he does not understand why there is a need to record a liability when the offsets are sold. Mr. Linsmeier stated the he agrees that an entity should not record a liability unless there is a present obligation or a clawback obligation. He noted that the Board seems to be trying to overcome the Framework because Board members generally agree that there is an asset that should be recognized.

25. Mr. Linsmeier asked whether offsets are of value to an entity if the issuance is not a nonreciprocal transfer and there is no incentive to sell the offsets. He noted he would entertain measuring the assets at cost, because trading is not integral to an entity's operations under the program. Rather, trading is a part of the program to cover for emissions. Mr. Smith stated that an issue is that there is a general desire to account for the program.

26. Mr. Smith stated that he has difficulty with the analysis and that it is an attempt to justify the accounting that feels right versus the accounting that would result from relying specifically on the Conceptual Framework. He stated that the difficulty in accounting for the program in its entirety is that if an entity begins trading offsets on Day Two, it is unclear whether an entity should recognize gains and why. Mr. Linsmeier stated that if an entity sold an offset that it will need, it would be required to repurchase the offset in the future. Mr. Smith noted that the Day One accounting seems appropriate, but that on Day Two, the accounting would no longer be based on the program as a whole.

27. Ms. Seidman stated that, if an entity nets the assets and liabilities on the balance sheet, it would gross up the liability if it sold the asset on Day One. The same accounting approach could be presented gross on the balance sheet, with a reduction of the asset when it is sold on Day One. Mr. Smith stated that this scenario raises Mr. Golden's question of whether an entity should record an expected shortfall if it is issued fewer offsets than needed on Day One. Mr. Smith

noted that Ms. Seidman had said that she thinks no liability should be recorded. He noted an inconsistency when an entity sells issued offsets on Day Two and recognizes a grossed up liability. He asked what that liability relates to. Ms. Seidman said that the liability relates to an obligation to give back those offsets to satisfy a penalty that otherwise would be required to be paid.

28. Mr. Golden stated that he believes that the earnings process is not complete. He stated that in viewing the program as a whole, an entity is given offsets because the government anticipates that it will emit, and the entity has not yet earned the offsets. Ms. Seidman noted that the entity does not have unfettered rights to the assets.

29. Mr. Siegel stated that it can be argued that offsets are similar to financial instruments and the Board should consider whether intent matters. He noted that the intent to sell or to hold the instruments may affect how they are accounted for. Mr. Linsmeier stated that he believes that one should look at the program as a whole, and that he is open to a unit-of-account netting at the start of the program. He noted that the nonreciprocal transfer reasoning for the Day One accounting for the asset is not appropriate if the credit entry does not follow nonreciprocal transfer reasoning.

30. Mr. Golden asked whether one would present the assets and liabilities gross or net on the balance sheet when considering the whole program. Ms. Seidman stated that if an entity intended to hold the offsets without selling them, netting would be appropriate. She stated further that an entity that intends to trade offsets would gross up the liability upon sale. Mr. Golden stated that under a net presentation model, if an entity emits in excess of the number of allowances received, those excess emissions would effectively be considered to be outside of the program. Mr. Linsmeier disagreed and said that he disagrees with netting, because there is no present obligation against which to net the asset. Mr. Golden noted that a Day Two sale of the issued offset would result in a gain under the approach suggested by Mr. Linsmeier.

31. Mr. Linsmeier noted that under a program, most entities would hold, rather than sell, the majority of their offsets. Recording those offsets at fair value as if they will be traded may not be appropriate and would not capture the economics of the program.

32. Mr. Stoklosa asked why an entity would not sell all of its offsets upon receipt in order to speculate that prices will go down and then buy the offsets back at a lower price. Mr. Linsmeier replied that in that circumstance, an entity would have a gain. Ms. Seidman disagreed and said that if the entity recorded a sale of issued offsets as a short, a gain would not be recognized.

33. Mr. Golden asked if he understands Ms. Seidman's view correctly as supporting measuring issued offsets at fair value and netting the offsets with a program liability. Ms. Seidman replied that Mr. Golden's understanding was correct, but that she might also agree with Mr. Linsmeier's view. Ms. Seidman indicated to Mr. Golden that she was not ready to make a final decision regarding the required accounting.

34. Mr. Linsmeier noted that an odd feature of the program is that although it is similar to a tax credit that may be used to offset future tax obligations, it is different in that the credit is tradable. Mr. Smith and Mr. Herz noted that tradable tax credits existed with tax-based transfers in 1983 or 1984. Mr. Herz noted that there were two exposure drafts, but no final standard was issued. Mr. Smith noted that the tradable tax credits associated with tax-based transfers were accounted for as leases.

35. Mr. Leisenring stated that he does not believe that the government's intent is relevant to the accounting for the issued offsets, noting that the proposed accounting is for the position of an entity. Ms. Seidman disagreed and stated that viewing the transaction as a nonreciprocal transfer would require a gain on Day One. She said that accounting for the program one leg at a time would not faithfully represent the economic phenomenon as a whole.

36. Mr. Golden stated that accounting based on government intent would be very difficult to draft due to the diverse intents of varying government bodies. Mr. Elsbree stated that governments are not granting allowances for free so that entities

can take them without further participation in a program. Ms. Seidman agreed and stated that ultimately it would be a zero-sum game, in that issued offsets would cover a program-wide cap for total emissions by participants. Mr. Elsbree noted that total offsets are generally intended to be less than historical amounts. Ms. Seidman noted that the purpose of the program is not to give businesses capital. Mr. Golden stated that the intent may include giving an entity capital to invest in technology to reduce emissions, which would allow it to sell unneeded offsets. He said that the intent of the program likely consists of (a) levying a tax, (b) limiting the amounts of allowances, and (c) providing capital for improvements.

37. Mr. Herz asked whether management intent mattered on Day One and, if intent does matter, how it should be reflected in Day One measurement. Mr. Smith stated that users have indicated that a Day One gain is not appropriate for an entity that intends to hold and use its offsets. Mr. Herz noted that users also want to know that offsets are received and that the best way to communicate that is to recognize them. Ms. Seidman and Mr. Elsbree agreed that this is the most common user view. Messrs. Elsbree and Stoklosa noted that the staff intends to present this information in the context of Day Two accounting at a future meeting.

38. Mr. Golden observed that the Board discussion has covered not only Day Two accounting, but also the events before an issued offset is received, that is, why the offsets have been granted. Ms. Seidman agreed with Mr. Golden.

39. Mr. Leisenring stated that the economics should be assessed in terms of whether an asset has been received and whether a liability has been incurred. He said that he does not believe that any other circumstances are relevant to this determination, including the government's intention. Mr. Leisenring further stated that the Board seems to have reached the conclusion that there is an asset, although measurement had not been agreed upon, and that the Board wanted to have a liability. He stated that the IASB is considering liabilities under IAS 37, and that the conclusions in the staff's recommendation on this project are not consistent with those of the IAS 37 discussions involving similar circumstances.

40. Mr. Linsmeier stated that he does not believe that there is a liability upon receipt of issued offsets. He stated that there is an asset and that the transaction does not represent a nonreciprocal transfer—the government gives entities a *gift*, but it is not the case that entities can simply walk away with that gift as a gain. There is *something* the government expects in return for that gift, but that something is not a present obligation. Mr. Stoklosa suggested that the Board needs to discuss measurement and recognition of the asset under that circumstance. Mr. Leisenring stated that the Board has not concluded that there is an obligation and that the Board should debate and decide whether it believes that there is an obligation. He noted that some believe that there is an obligation upon receipt of issued offsets, whether that obligation is a stand-ready obligation or something else.

41. Mr. Golden asked if any Board members disagree with the conclusion that there is an asset. No Board members disagreed; however, Ms. Seidman noted that she was concerned that the asset may be restricted. Mr. Smith stated that the ability to sell the asset may indicate that the asset is not restricted. Ms. Seidman replied that there is a question of whether an entity selling an offset causes the entity to be obligated to do something else, such as reacquiring the offset.

42. Mr. Siegel asked whether the more fundamental question is a unit of account question. He noted that Mr. Smith had said that thinking of the unit of account as the whole program enables liability recognition. Mr. Leisenring stated that there are a few examples in the IASB's IAS 37 discussion that resemble an emissions trading program, which the IASB staff recommends calling *stand-ready obligations*. He also said that the program resembles several examples that would be considered obligations under that project. Mr. Leisenring noted that the Board should analyze whether a liability exists within the context of the Boards' other decisions regarding liabilities.

43. Mr. Herz stated that if the offsets were not marketable and an entity had to use them, he would look at them as tax credits. However, the fact that an offset can be traded changes the analysis. He also stated that management's intent could affect

the measurement of the assets; however, he did not believe that this would be important.

44. Mr. Herz noted that, regardless of whether an accounting asset is recognized, an economic asset had been received. Ms. Seidman asked whether Mr. Herz thought that a net asset had been received. She gave an example of an entity given enough offsets to match its expected emissions. She said that she thinks there is no change in that entity's position, because the prior ability to emit without obligation has been replaced with free offsets to match an obligation generated by emissions. Mr. Herz agreed.

45. Mr. Herz stated that he was thinking of potential models and noted that one possible measurement attribute would be *avoided cost*; however, he noted that this approach would have several measurement problems. He also noted if an entity sold the offset under this approach, it would account for the sold offset as a short sale. Ms. Seidman noted that this would not result in a gain, and Mr. Herz agreed. Mr. Smith stated that the recognized short position would be marked to market. Ms. Seidman stated that recording a short sale makes sense to her.

46. Mr. Leisenring stated that the obligating event under this example was emitting, which had not occurred yet. Mr. Smith replied that, to Mr. Siegel's point, there is a unit of account that consists of (a) the government's issuance of offsets, (b) the entity's expectations about its emissions over the period that relates to the issued offsets, and (c) anything the entity does related to emissions and offsets during that program period. Under this approach, sales activity during the period should not be recorded as if the sale had been realized, but should be factored into the assessment of what the overall liability will be during the year because the entity is accounting for the program.

47. Mr. Leisenring noted that the determination of what the liability is going to be looks to future events. Mr. Smith stated that he felt this is appropriate because an entity should account for a program compliance year. Mr. Linsmeier stated that Day One and Day Two should both be considered. He stated further that receiving an asset in a nonreciprocal transfer creates the question of how to record that asset. He

asked what should be recorded when an entity begins emitting (and therefore has a present obligation to deliver offsets) if the assets are recorded at cost (zero). He indicated that his concern about accounting for a sale as a short sale is that the entity does not have an obligation tied to the asset until it emits. Under these programs, an entity may trade the offsets before it emits. Ms. Seidman stated that she does not believe that an entity has a gain when selling offsets before emitting. Mr. Stoklosa stated that there are many ways to avoid recognizing a gain, but that he does not believe that the Board needs to decide Day Two before deciding on Day One.

48. Mr. Leisenring stated that the IASB voted not to recognize a gain on Day One because they did not like that answer. He noted that two Board members who supported the staff recommendation nevertheless acknowledged that there is no liability. Mr. Elsbree observed that those IASB members who supported the staff recommendation to recognize a liability on Day One did so for various reasons. He noted that some Board members analogized to a noncompete agreement. Mr. Leisenring stated that some Board members did indicate that there is a liability.

49. Mr. Elsbree stated that he does not believe that there is a Day One gain when offsets are issued for free and that a Day One gain would not reflect the economics of the transaction, which accounting is supposed to do. Mr. Linsmeier stated that, because he does not think that there is a Day One gain, the reasoning behind the staff recommendation to record offsets initially at fair value because they may be considered nonreciprocal transfers should not be accepted. Ms. Seidman agreed.

50. Mr. Herz stated that he does not believe that a Day One accounting gain is appropriate, but that he thought that an economic gain may have occurred on Day One. He gave an example of an entity that receives more offsets than needed to meet its expected emissions, in which case the excess offsets received would be an economic gain to the entity. Mr. Leisenring stated that he believes an entity could justify selling offsets on Day One in the current economic environment because it believes that energy consumption will decrease and therefore offsets will be cheaper once the market digests the decreased demand. Ms. Seidman noted that

treating that transaction as a short would be appropriate. Mr. Leisenring replied that there is no obligation for the short until an entity emits. He stated that recording the sale of an offset as a short involves considering the future costs, not the current obligations. Mr. Herz replied that the accounting for pension obligations considers the future activities of an entity.

51. Ms. Seidman stated that this decision is similar to deciding whether buy-sell arrangements in securities should be accounted for as financings or separate transactions—an entity has to assess whether it will have to buy the securities back.

52. Mr. Siegel asked whether, under the going-concern assumption, an entity should assume that it will emit. Mr. Leisenring and the FASB Board members agreed that assuming future emissions would entail the recognition of other liabilities (such as future direct labor costs) that are not recognized as liabilities.

53. Ms. Seidman asked how this compares to recognizing an asset retirement obligation. Board members stated that an asset retirement cost is capitalized and subject to impairment.

54. Mr. Elsbree asked how the Board would like the staff to proceed. He observed that the IASB had reached a decision on the initial accounting for offsets. He also stated that the Board seems to want to know more about the entire accounting approach for the program from Day One to the end.

55. Ms. Seidman objected to the staff's use of the term *performance obligation* because that term typically applies to revenue transactions. As the obligation in an emissions trading program goes away, there is a cost and not revenue. She recommended the use of a different term and stated that too many items are called performance obligations.

56. Mr. Linsmeier noted that a performance obligation is not recorded until there is a present obligation with a customer to deliver a product or service. He noted that there is no present obligation in an emissions trading program until an entity emits, and therefore there can be no performance obligation. Mr. Elsbree replied that a customer's up-front payment creates a performance obligation. Mr. Stoklosa noted

that this circumstance is what led him to think of the obligation as a stand-ready obligation. Mr. Linsmeier stated that he thinks there is no stand-ready obligation.

57. Mr. Golden asked the Board members to clarify their initial views. Mr. Smith asked whether any Board members support recognizing a Day One gain on issued offsets. Mr. Linsmeier indicated that he is not inclined to support recognizing a gain on Day One. All other Board members opposed recognizing a gain on Day One. Mr. Leisenring indicated that the Board would need to create a justification for not recording a gain on Day One. Mr. Linsmeier responded that he believes that a gain is not appropriate because an entity receives assets for which the entity gave nothing in a transaction that is not a nonreciprocal transfer.

58. Mr. Herz stated that Board members would not support recognizing an asset on Day One if issued offsets were not tradable. He asked whether it would change the analysis if the offsets are tradable but an entity states that it will not trade them. Mr. Linsmeier said that he would not include intent in the standard and that the nature of the program would result in most of the offsets not being traded. He also stated that if an entity does trade offsets, that action results in a gain.

59. Mr. Smith asked whether Board members support the recognition of gains when the assets are sold, assuming an entity is a going concern and will emit in the future. Mr. Linsmeier stated that he would support recognizing the gain but would be concerned about an entity being able to manage earnings.

60. Mr. Leisenring stated that he worries that the Board is attempting to justify a particular accounting treatment with which it is more comfortable, despite that approach’s inconsistency with the Framework. Ms. Seidman stated that many constituents feel that the accounting approach supported by Mr. Leisenring would not faithfully represent the economics of an emissions trading program. Mr. Leisenring stated that the accounting is remotely comparable to other situations. Mr. Herz stated that it is similar to pensions, which are measured and recognized before meeting a threshold. Mr. Leisenring stated that he believes that the FASB and the IASB will not be able to reach the same conclusions on the accounting

approach for these programs in light of the IASB's upcoming meeting to discuss the accounting for stand-ready obligations under IAS 37.

61. Mr. Herz stated that he would support not recording issued offsets if an entity expected to use them all to offset its emissions. He continued that if an entity expected to use half of its issued offsets, he would support recognizing the other half of those offsets at fair value. Mr. Leisenring stated that if the Board wants to look at this set of circumstances in a particular manner, it should look at all similar sets of circumstances in the same way without issuing standalone guidance for issued offsets in an emissions trading program.

62. Mr. Linsmeier asked the Board to consider stand-ready obligations absent a clawback feature. He gave an example of a guarantee. The guarantor receives cash up-front and is required to make whole in the event of a loss. Similarly, an insurance contract requires the insurer to make whole in the event of a casualty. Mr. Smith noted that these events are outside of the control of the guarantor and the insurer. Mr. Stoklosa asked why it matters who controls the contingency, and Mr. Linsmeier replied that a stand-ready obligation is unconditional and that an obligation is unconditional only if it is outside of an entity's control. Mr. Stoklosa noted that this would conflict with the requirement to account for certain derivatives as liabilities. Ms. Seidman noted that the Framework provides for "discretion to avoid," which is not the case in a derivative. Mr. Stoklosa cited an option that is exercisable only in the event of an initial public offering as an example of a derivative whose terms give an entity discretion to avoid fulfilling the obligation but nevertheless would be recognized as a liability. Ms. Seidman agreed.

63. Mr. Leisenring also agreed with Mr. Stoklosa and stated that there are several things under an entity's control that are called liabilities. He stated that the Board needs to consider performing further analysis about the existence of liabilities.

64. Mr. Golden proposed that the Board wait to make decisions until further analysis is performed.

Issue 2:

65. The Board did not separately discuss Issue 2.

Follow-up Items:

The staff will perform additional analysis about the existence of liabilities in various fact patterns and will present that analysis to the Board at a future meeting. Once Board members have agreed to that analysis, the staff will resume developing accounting models to account for emissions trading programs.

General Announcements:

None.