MFSA MALTA FINANCIAL SERVICES AUTHORITY

Circular

22 October 2024

ESMA Issues a Public Statement on Accounting for Carbon Allowances in Financial Statements

1.0 Background

On 08 October 2024, the European Securities and Markets Authority ("ESMA") released a Public Statement addressing the accounting for carbon allowances in financial statements (hereinafter referred to as the "Statement")[1]. The Statement reviews the various accounting approaches that issuers are using to account for carbon allowances in their financial statements.

With the increasing significance of how climate-related matters are accounted for in the financial statements, the Statement highlights the International Financial Reporting Standards ("IFRS") that issuers can apply when reporting carbon allowances. The Statement offers guidance on improving disclosures to enhance decision usefulness for users by promoting transparency of the information included in the financial statements with respect to carbon pricing programmes, in which an issuer is engaged.

2.0 Overview

ESMA highlights that carbon pricing schemes come in two forms: compliance and voluntary. The Statement focuses on compliance carbon pricing programmes and specifically emission allowances, rights and permits ("carbon allowances"). This focus area is the result of the most common carbon pricing programme currently observed in the European context, which is the European Union Emissions Trading System ("EU ETS")[2].

In this respect, the Statement *inter alia* deals with:

- aspects to consider when developing accounting policies regarding carbon pricing programmes under IFRS Accounting Standards;
- the current accounting practices on carbon allowances, mainly the "Inventories Approach" and the "Intangible Assets Approach";
- other IFRS Accounting Standards to consider when accounting for carbon allowances; and
- disclosure recommendations to be included in the financial statements.

1 ESMA32-483087481-68 Public Statement dated 08 October 2024, titled: "Clearing the smog: Accounting for Carbon Allowances in Financial Statements"
2 For further information, please check: https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets_en

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Moreover, issuers are reminded that in line with applicable requirements in IFRS Accounting Standards, accounting for carbon allowances in the financial statements should be consistent and coherent with the disclosures provided throughout the annual financial report, including the sustainability statement prepared under the European Sustainability Reporting Standards ("ESRS").

3.0 Next Steps

ESMA expects issuers and auditors to review their accounting practices and incorporate the recommendations when preparing and auditing the 2024 annual financial reports, as may be material and/or relevant.

4.0 Contacts

Should you have any queries relating to the above, kindly contact the Authority on transparency@mfsa.mt.