

The Chinese Ministry of Finance(hereinafter as MOF) has just published the “Notice on Printing and Distributing the Interim Provisions on Accounting Treatment of Carbon Emission Trading”. It clarified the accounting guidelines for key emission entities covered in the national carbon market in obtaining and selling allowances as well as accomplish compliance, and stipulated the contents of financial statements that need to be displayed and disclosed, the main content are as follows:

1. Scope

“This regulation applies to relevant enterprises (hereinafter referred to as “key emission enterprises”) that conduct carbon emission trading business in accordance with the “Interim Measures for the Management of Carbon Emission Trading”. Key emission enterprises shall conduct accounting treatment in accordance with these regulations.”

2. Principles

“If a key emission enterprise obtains a carbon emission allowances through purchase, it shall recognize the obtained carbon emission allowance as a carbon emission right asset on the purchase date and measure it at cost.

If key emission enterprises obtain carbon emission allowances for free through government free allocation and other methods, they will not be recognized or measured.”

3. Accounting Subjects

“Key emission enterprises should set up the “1489 carbon emission rights assets” account to account for carbon emission allowances obtained through purchase.”

4. Accounting Treatment

4.1. If a key emission enterprise purchases a carbon emission allowance, it shall debit the “carbon emission rights assets” account and credit “bank deposits” or “other payables” or other related subjects in accordance with the price actually paid or payable on the purchase date (including related taxes and fees).

If key emission enterprises obtain carbon emission allowance for free, they will not be accounted for.

4.2. *If key emission enterprises use the purchased carbon emission allowances to accomplish compliance (fulfill their emission reduction obligations), they will debit the "non-operating expenditure" account and credit the "carbon emission rights assets" account according to the book balance of the allowance submitted.*

If key emission enterprises use the carbon emission allowances obtained for free, they will not be accounted

4.3. *The sale of carbon emission allowances by key emission enterprises shall be accounted for according to the source of the allowances:*

4.3.1. *If key emission enterprises sell purchased carbon emission allowances, they shall debit subjects such as "bank deposits" and "other receivables" in accordance with the actual amount received or receivable on the day of sale (net of related transaction fees and other fees). The book balance of the sales allowances is credited to the "carbon emission rights assets" account, and the difference is credited to the "non-operating income" account or the "non-operating expenditure" account.*

4.3.2. *If a key emission enterprise sells carbon emission allowance obtained free of charge, it shall debit such subjects as "bank deposits" and "other receivables" in accordance with the price actually received or receivable on the day of sale (net of related transaction fees and other fees), credit the "non-operating income" account.*

4.4. *If a key emission enterprise voluntarily cancels the purchased carbon emission allowance, it shall debit the account of "non-operating expenditures" and credit the account of "carbon emission rights assets" according to the book balance of the cancelled allowances. If key emission enterprises voluntarily cancel carbon emission allowances obtained free of charge, they will not be accounted for.*

5. Financial Reports and Disclosure

5.1. *The debit balance of the "carbon emission rights assets" account is shown in the "other current assets" item in the balance sheet*

5.2. *Key emission enterprises should disclose the following information in the footnotes to the financial statements:*

5.2.1. *The ending book value of the carbon emission allowances listed in the "Other Current Assets" item of the balance sheet, and the amounts of the carbon emission*

allowance transactions in the “non-operating income” and “non-operating expenditure” items of the income statement.

5.2.2. Information related to carbon emissions trading, including characteristics of emission reduction mechanisms which the enterprise is participated in, carbon emission strategies, energy saving and emission reduction measures, etc.

5.2.3. Specific sources of carbon emission allowances, including how they are obtained, the year they are obtained, the purpose of use, and the reasons for carryover.

5.2.4. Energy conservation, emission reduction or excess emissions, including the comparison of carbon emission allowances obtained from free allocation with actual emissions data for the same period, and reasons for energy conservation, emission reduction or excess emissions.

5.2.5. Changes in carbon emission allowances, the specific disclosure format is as follows:

Items	Current Year		Preceding Year	
	Volume (tons)	Value (RMB Yuan)	Volume (tons)	Value (RMB Yuan)
1. Carbon Emission allowances at the Beginning of the Period				
2. Increased carbon emission allowances in the current period				
2.1 Obtained from free allocation				
2.2 Obtained through Purchase				
2.3 Others				
3. Decreased carbon emission allowances in the current period				
3.1 Used for compliance				
3.2 Sold				
3.3 Others				
4. Carbon Emission allowances at the End of the Period				

6. Supplementary

6.1. The national certified voluntary emission reduction related transactions in which the key emission enterprises participated in shall be accounted for in accordance with the above regulations, and detailed accounts shall be set up under the "carbon emission rights assets".

6.2. The Provisions will be implemented from January 1, 2020, and key emission enterprises shall apply prospectively.