



Carbon Fund Annual Report 2015



National Treasury Management Agency

REPORT AND ACCOUNTS OF THE CARBON FUND FOR THE YEAR ENDED 31 DECEMBER 2015





Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

June 2016

Mr Simon Coveney TD
Minister for the Environment, Community
and Local Government
Custom House
Dublin 1

Dear Minister

Please find enclosed the Report and Accounts of the Carbon Fund for the year ended 31 December 2015.

Yours sincerely

Willie Walsh
Chairperson



Report and Accounts of the Carbon Fund 2015

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Summary

2015 saw the final settlement of obligations under the Kyoto Protocol compliance period 2008-2012. Carbon units totalling 3,052,416 were surrendered from the Carbon Fund as part of Ireland's overall settlement.

The Carbon Fund received 28,360 units during 2015, which were delivered from carbon investment projects. The Carbon Fund also transferred €422,750 (\$469,236) to the BioCarbon Fund under its obligations to that Fund. At year end there were 5,329,964 units remaining in the Fund, which will be carried forward to the next commitment period.

This report is the ninth report to the Minister for the Environment, Community and Local Government under the Carbon Fund Act, and covers the year ended 31 December 2015.

Background

The Carbon Fund was established under the Carbon Fund Act 2007. It was established for the purchase of carbon credits, to supplement domestic mitigation action in fulfilling Ireland's compliance with its Kyoto Protocol obligations.

Management of the Fund was delegated to the National Treasury Management Agency, which was also designated the purchasing agent for the acquisition of the necessary credits. Carbon credits are referred to in the legislation as Kyoto Units.

It was originally estimated that the Government would need to purchase carbon credits to cover a projected 3.6 million tonnes of excess emissions in respect of each year of the 2008–2012 period. Following the rapid and severe deterioration in economic conditions and the lower rate of growth in the Irish economy over this period, the requirement to purchase credits was significantly reduced. As a result, additional units remain in the Fund following the surrender of units for the first Kyoto period. These will be carried forward to the next period.





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The Kyoto Protocol

The Kyoto Protocol was adopted in 1997 at the UN Climate Conference in Kyoto, Japan.

The Protocol had mandatory targets for reductions in greenhouse gas emissions for the world's leading economies. These, primarily the major industrialised countries and some former Soviet bloc countries, are known as Annex B countries.¹ The targets ranged from reductions of 8 per cent to increases of 10 per cent on 1990 emissions levels. The aim was to reduce overall emissions by 5 per cent below the 1990 level. The commitment period for these reductions was 2008-2012. The European Union collectively had a binding target to reduce its carbon emissions by 8% below its 1990 levels.



The European Union and the Kyoto Protocol

The EU-15 had an internal burden sharing agreement to meet its emissions reduction target. Different targets were distributed to its Member States. The details are listed in the table:

Country	Target for 2008-2012 by reference to 1990 levels
Austria	-13%
Belgium	-7.5%
Denmark	-21%
Finland	0%
France	0%
Germany	-21%
Greece	25%
Ireland	13%
Italy	-6.5%
Luxembourg	-28%
Netherlands	-6%
Portugal	27%
Spain	15%
Sweden	4%
UK	-12.5%
EU-15	-8%

¹ Annex B countries are those listed in Annex B of the Kyoto Protocol and are the 39 countries with quantified emission limitation or reduction commitments. However, there is some overlap in that the European Union (EU-15) is itself a signatory while the 15 countries that were Member States of the EU at that time, including Ireland, are also listed. (See Appendix 1 for greater detail).

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Ireland's Emissions Targets

Ireland's overall target was to achieve emissions of no more than 13 per cent above the 1990 levels. This amounted to a total target for the period of 314.184 million tonnes CO₂ equivalent². The amount of emissions a country was allowed to emit was referred to as its assigned amount.



The European Union Emissions Trading Scheme (EU ETS)

The EU-15 decided to collectively create a European-wide “cap and trade” scheme for major polluters, as part of its overall climate policy. This was known as the European Union Emissions Trading Scheme (EU ETS). The carbon emissions of installations across the EU were controlled under the scheme. These installations were given direct emission target allowances to manage themselves. Over 100 Irish installations participated in the scheme.

Just as countries were allocated emission allowances so were the installations. These allocations to the ETS sectors came out of a country's overall allocation. In Ireland, the allocation to the ETS sectors in 2008 – 2012 was 111.41 Mt CO₂e for the period³. Companies remained the owners of their allocations. Where they emitted less than their allocation, any surplus remained their property and could be sold or held for a later period.

Part of the 111.41 Mt CO₂e allocation to the ETS Sectors was put aside for those who entered the industry in this period. This was done to avoid them being placed at a competitive disadvantage versus those already in the scheme, who had been allocated units. It was known as the New Entrants Reserve. To the degree that these new entrant allowances were not used, they reverted to the State. Equally if a firm closed, its allowances reverted initially to the New Entrants Reserve (NER) and ultimately the State. Given the economic slowdown in Ireland, the units set aside for the new entrants were not fully utilised and formed an extra source of carbon units available for compliance purposes for the State. This amounted to 6.56 Mt CO₂e at the end of the Kyoto period.⁴

² Carbon Dioxide (CO₂) is the most common greenhouse gas and a tonne of CO₂ is used as the common unit of measure. Carbon Units therefore are each equivalent to a tonne of CO₂. Emissions of other greenhouse gases are measured as equivalents of carbon dioxide (CO₂e).

³ In the period after 2012, allowances are allocated by sector across the EU ETS and there are no national allocation plans. Airlines were included in the EU ETS from the 1st January 2012.

⁴ Footnote to table 1 http://www.epa.ie/pubs/reports/air/airemissions/GHG_1990-2012_April_2014.pdf

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Investments by Ireland

To meet the requirements for carbon emissions, Ireland's strategy involved a number of investments to deliver carbon units. The Department of Environment, Community and Local Government undertook investments in three multilateral funds. These invest in projects to achieve carbon emissions reductions⁵.

These were:

- The Multilateral Carbon Credit Fund (MCCF)⁶ of the European Bank for Reconstruction and Development (EBRD).
- The World Bank Carbon Fund for Europe
- The World Bank BioCarbon Fund

In addition to these investments, the NTMA was mandated to purchase carbon units directly from the market. This was to supplement the units received through investments and meet the reductions targets. A total of 18 million tonnes were estimated as required in the period.

In total 21 trades were undertaken, in which Ireland purchased 5.255 million units. The average price was €14.03 (excluding VAT). These trades were undertaken during 2008 and 2009.

In the light of the slowdown in the Irish economy and the resulting fall in emissions, the estimated number of units required was reduced. The carbon purchasing programme was suspended in February 2009, following a decision by the Department of the Environment, Community and Local Government.

While the NTMA has made no further trades, the Agency has assisted the Department in processing outstanding payments on the State's investments in funds. The Carbon Fund made a payment of €422,750 (\$469,236) to the BioCarbon Fund in August 2015. This was undertaken following an instruction from the Department of the Environment, Community and Local Government. This relates to a commitment under the Participation Agreement between Ireland and the IBRD as Trustee of the BioCarbon Fund. This brought Ireland's investment in the fund to €6.03m out of a commitment of \$10.08m.



⁵ This was before the establishment of the Irish Carbon Fund by the Carbon Fund Act 2007. The investments are administered by the Department of the Environment, Community and Local Government.

⁶ The European Investment Bank is partnering the EBRD in managing the MCCF; Ireland's agreement is only with the EBRD.

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True-Up Period and Retirement of Units

The first commitment period under the Kyoto Protocol (2008-2012) has now been finalised. Ireland's total emissions over the period were 308.51 Mt CO₂e. While this is lower than the overall limit of 314.18 Mt CO₂e, the split between ETS emissions and non-ETS emissions is important.

	Kyoto Limits (Mt CO ₂ e)	Verified Emissions (Mt CO ₂ e)
ETS	111.41	87.63
Non-ETS	202.77	220.88
Total Kyoto limit	314.18	308.51

The emissions from the ETS sector were fully covered by the allocation allowances for industries, as previously outlined. Surplus amounts were either retained by the installations or reverted to the New Entrants Reserve. Surplus units from the ETS sector could not be directly used to cover a shortfall in the non-ETS sector.

In relation to the non-ETS sector for which the State was responsible, the limit was 202.77 Mt CO₂e, while final emissions were higher at 220.88 Mt CO₂e. This left a gap to target of 18.11 Mt CO₂e.

Distance to target (Non-ETS sector)	
	Mt CO ₂ e
Non-ETS emissions	220.88
Non-ETS limit	202.77
Difference	18.11

The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015. Accounting transactions were undertaken to retire units totalling 220.88 Mt CO₂e. Arising from a consideration of the different accounting rules applying in the case of the Kyoto Protocol and the Effort Sharing decision including the rules for carry over and use of various unit types⁷, the Department of the Environment, Community and Local Government instructed the EPA (with assistance of the Agency) to retire 3,052,416 units (3.05 MT CO₂e) from the Carbon Fund⁸.

The remaining units in the Carbon Fund will be carried over to the next commitment period.

Post Kyoto: Emission reduction targets after 2012

In December 2015 Parties to the Convention adopted the Paris Agreement which provides a new framework for all Parties to take action on climate change through reducing emissions. To maximise participation, commitments will be nationally determined, allowing each country to consider its own national circumstances and put forward its own ambitious contribution to the global effort. The Paris Agreement sets out the overall framework for this process and is legally-binding.

Prior to this agreement, the European Council had agreed in 2014 a broad framework of emissions targets for the period from 2021 to 2030. The overall target is a 40% reduction of emissions relative to 1990.

Ireland's share of this target will be negotiated at EU level, with a tabling of a formal proposal by the European Commission expected in mid-2016. The agreement will come into effect in 2020.

⁷ These decisions were made following consultations with officials from other stakeholder Agencies and Departments including the EPA, Department of Agriculture Food and Marine and Department of Public Expenditure and Reform.

⁸ For full detail on the units retired and the True-up see the Department of Environment paper at the following link (http://www.environ.ie/sites/default/files/publications/files/final_decisions_re_kp_cp1.pdf)

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Appendix 1 - Annex B Countries of the Kyoto Protocol

Commitment to quantified emissions limitation or emissions reduction, expressed as percentage of emissions in base year 1990

Australia	108
Austria ⁺	92
Belgium ⁺	92
Bulgaria [*]	92
Canada (not applicable)	94
Croatia [*]	95
Czech Republic [*]	92
Denmark [*]	92
Estonia [*]	92
European Union (EU-15)	92
Finland ⁺	92
France ⁺	92
Germany ⁺	92
Greece ⁺	92
Hungary ⁺	94
Iceland	110
Ireland ⁺	92
Italy ⁺	92
Japan	94
Latvia [*]	92
Liechtenstein	92
Lithuania [*]	92
Luxembourg ⁺	92
Monaco	92
Netherlands ⁺	92
New Zealand	100
Norway	101
Poland [*]	94
Portugal ⁺	92
Romania [*]	92
Russian Federation [*]	100
Slovakia [*]	92
Slovenia [*]	92
Spain ⁺	92
Sweden ⁺	92
Switzerland	92
Ukraine [*]	100
United Kingdom ⁺	92
United States of America (not applicable)	93

*Countries, mainly in the former Soviet bloc, that are undergoing the process of transition to a market economy.

+ See page 3 for details of the burden sharing agreement by EU-15 countries.



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Appendix 2: National Policy for State purchase of Kyoto Units

Annex 3 of *National Climate Change Strategy 2007-2012*: Published by the Department of the Environment, Heritage and Local Government (April 2007)

Annex 3 – National policy for State purchase of Kyoto Units

NATIONAL POLICY FRAMEWORK FOR THE PURCHASE OF KYOTO UNITS BY THE STATE FOR THE PURPOSE OF COMPLIANCE WITH THE KYOTO PROTOCOL IN THE COMMITMENT PERIOD 2008-2012

Introduction

This document sets out the institutional arrangements and policy context within which Ireland will purchase Kyoto Units⁹ sufficient to enable it to meet its greenhouse gas emissions limitation target for the purposes of the Kyoto Protocol in the commitment period 2008-2012.

Background

For the purposes of the Kyoto Protocol, Ireland is committed to limiting average annual greenhouse gas emissions in the period 2008-2012 to 13% above 1990 levels.

Parties to the Kyoto Protocol may achieve their individual targets through domestic actions and use of Flexible Mechanisms provided for in the Protocol. The Protocol requires that use of the Flexible Mechanisms be supplemental to domestic actions.

The *National Climate Change Strategy 2007-2012* provides the national policy framework for addressing greenhouse gas emission reductions and ensuring that Ireland meets its target for the purpose of the Kyoto Protocol.

The Government has decided that it will use the Kyoto Protocol Flexible Mechanisms to purchase up to 3.607 million Kyoto Units in respect of each year of the 2008-2012 period. This requirement will be revised as necessary in light of future projections and the impact of any additional measures to reduce greenhouse gas emissions.

Kyoto Protocol Flexible Mechanisms

A key component of the Kyoto Protocol was the introduction of three Flexible Mechanisms to reduce the overall costs of achieving emission reductions for those Parties with emission reduction or limitation targets. These mechanisms - Joint Implementation, the Clean Development Mechanism and International Emissions Trading – are described in more detail below. The mechanisms enable Parties to purchase Kyoto Units from other Parties or to invest in cost-effective opportunities to reduce emissions or increase sequestration through projects in other countries. While the cost of reducing emissions varies considerably between projects and between countries, the effect for the atmosphere of limiting emissions is the same irrespective of where the action occurs.

Joint Implementation (JI): provided for under Article 6 of the Protocol, enables Parties with reduction commitments or private investors to implement projects that reduce emissions in other Parties with reduction commitments, in return for credits. Credits generated using the JI mechanism can be used by the investing Party or private entity (particularly within the EU Emissions Trading Scheme) for compliance purposes. The tradable unit under the JI mechanism is an Emissions Reductions Unit (ERU).

Clean Development Mechanism (CDM): provided for under Article 12 of the Protocol, enables Parties with targets to participate in projects that reduce emissions or contribute to sequestration in those Parties that do not have targets under the Protocol. The mechanism is aimed primarily at developing countries and is intended to assist them in achieving sustainable development through, for example, access to cleaner or more energy efficient technologies. Credits generated using the CDM mechanism can be used by the investing Party or private entity for compliance purposes. The tradable unit under the CDM mechanism is a Certified Emissions Reduction (CER).

⁹ A credit or allowance, equivalent to one metric tonne of carbon dioxide, issued pursuant to the Kyoto Protocol and the decisions adopted pursuant to the United Nations Framework Convention on Climate Change and to the Protocol. A credit is equivalent to one tonne of carbon dioxide that has already been removed. An allowance refers to a right to emit the equivalent of one tonne of carbon dioxide at some point in the future.

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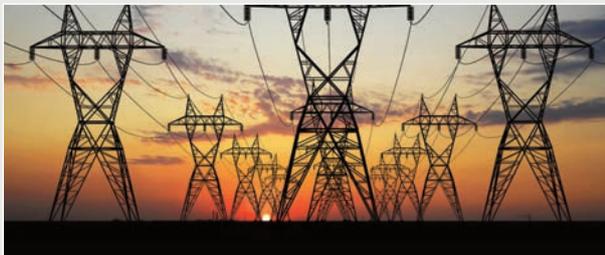
International Emissions Trading: provided for under Article 17 of the Kyoto Protocol,¹⁰ enables Parties that have a greenhouse gas emissions limitation or reduction target under the Protocol to acquire Kyoto Units from those Parties that have reduced their emissions beyond their target under the Protocol. The tradable unit under emissions trading is an Assigned Amount Unit (AAU).

National Focal Point for JI and National Authority for CDM

A requirement of Parties to the Kyoto Protocol is the designation of a Focal Point and a National Authority for the purpose of the JI and CDM mechanisms respectively. Under the Kyoto Protocol (Flexible Mechanisms) Regulations 2006 (S.I. 244 of 2006), the Minister for the Environment, Heritage and Local Government has designated the Environmental Protection Agency as both the Focal Point and National Authority in Ireland. The role of the Agency will be to approve participation by private or public entities in JI or CDM project activities. The Agency will publish guidelines setting out its approval procedures for participation by Irish entities in JI and CDM projects. Decisions made by the Agency on individual proposals to participate in JI or CDM projects shall be final. Project approval must also be sought in the intended host country.

Establishment of registry under the Kyoto Protocol

In accordance with decisions adopted by Parties to the Kyoto Protocol, the 2006 Regulations (S.I. 244 of 2006) provide for the establishment of a national registry and the designation of the Environmental Protection Agency as the national registry administrator. The function of the national registry is to ensure accurate accounting of the issuance, holding, transfer, acquisition, cancellation and retirement of Kyoto Units.



National Purchasing Agent

The National Treasury Management Agency is the designated purchasing agent for the State and will administer and manage purchases of Kyoto Units on behalf of the Government. A dedicated Carbon Fund has been established for this purpose. The role of the Agency as purchasing agent is established on a statutory footing under the Carbon Fund Act 2007. The Act provides for the purchasing agent to perform all functions associated with the management of the Carbon Fund, including appropriate accounting for expenditure having regard to public financial procedures, subject to guidelines and/or direction from the Minister for the Environment, Heritage and Local Government.

Funding of the purchase of Kyoto Units

Funding for the purchase of Kyoto Units will be provided from the Central Fund to the Carbon Fund, also established under the 2007 Act. In the course of the annual estimates process, provision will be made in the Vote of the Department of the Environment, Heritage and Local Government to repay the Central Fund.

The Government has designated €270 million for investment in the Flexible Mechanisms under the National Development Plan 2007-2013. This is in addition to an initial investment of €20m in 2006.

¹⁰ Emissions trading under Article 17 of the Kyoto Protocol are distinct from the EU Emissions Trading Scheme. Operators in the EU Scheme may, however, use credits from the JI or CDM mechanisms for compliance with their obligations up to a percentage of their allocation, which is to be specified in the National Allocation Plan for the Member State in question.

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Framework for the purchase of Kyoto Units

The National Treasury Management Agency shall purchase Kyoto Units on behalf of the State. All purchases shall be made in accordance with the following objectives:

- that they contribute to the ultimate objective of the United Nations Framework Convention on Climate Change, i.e. stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system;
- that risk is minimised, particularly in relation to the timely delivery of credits; and
- that they represent good value for money.

The National Treasury Management Agency may use the following mechanisms to purchase Kyoto Units:

- direct purchase of Kyoto Units from other Kyoto Protocol Annex B Parties;
- direct investment in joint implementation and clean development mechanism project activities;
- investment in managed funds; and

- direct market purchases of Kyoto Units;

or a combination of some or all of these, subject to ensuring that, in accordance with decisions adopted by the Parties to the Kyoto Protocol:

- any surplus Kyoto Units held by the State at the end of the 2008-2012 commitment period can be banked and used in a subsequent commitment period of the Kyoto Protocol or any successor treaty; and
- Ireland does not use emissions reduction units or certified emission reductions generated from nuclear facilities, for the purpose of meeting its Kyoto Protocol commitments.

The Minister for the Environment, Heritage and Local Government may, having regard to the objectives set out above, enter into bilateral agreements for the purpose of acquiring Kyoto Units pursuant to Article 17 of the Protocol. The Minister may direct the National Treasury Management Agency to purchase Kyoto Units that may become available on foot of any such agreements. Subject to further direction from the Minister for the Environment, Heritage and Local Government, the Agency may sell Kyoto Units if this is necessary to ensure compliance with decisions adopted pursuant to the Kyoto Protocol for the accounting of assigned amounts under Article 7, paragraph 4 of the Protocol.

All Kyoto Units purchased by the National Treasury Management Agency shall be registered in the national registry managed by the Environmental Protection Agency. Kyoto Units entered into the national registry will be accounted for by the Environmental Protection Agency to ensure compliance with Ireland's commitments for the purposes of the Kyoto Protocol.

This policy framework constitutes the initial direction from the Minister for the Environment, Heritage and Local Government to the National Treasury Management Agency.

April 2007

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Statement of Agency's Responsibilities

The National Treasury Management Agency (the "Agency") is required by the Carbon Fund Act 2007 to prepare financial statements in respect of the operations of the Carbon Fund for each financial year.

In preparing those statements, the Agency:

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- prepares the financial statements on a going concern basis unless it is inappropriate to do so;
- discloses and explains any material departure from applicable accounting standards.

The Agency is responsible for keeping in such form as may be approved by the Minister for the Environment, Community and Local Government with the consent of the Minister for Public Expenditure and Reform, all proper and usual accounts in relation to the performance by it of the functions delegated or granted to it under the Carbon Fund Act 2007. The Agency shall whenever requested to do so by the Minister for the Environment, Community and Local Government, give to him such financial statements and such information in relation to such financial statements as he may specify.

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Agency



Conor O'Kelly, Chief Executive
National Treasury Management Agency



Willie Walsh, Chairperson
National Treasury Management Agency

24 May 2016

Report and Accounts of the Carbon Fund 2015

Statement on Internal Financial Control

Responsibility for the System of Internal Financial Control

The National Treasury Management Agency (the “Agency”) is the manager of the Carbon Fund (the “Fund”). The Agency implements the systems of internal financial control for the Fund.

The Agency acknowledges its responsibility for ensuring that an effective system of internal financial control is maintained in relation to the operation of the Fund.

The Agency’s systems can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

Key Control Procedures

The Agency has taken steps to ensure an appropriate control environment by:

- establishing appropriate governance structures with clearly defined management responsibilities; and
- establishing formal procedures for reporting significant control failures and ensuring appropriate corrective action.

The Agency has established processes to identify and evaluate business risks by:

- identifying the nature, extent and financial implication of risks facing the organisation;
- assessing the likelihood of identified risks occurring;
- assessing the organisation’s ability to manage and mitigate the risks that do occur;
- assessing the costs of operating particular controls relative to the benefit obtained.

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and approved by the Agency Members and submitted to the Minister for Finance;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;

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Statement on Internal Financial Control (continued)

- formal project management disciplines;
- adoption of an Anti-Fraud policy and the Reporting of 'Relevant Wrongdoing' and Protected Disclosures Policy (formerly the Good Faith Reporting Policy).

The Agency has an Audit Committee which operates in accordance with the principles in the Code of Practice for the Governance of State Bodies. The Agency's internal audit function is overseen by this Audit Committee. The work of the internal audit function is informed by an analysis of the risks to which the Agency is exposed, and annual internal audit plans are based on this analysis. These risk-based internal audit plans are agreed with the Chief Executive and management of the Agency and approved by the Agency's Audit Committee. On a regular basis, the internal audit function provides the management of the Agency and the Agency's Audit Committee with reports of internal audit activity. These reports outline any findings and recommendations in relation to internal controls that have been reviewed. Progress against recommendations is monitored and reported to the Audit Committee.

The Agency has a Code of Practice on Confidentiality and Professional Conduct which sets out the agreed standards of principles and practice in relation to confidentiality, conflicts of interest, insider dealing, market manipulation and personal account transactions.

The Agency has put in place an appropriate framework to ensure that it complies with the Data Protection Acts. As part of this framework, the Agency has implemented systems and controls to restrict the access to confidential data. Under the framework, where the Agency becomes aware of breaches or alleged breaches of confidential data, these are fully investigated and where necessary reported to the appropriate authorities.

The Manager's monitoring and review of the effectiveness of the system of internal financial control is informed by the management within the Agency who have responsibility for the development and maintenance of the financial control framework, the findings from the work of the internal audit function and comments made by the Office of the Comptroller and Auditor General in management letters or other reports.

Annual Review of Controls

We confirm that, in respect of the year ended 31 December 2015, the Agency members, having taken advice from the Agency's Audit Committee, conducted a review of the effectiveness of the system of internal financial control.

On behalf of the Agency members



Willie Walsh, Chairperson
National Treasury Management Agency



Martin Murphy, Chairperson, Audit Committee
National Treasury Management Agency

24 May 2016

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Comptroller and Auditor General Report for presentation to the Houses of the Oireachtas

Carbon Fund

I have audited the financial statements of the Carbon Fund for the year ended 31 December 2015 under the Carbon Fund Act 2007. The financial statements comprise the fund account, the statement of financial position and the related notes. The financial statements have been prepared in the form prescribed under section 5 of the Carbon Fund Act 2007.

Responsibilities of National Treasury Management Agency

The National Treasury Management Agency (the Agency) is responsible for the preparation of the financial statements in the specified format and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Fund's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the annual report on the Fund to identify if there are any material inconsistencies with the audited financial statements and to identify if there is any information that is apparently materially incorrect or inconsistent based on the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements, which have been properly prepared in accordance with the Carbon Fund Act 2007 properly present the state of the Fund's affairs at 31 December 2015 and its transactions for 2015.

In my opinion, the accounting records of the Agency in relation to the Fund were sufficient to permit the financial statements to be readily and properly audited. The financial statements are in agreement with the accounting records.

Matters on which I report by exception

I report by exception if I have not received all the information and explanations I required for my audit, or if I find

- any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information in the Fund's annual report is not consistent with the related financial statements or with the knowledge acquired by me in the course of performing the audit, or
- the statement on internal financial control does not reflect the Agency's compliance with the Code of Practice for the Governance of State Bodies in relation to the Fund, or
- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

Seamus McCarthy

Seamus McCarthy
Comptroller and Auditor General
26 May 2016

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Fund Account

		Year Ended 31 December 2015	Year Ended 31 December 2014
	Note	€	€
Income	4	422,750	-
Asset surrender	5	(9,392,193)	-
Movement in Fund during the year		(8,969,443)	-
Net assets of Fund at start of year		99,284,138	99,284,138
Net assets of Fund at end of year		90,314,695	99,284,138

The accompanying notes form an integral part of the financial statements.

On behalf of the Agency



Conor O'Kelly, Chief Executive
National Treasury Management Agency



Willie Walsh, Chairperson
National Treasury Management Agency

24 May 2016

Report and Accounts of the Carbon Fund 2015

Statement of Financial Position

		As At 31 December 2015	As At 31 December 2014
	Note	€	€
Carbon Fund assets	7	90,314,695	99,284,138
Receivables	9	422,750	-
Other liabilities	10	(422,750)	-
Net assets of Fund		<u>90,314,695</u>	<u>99,284,138</u>

The accompanying notes form an integral part of the financial statements.

On behalf of the Agency



Conor O'Kelly, Chief Executive
National Treasury Management Agency



Willie Walsh, Chairperson
National Treasury Management Agency

24 May 2016

Report and Accounts of the Carbon Fund 2015

Notes to the Financial Statements

1. Background

The Carbon Fund was established under the Carbon Fund Act 2007 for the acquisition of Kyoto Units¹ and any other such instruments or assets on behalf of the State to meet international climate change obligations under the 1992 United Nations Framework Convention on Climate Change and the 1997 Kyoto Protocol to that Convention. The Agency has been designated as the purchasing agent on behalf of the State and administers and manages purchases of Kyoto Units.

The Agency may use the following mechanisms to purchase Kyoto Units:

- direct purchase of Kyoto Units from other Kyoto Protocol parties
- direct investment in Joint Implementation and Clean Development Mechanism projects
- investment in managed funds
- direct market purchases of Kyoto Units
- or a combination of some or all of these.

2. Basis of Preparation

The financial statements have been prepared in accordance with section 5(1)(a) of the Carbon Fund Act 2007 in a format approved by the Minister for the Environment, Community and Local Government, with the consent of the Minister for Public Expenditure and Reform.

The reporting period is from 1 January 2015 to 31 December 2015. The comparative reporting period for 2014 is from 1 January 2014 to 31 December 2014.

The reporting currency is the euro which is denoted by the symbol €. Where used, €m denotes million.

3. Accounting Policies

3.1 Carbon Fund Assets

Carbon Fund assets represent investments in the following:

Direct Holdings

Kyoto Units purchased are recorded on delivery at cost of acquisition. The cost of acquisition includes Value Added Tax paid and payable in respect of the purchase of the Kyoto Units.

Indirect Kyoto Units

Investments in indirect units are made in managed funds. Investments in these funds are recorded at investment cost. Such investments relate to carbon reducing projects that may or may not produce Kyoto Units. The total number of units, if any, will not be known until a future date when the projects are complete.

¹ A Kyoto Unit is defined in the Carbon Fund Act 2007 as "a unit, equivalent to one metric tonne of carbon dioxide, issued pursuant to the Kyoto Protocol and the decisions adopted pursuant to the Convention and the Kyoto Protocol". Kyoto Units are generally referred to as carbon credits. The legislation allows for the disposal of Kyoto Units only under very specific conditions i.e. "with the consent of the Minister (for the Environment, Community and Local Government) and the Minister for Public Expenditure and Reform and on such terms as they may specify".

Report and Accounts of the Carbon Fund 2015

Notes to the Financial Statements (continued)

3.1 Carbon Fund Assets (continued)

The Minister for the Environment, Community and Local Government invested €20 million in 2006 in a Multilateral Carbon Credit Fund established by the European Bank for Reconstruction and Development. That investment does not form part of the Fund but the units produced by projects undertaken are included herein as explained in Note 7(d).

3.2 Gains and Losses on Carbon Fund Assets

The Kyoto Units were acquired with the intention to meet Ireland's obligation under the Kyoto Protocol, in the commitment period 2008 to 2012. The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015. Subject to certain conditions, the unused credits will be carried forward to meet Ireland's 2020 commitments. No realised gains or losses will arise as a consequence of the surrender of the assets referred to in Note 5.

3.3 Fund Account

The Fund Account records the accumulated income received or receivable from the Department of the Environment, Community and Local Government. Investments are funded initially through repayable advances from the Central Fund under section 3 of the Carbon Fund Act 2007 pending receipt of this income.

3.4 Foreign Currencies

All transactions in foreign currencies are translated into euro at the rates of exchange prevailing at the date of such transactions. Unfunded commitments to non-euro investments are translated into euro using the foreign exchange rates prevailing at the year end date.

3.5 Taxation

The income and profits of the Carbon Fund are exempt from Irish corporation tax. The purchases of Kyoto Units by the Carbon Fund are liable to Value Added Tax as such transactions are regarded as a supply of a service, as defined by Section 5(1) Value Added Tax Act 1972. VAT incurred is included in the cost of acquisition of the Carbon Fund assets.

3.6 Asset Surrender

Direct holdings of Kyoto units are surrendered at the average cost of the direct holdings at the date of surrender.

Indirect Kyoto units are surrendered at the average cost of the investment in the relevant managed fund at the date of surrender.

Report and Accounts of the Carbon Fund 2015

Notes to the Financial Statements (continued)

4. Income

	Year Ended 31 December 2015	Year Ended 31 December 2014
	€	€
Income from the Department of the Environment, Community and Local Government	422,750	-

During 2015, there was a call on payments under the BioCarbon Fund to the value of €422,750.

The Carbon Fund receives income in the form of reimbursement from the Department of the Environment, Community and Local Government to meet expenditure incurred in the year.

5. Asset Surrender

The units held in the Carbon Fund are held at historical prices as these units are not held for trading purposes but to be submitted as part of Ireland's Compliance under the Kyoto Protocol and its obligations under European Union legislation in this regard (such as the Effort Sharing Decision (Decision 406/2009/EC)). The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015, during which time 3,052,416 units from the Fund were surrendered. This surrender of units was required to fulfil Ireland's obligations under the Kyoto Protocol. Subject to certain conditions, the remaining units in the Fund will be carried over to the next commitment period.

6. Operating Expenses

The operating expenses of the Carbon Fund are charged to the Agency's Administration Account and are paid out of the Central Fund.

7. Carbon Fund Assets

(a) Summary of Assets

	2015 €	2014 €
Direct Holdings	89,573,025	89,573,025
Indirect Holdings	741,670	9,711,113
	<u>90,314,695</u>	<u>99,284,138</u>

Report and Accounts of the Carbon Fund 2015

Notes to the Financial Statements (continued)

7. Carbon Fund Assets (continued)

	2015 €	2014 €
(b) Analysis by Currency of Acquisition		
Euro	90,314,695	93,673,025
US Dollar	-	5,611,113
	<u>90,314,695</u>	<u>99,284,138</u>
(c) Indirect Holdings:		
World Bank – Carbon Fund for Europe	741,670	4,100,000
World Bank – BioCarbon Fund	-	5,611,113
	<u>741,670</u>	<u>9,711,113</u>

(d) Credits Delivered and Held:

The number of carbon credits delivered and held with the Union Registry of the European Commission at 31 December:

Purchased Directly	5,255,000	5,255,000
Acquired Via Indirect Holdings	74,964	3,099,020
	<u>5,329,964</u>	<u>8,354,020</u>

During the year 3,052,416 (2014: Nil) units were surrendered and the Fund received 28,360 (2014: 142,192) units. 30,795 (2014: 1,661,230) units of the 5,329,964 (2014: 8,354,020) held at 31 December 2015 relate to credits acquired through investments made by the Department of the Environment, Community and Local Government prior to the establishment of the Carbon Fund.

Report and Accounts of the Carbon Fund 2015

Notes to the Financial Statements (continued)

8. Commitments

Carbon Fund Investments

The Agency administers payments on behalf of the Minister for the Environment, Community and Local Government in respect of two World Bank funds. Investments in these funds relate to projects which may yield Kyoto Units but the total number of units will not be known until a future date when the projects complete.

At 31 December 2015, the uncalled commitments in respect of these investments amounted to:

	Total Commitment of the State Local Currency	Euro equivalent	Paid to date	Unfunded Commitment
World Bank Fund		€	€	€
Carbon Fund for Europe	€4.26m	4,263,000	4,100,000	163,000
BioCarbon Fund	US\$10.08m	7,734,669	6,033,863	1,700,806
		11,997,669	10,133,863	1,863,806

At 31 December 2014, the uncalled commitments in respect of these investments amounted to:

	Total Commitment of the State Local Currency	Euro equivalent	Paid to date	Unfunded Commitment
World Bank Fund		€	€	€
Carbon Fund for Europe	€4.26m	4,263,000	4,100,000	163,000
BioCarbon Fund	US\$10.08m	7,522,737	5,611,113	1,911,624
		11,785,737	9,711,113	2,074,624

During 2015, there was a call on payments under the BioCarbon Fund to the value of €422,750. There was no call on funds under the Carbon Fund for Europe.

9. Receivables

	2015 €	2014 €
Department of the Environment, Community and Local Government	422,750	-

The amount owed to the Carbon Fund by the Department of the Environment, Community and Local Government is due under Section 3 (4) of the Carbon Fund Act 2007.

Report and Accounts of the Carbon Fund 2015

Notes to the Financial Statements (continued)

10. Other Liabilities

	2015	2014
	€	€
Central Fund	422,750	-

The liability to the Central Fund is in respect of advances made by the Central Fund to the Carbon Fund, and will be repaid to the Central Fund when the Carbon Fund receives funds from the Department of the Environment, Community and Local Government.

11. Contingent Liabilities

The Carbon Fund had no contingent liabilities at 31 December 2015.

12. Related Parties

(a) Minister for Public Expenditure and Reform

Under Section 3 of the Carbon Fund Act 2007, the Minister for Public Expenditure and Reform may advance monies to the Carbon Fund from the Central Fund which are reimbursed by the Carbon Fund out of monies made available by the Minister for the Environment, Community and Local Government. No advances were made to the Fund in 2014. See note 10 in relation to advances made in 2015.

(b) Minister for the Environment, Community and Local Government

Under Section 2(3) of the Carbon Fund Act 2007, the Minister for the Environment, Community and Local Government manages and controls the Carbon Fund.

(c) National Treasury Management Agency

Under Section 2(4) of the Carbon Fund Act 2007, the management of the Carbon Fund is delegated to the Agency. See note 5 for details of units surrendered in 2015.

Under Section 8 of the Carbon Fund Act 2007, the Minister for the Environment, Community and Local Government, following consultation with the Minister for Public Expenditure and Reform may give directions or guidelines to the Agency in relation to the performance by it of the functions delegated or granted to it under the Act.

13. Approval of Financial Statements

The financial statements were approved by the Agency on 24 May 2016