

Prime Minister's Decree

No: 636/2024

To amend provisions of the Egyptian Accounting Standards

Prime minister:

In accordance with

The constitution,

Law No. 159 of 1981 for Joint Stock Companies, Partnerships Limited by Shares, and Limited Liability Companies, and Sole Proprietorship

The Capital Market Law No. (95) of 1992 and its Executive Regulations,

Law No. (10) of 2009 for the Regulation of Non-Banking Financial Markets and Instruments,

Presidential Decree No. 269/2018 Forming the Ministry,

Presidential Decree No. 279 of 2018, Delegating Certain Competencies to the Prime Minister

Presidential decree No. 655/2019,

The prime minister decree No. 2115/2023 regarding the reform of the standing committee for Egyptian accounting standards and the Egyptian standards on auditing, limited review and other Assurance services,

The decree No. 110/2015 for Egyptian accounting standards,

Subsequent to reviewing what was presented by the chairman of financial Regulatory Authority,

(Article 1)

The Egyptian accounting standards No. 13 "The effects of changes in foreign exchange rates," No. 17 "separate financial statements" and No. 34 "real estate investment" are hereby substituted by the attached standards.

(Article 2)

The Egyptian Accounting Explanation No. 2, "Certificates of Carbon Emissions Reduction (Carbon Credits) shall be added to the Egyptian Accounting Standards.

(Article 3)

This decree shall be published in the Official Gazette and be enforced on the following day of publication.

Accounting Explanation No. 2/2024
Certificates of Carbon Emissions Reduction "Carbon Credits"

References:

The Egyptian accounting standards No. 1 "Presentation of Financial Statements".

The Egyptian accounting standards No. 5 "Accounting Policies, Changes in Accounting Estimates and Errors."

The Egyptian accounting standards No. 23 "Intangible Assets."

The Egyptian accounting standards No. 24 "Deferred Tax."

The Egyptian accounting standards No. 47 "Financial Instruments."

The Egyptian accounting standards No. 48 "Revenue From Contracts With Customers."

1. Introduction

The launching of "The voluntary Carbon Market for Africa" in Egypt was announced at COP 27, held on Sharm-Elsheikh in 2022. This summit marked a collaborative effort between the Financial Regulatory Authority, the Egyptian-exchange and the Egyptian Ministry of Environment. The first African voluntary market for trading Carbon Credits was subsequently launched on the Egyptian Stock Exchange in the light of the Cabinet Decision No. 4664 of 2022, which amended some provisions of the executive Regulations of the Capital Market Law No. 95 of 1992. This decision formally recognized Carbon Credits as financial instruments eligible for registration and trading on the Egyptian Exchange trading platform.

2. Definitions

2.1. Certificates of carbon emissions reduction (hereinafter referred to as "Carbon Credits"): tradable financial instruments representing units of reduced greenhouse gas emissions, where each "**unit**" equals one ton of carbon dioxide equivalent emissions. These credits are issued in favor of the project developer upon the completion of the validation and verification process conducted according to the internationally recognized carbon emission reduction standards and methodologies, audited by Validation and Verification bodies, whether local or international, as that are listed in FRA's registry of VVBs. These carbon reduction credits are referred to as credits in these rules.

2.2. Standard Programs Setters: are the entities setting out the procedures for measuring carbon emission reductions according to internationally

recognized methodologies, including the United Nations Framework Convention on Climate Change (UNFCCC) methodologies and other methodologies adopted by the International Carbon Reduction and Offset Alliance (ICORA), or in accordance with the methodologies adopted locally by the relevant government agencies.

- 2.3. Voluntary Carbon Registries** (hereinafter referred to as “Registry”): Centralized Systems that keep records and track the issuance, retirement, and transfer of the carbon emission reduction credits generated from carbon emission reduction projects conducted according to the methodologies issued by verified carbon standards programs.
- 2.4. Voluntary Carbon Registries Operators:** Entities that have the appropriate electronic systems to register the Carbon Credits after obtaining the approvals of the approved validation and verification bodies and resulted from implementing carbon emission reduction projects, whether according to methodologies acknowledged by the same voluntary carbon registry or any other recognized methodologies.
- 2.5. Validation & Verification Bodies (hereinafter referred to as “VVBs”):** Entities carrying out validation and verification processes to ensure the compliance of the carbon reduction projects with reduction standards and methodologies approved by Standard Programs Setters.
- 2.6. Traders:** Entities that facilitate the buying and selling of Carbon Credits, earning a commission per transaction.
- 2.7. Project Developers:** Entities responsible for implementing carbon emission reduction projects, under which Carbon Credits are issued in voluntary carbon registries after obtaining the approval of the validation and verification bodies licensed by FRA.

3. Utilizations

Companies can utilize Carbon Credits traded in the voluntary carbon market as a means to achieve their voluntary emission reduction goals, with the ultimate objective of attaining carbon neutrality or fulfilling other environmentally-oriented objectives.

4. Carbon credits lifecycle and issuance process.

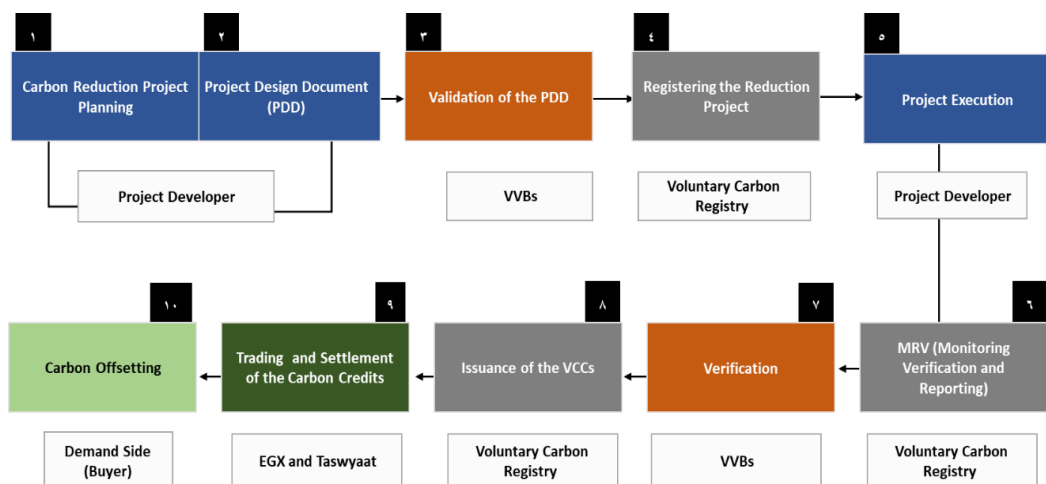
The Carbon Credits issuance process in the Voluntary Carbon Market can be summarized as following:

(A) Issuance of the Carbon Credits:

1. The Project Developer of the carbon emission reduction project (owner/non-owner) should prepare a project design document in accordance with one of the authorized Registries mandates.
2. The Project Developer shall select one of the approved Validation and Verification Bodies recognized by the project's Registry and licensed by the competent authorities, to perform the validation and verification of the reduction project.
3. The Project Developer shall register the project in the Voluntary Carbon Registry upon the completion of the validation process.
4. The Project Developer proceeds to operate and monitor the carbon reduction project.
5. The selected validation and verification body shall verify the reduction project
6. The Carbon Credits are then issued via the Registry for the favor of the project developer.

(B) Trading of Carbon Credits: The Carbon Credits are to be tradable and transferable across the different accounts in the same registry. The ownership of the Carbon Credits can be transferred from the Project Developer’s accounts to merchants and end users through voluntary carbon credit trading platforms.

(C) Retirements of Carbon Credits: When Carbon Credits are utilized to reduce the carbon emissions of the owner entity, the owner should notify the Registry to recognize these Carbon Credits as retired credits preventing the further use and the trading of the Credits.



5. The Accounting Treatment Scope

The accounting treatment of the Carbon Credits differs in accordance with the arrangement nature and commercial purpose of issuing or purchasing the Credits. Accordingly, companies must carefully consider the specific facts and circumstances to determine the appropriate accounting treatment that it would apply.

The arrangement nature and commercial purpose for buying these assets usually are the basis of accounting treatment, including the accounting standard to be applied.

6. Measures that should be considered by the management to determine the appropriate accounting treatment:

- a) Understanding the issuance cycle of Carbon Credits
- b) Understanding the arrangement nature and commercial purpose for buying or issuing Carbon Credits.
- c) Determine classification determinants of the Carbon Credits and whether to be identified as a financial asset or as an intangible asset according to the designated arrangement nature and commercial purpose.
- d) Provide clear and meaningful disclosures of Carbon Credits and the relevant accounting policies applied.

7. Accounting Treatment Determinants:

Accounting treatment of the Carbon Credits is to be determined by the arrangement nature and commercial purpose for utilizing these Credits, according to the following cases:

- a) The case where Carbon Credits are issued in favor of the developer/financier of the owned carbon reduction project.
- b) The case where Carbon Credits are issued in favor of the developer/financier of the non-owned carbon reduction project
- c) The case where credits are purchased to be used for internal use (for Retirement).
- d) The case where Carbon Credits are purchased for trading purposes.

8. Accounting treatments.

8.1. The case where Carbon Credits are issued in favor of the developer/financier of the owned carbon reduction project.

8.1.1 Initial measurement:

- a) Upon issuance, Carbon Credits owned by the project developer and intended for internal use should be recognized as intangible assets. Their value should be recorded in the equity section of the balance sheet under "Carbon Credits Reserve," based on the price set by the issuer.
- b) Carbon Credits intended for sale should be treated according to Egyptian Accounting Standard No. 47 on Financial Instruments, based on their actual cost.

8.1.2 Subsequent Measurement:

- a) According to the case mentioned in subsection (a) above, Carbon Credits should be treated according to the requirements of Egyptian Accounting Standard No. 23 on Intangible Assets. Accordingly, the Carbon Credits reserve should be reduced to reflect the depreciation or impairment of the Carbon Credits, similar to how intangible assets are handled.
- b) Carbon Credits subject to the case mentioned in subsection (b) above, recognized as financial instruments, should be measured according to Egyptian Accounting Standard No. 47 – Financial Instruments. They should be presented under the financial instruments section and valued at fair value through the statement of comprehensive income. If these credits are listed on the voluntary market of the EGX, they can be recognized as financial instruments valued at fair value through profit or loss.

8.1.3 Derecognition

- a) In case Carbon Credits' retirement upon their usage for internal institutional purposes (carbon reduction), the balance of used Carbon Credits should be reconciled through the "Carbon Credit Reserve" account, with the final reconciliation made to the entity's retained earnings/losses account.
- b) Upon selling Carbon Credits, their balances should be reconciled in accordance with Egyptian Accounting Standard No. 47.

8.2 The case where Carbon Credits are issued for the favor of the developer/financier of the non-owned carbon reduction project

8.1.4 Initial Measurement:

In consistence with the above mentioned cases, if Carbon Credits are issued for the favor of the developer or financier of the carbon emission reduction project, they should be recognized as financial instruments in accordance with Egyptian Accounting Standard No. 47 and valued based on the actual cost of the project implementation.

8.1.5 Subsequent Measurement:

Carbon Credits shall be valued according to Egyptian Accounting Standard No. 47 "Financial Instruments" in subsequent measurements and categorized under "financial instruments valued at fair value" through the statement of comprehensive income. In this case, these Carbon Credits can be traded on the Egyptian Exchange as financial instruments valued at fair value through profit or loss.

8.2.3 Derecognition:

In the case of the derecognition of Carbon Credits, these balances should be reconciled in accordance with the rules for the derecognition of financial instruments as set out in Accounting Standard No. 47.

8.3 Case of Carbon Credits used for Internal Use (for Retirement).

8.3.1 Initial Measurement:

In the case of purchasing Carbon Credits from the market for the purpose of achieving carbon neutrality, specifically (for internal use: retirement or offsetting purposes), they should be valued at their acquisition cost which includes all expenses and fees incurred to acquire these credits. These transactions should be accounted for in accordance with Egyptian Accounting Standard No. 23, "Intangible Assets."

8.3.2 Subsequent Measurement:

In this case, subsequent measurement follows the requirements of Egyptian Accounting Standard No. 23, "Intangible Assets." Carbon Credits are impaired or retired in accordance with the company's policies and the intended purpose of these credits.

8.3.3 Derecognition:

In the case of derecognition of Carbon Credits, their balances should be reconciled within the intangible assets. Any differences should be dealt with through the profit and loss statement (P&L).

8.4 The case where Carbon Credits are purchased for trading purpose.

8.4.1 Initial Measurement:

In the case of purchasing Carbon Credits for trading purposes, these credits should be valued at their acquisition cost, including all expenses and fees incurred to acquire these credits. These transactions should be accounted for

in accordance with Egyptian Accounting Standard No. 47, "Financial Instruments."

8.4.2 Subsequent Measurement:

Carbon Credits shall be valued according to Egyptian Accounting Standard No. 47 "Financial Instruments" in subsequent measurements and categorized under "financial instruments valued at fair value" through the statement of comprehensive income. In this case, these Carbon Credits can be traded on the Egyptian exchange as financial instruments valued at fair value through profit or loss.

8.4.3 Derecognition:

In the case of the derecognition of Carbon Credits, these balances should be reconciled in accordance with the rules for the derecognition of financial instruments as set out in Accounting Standard No. 47.

8.5 Tax Treatment.

In all the cases mentioned above, Egyptian Accounting Standard No. 24, "Income Tax," should be applied.

8.6 Special cases.

In the case of any change in the acquisition purpose of the Carbon Credits, the Egyptian accounting standard No. 5 "changes in accounting policy and changes in estimates and errors" shall be applied and the Carbon Credit balances should be adjusted accordingly.

9. Disclosure

The Company is obliged to disclose the following within the additional disclosures:

- 1) Information regarding the specific accounting policies applied by the company as explained above.
- 2) Additional information not presented elsewhere in the financial statements, which is relevant and necessary to understand financial and non-financial information on Carbon Credits.
- 3) Valuation and pricing mechanisms used to evaluate Carbon Credits.
- 4) The methods used for impairment, and the recognized useful lives of intangible assets.
- 5) The Impact of change in accounting policies, if any, in accordance with disclosures required by the Egyptian Accounting Standard No. (5) " Accounting policies and changes in estimates and errors"
- 6) The value of any additions and deductions made to the Carbon Credits balance during the accounting period, including the reasons and impacts on the financial statements.

- 7) Adjustment made to the balance of the Carbon Credits during the accounting period, including the following:
 - a) The additions or the derecognition.
 - b) Changes resulting from re-evaluations and losses incurred due to the impairment losses during the period.
 - c) Any other changes

10. Application Date:

The application starts in or after January 2025. However, early application is permitted, nonetheless, the company required to disclose this fact.
