

IFRS Briefing Sheet

Publication of IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

Issue 17

This *Briefing Sheet* discusses the International Financial Reporting Interpretations Committee's (IFRIC's) recent publication of IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, which was issued on 16 December 2004. This interpretation provides guidance for accounting by a contributor for interests in funds that segregate assets to pay for decommissioning, restoration or environmental rehabilitation costs.

Background

The purpose of decommissioning, restoration and environmental rehabilitation funds is to segregate assets to fund the costs of decommissioning plant and equipment or undertaking environmental rehabilitation. Contribution to these funds may be voluntary or required by regulation or law. The funds can be established by single or multiple contributors.

Scope

IFRIC 5 applies to accounting by a contributor for interests arising from decommissioning funds in which the assets are administered separately and a contributor's right to access the assets is restricted.

A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all of the decommissioning has been completed, is not within the scope of IFRIC 5 and may be an equity instrument within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.

Issue and consensus

Accounting for an interest in a fund

Typically, funds reimburse entities for qualifying costs incurred but do not assume the primary responsibility for the decommissioning. In these cases an entity is required to recognise an obligation for decommissioning as a liability under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and to recognise its interest in the fund as a separate asset.

An entity that contributes to a fund first should determine if it has control, joint control or significant influence over the fund. If so, then the contributor applies IAS 27 *Consolidated and Separate Financial*

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publication IFRS in Brief**

Statements, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. Otherwise, if an entity does not have control or significant influence, then the contributor recognises the right to receive compensation from the fund as a reimbursement right under IAS 37.

The reimbursement right should be measured at the lower of:

- the amount of the decommissioning obligation recognised; and
- the contributor's share of the fair value of the net assets of the fund attributable to contributors.

Changes in the carrying value of the reimbursement right other than from contributions to and payments from the fund should be recognised in profit or loss in the period in which these changes occur.

Accounting for obligations to make additional contributions

An obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor or if the value of the

investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, should be treated as a contingent liability under IAS 37. A contingent liability would not be recognised but would be disclosed.

Disclosures

The interpretation requires the following disclosures:

- a description of the nature of an entity's interest in a fund and any restrictions on access to the assets in the fund;
- when an entity has a potential obligation to make additional contributions that is not recognised as a liability, it has to provide an estimate of the financial effect of the potential obligation with a description of the uncertainties relating to the amount or timing of any outflow and a description of the possibility of any reimbursement; and
- its right in the amount of any expected reimbursement, disclosing separately the amount of any asset that has been recognised for that expected reimbursement.

Effective date and transition

The interpretation is effective for annual periods beginning on or after 1 January 2006 with earlier application encouraged.

Changes in accounting policies should be accounted for under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Therefore, retrospective application will be required for both existing IFRS users and first-time adopters of IFRSs.

Consequential amendments

IFRIC 5 also includes an amendment to IAS 39 to clarify that rights to reimbursement for expenditure required to settle a liability recognised as a provision are outside the scope of that standard.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of our member firms' offices.

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Publication name: *IFRS Briefing Sheet*

Publication number: Issue 17

Publication date: January 2005