International Accounting Standards Board®

Press Release

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Accounting Interpretation –
Changes in Existing Decommissioning, Restoration and Similar Liabilities

The International Financial Reporting Interpretations Committee (IFRIC) has today released IFRIC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

The Interpretation contains guidance on accounting for changes in existing decommissioning, restoration and similar liabilities that are recognised both as part of the cost of an item of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* and as a liability in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

More specifically, the Interpretation addresses accounting for (a) a change the estimated outflow of resources embodying economic benefits (eg cash flows); (b) a change in the current market-assessed discount rate; and (c) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

Introducing the Interpretation, Kevin Stevenson, IFRIC Chairman, said:

> The IFRIC was informed that differing views and potentially divergent practices exist in accounting for changes in decommissioning, restoration and similar liabilities, and it therefore agreed to a request to develop guidance.
>
> The Interpretation confirms that, under existing requirements, decommissioning, restoration and similar liabilities should be measured using a current market-based discount rate.
>
> In general, the Interpretation requires changes in the liability resulting from changes in cash flows or discount rates to be capitalised in full and depreciated prospectively over the life of the item to which they relate. It also requires the unwinding of the discount to be recognised in profit or loss as a finance cost as it occurs.

Noting that the Interpretation should help to ensure consistency in this difficult area, Mr Stevenson added:

> The confirmation that provisions must be measured using a current market-based discount rate sends an important message to all entities—not just those directly affected by the Interpretation.

IFRIC Interpretations are published in electronic format through the subscriber area of the IASB's Website (www.iasb.org). Subscribers are able to access the Interpretation published today through "online services". Those wishing to subscribe should contact:

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NOTES TO EDITORS
About the Interpretation

1. The Interpretation addresses the accounting for changes in existing decommissioning, restoration and similar liabilities that fall within the scope of IAS 16 and are recognised as a provision under IAS 37. For example, the operator of a nuclear power plant recognises a provision for decommissioning costs that it expects to incur in the future, and includes an equivalent amount in the cost of the power plant.

2. IAS 37 requires the amount recognised as a provision to be the best estimate of the expenditure required to settle the obligation at the balance sheet date. This is measured at its present value, which the Interpretation confirms should be measured using a current market-based discount rate. The Interpretation deals with three kinds of change in an existing liability for such costs.

3. The two main kinds of change dealt with in the Interpretation are those that arise from:

   (a) the revision of estimated outflows of resources embodying economic benefits. For example, the estimated costs of decommissioning a nuclear power plant may vary significantly both in timing and amount; and

   (b) revisions to the current market-based discount rate.

4. Most entities account for their property, plant and equipment using the cost model. Where this is so, these changes are required to be capitalised as part of the cost of the item and depreciated prospectively over the remaining life of the item to which they relate. This is consistent with the treatment under IAS 16 of other changes in estimate relating to property, plant and equipment.

5. In the spirit of convergence, the IFRIC considered the US GAAP approach in Statement of Financial Accounting Standards No. 143 *Accounting for Asset Retirement Obligations*. The Interpretation treats changes in estimated cash flows in a similar way to SFAS 143. However, SFAS 143 does not require any adjustment to the cost of the item, or to the provision, to reflect the effect of a change in the current market-based discount rate. The IFRIC did not choose this approach because IAS 37, unlike US GAAP, requires provisions to be measured at the current best estimate, which should reflect current discount rates. Also, the IFRIC considered it important that both kinds of change should be dealt with in the same way.

6. Where entities account for their property, plant and equipment using the fair value model, a change in the liability does not affect the valuation of the item for accounting purposes. Instead, it alters the revaluation surplus or deficit on the item, which is the difference between its valuation and what would be its carrying amount under the cost model. The effect of the change is treated consistently with other revaluation surpluses or deficits. Any cumulative deficit is taken to profit or loss, but any cumulative surplus is credited to equity.

7. The third kind of change dealt with by the Interpretation is an increase in the liability that reflects the passage of time—also referred to as the unwinding of the discount. This is recognised in profit or loss as a finance cost as it occurs.

About the IFRIC and the IASB

8. The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about every two months. The IFRIC's principal role is to consider, on a timely basis within the context of existing International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing interpretations, the IFRIC works closely with similar national interpretation committees.

9. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a

variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

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