International Accounting Standards Board®

Press Release

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IFRIC issues guidance on accounting for interests in decommissioning funds

The International Financial Reporting Interpretations Committee (IFRIC)* has today issued an Interpretation—IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning plant (such as nuclear plant) or equipment (such as cars) or in undertaking environmental restoration or rehabilitation (such as rectifying pollution of water or restoring mined land).

Introducing IFRIC 5, Kevin Stevenson, IFRIC Chairman, said:

> Decommissioning fund arrangements are becoming increasingly common. This Interpretation will ensure that users can make a reasoned assessment of future benefits that contributors might receive from those funds.

Subscribers to the IASB's Comprehensive Subscription Service can view the Interpretation from the secure online services area of the IASB's Website (www.iasb.org). Those wishing to subscribe should contact:

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* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

NOTES TO EDITORS

About IFRIC 5

1 Some entities have obligations to decommission assets or to perform environmental restoration or rehabilitation. Some such entities contribute to a fund established to reimburse the decommissioning, restoration or rehabilitation costs when they are incurred. The fund may be set up to meet the decommissioning costs of a single contributor or for many contributors.

2 The main requirements of the Interpretation are:

- If a contributor recognises a decommissioning obligation under International Financial Reporting Standards (IFRSs) and contributes to a fund to segregate assets to pay for the obligation, it should apply IAS 27 *Consolidated and Separate Financial Statements*, SIC-12 *Consolidation—Special Purpose Entities*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates* to determine whether decommissioning funds should be consolidated, proportionately consolidated or accounted for under the equity method.

- When a fund is not consolidated, proportionately consolidated or accounted for under the equity method, the contributor should recognise its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs.

- A right to reimbursement should be measured at the lower of (i) the amount of the decommissioning obligation recognised and (ii) the contributor's share of the fair value of the net assets of the fund adjusted for actual or expected factors that affect the entity's ability to access these assets. Changes in the carrying amount of this right (other than contributions to and payments from the funds) should be recognised in profit or loss.

- A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund may be an equity instrument within the scope of IAS 39 *Financial Instruments: Recognition and Measurement.*

3 IFRIC 5 includes an amendment to IAS 39 so as to exclude from the scope of IAS 39 rights to reimbursement for expenditure required to settle a liability recognised as a provision. Such rights are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 5.

About the IFRIC

4 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 nine times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of 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.

About the IASB

5 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) are drawn from 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 co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

6 A Deloitte & Touche study indicates that 92 countries will either require or permit the use of IFRSs for publicly traded companies beginning in 2005. The 92 countries include Australia, the member states of the European Union, and Russia. At present, some 35 countries require the use of international standards for all domestic listed companies, six other countries require the use of international standards for some companies, and many countries base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. Recently, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions to eliminate differences between IFRSs and Japanese standards