

**IFRIC Interpretation 5**

# Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

In December 2004 the International Accounting Standards Board issued IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*. It was developed by the Interpretations Committee.

Other Standards have made minor consequential amendments to IFRIC 5. They include IFRS 10 *Consolidated Financial Statements* (issued May 2011), IFRS 11 *Joint Arrangements* (issued May 2011), IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (issued November 2013) and IFRS 9 *Financial Instruments* (issued July 2014).

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**BASIS FOR CONCLUSIONS**

IFRIC Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (IFRIC 5) is set out in paragraphs 1–15 and the Appendix. IFRIC 5 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 2 and 7–16 of the *Preface to International Financial Reporting Standards*.

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### ***Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds***

#### **References**

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- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 28 *Investments in Associates and Joint Ventures*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

#### **Background**

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- 1 The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as 'decommissioning funds' or 'funds', is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'.
- 2 Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:
  - (a) funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.
  - (b) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor.
  - (c) funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realisable from the fund (based on past activity).
- 3 Such funds generally have the following features:
  - (a) the fund is separately administered by independent trustees.

- (b) entities (contributors) make contributions to the fund, which are invested in a range of assets that may include both debt and equity investments, and are available to help pay the contributors' decommissioning costs. The trustees determine how contributions are invested, within the constraints set by the fund's governing documents and any applicable legislation or other regulations.
- (c) the contributors retain the obligation to pay decommissioning costs. However, contributors are able to obtain reimbursement of decommissioning costs from the fund up to the lower of the decommissioning costs incurred and the contributor's share of assets of the fund.
- (d) the contributors may have restricted access or no access to any surplus of assets of the fund over those used to meet eligible decommissioning costs.

## Scope

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- 4 This Interpretation applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:
  - (a) the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
  - (b) a contributor's right to access the assets is restricted.
- 5 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 IFRS 9 and is not within the scope of this Interpretation.

## Issues

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- 6 The issues addressed in this Interpretation are:
  - (a) how should a contributor account for its interest in a fund?
  - (b) when a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how should that obligation be accounted for?

## Consensus

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### Accounting for an interest in a fund

- 7 The contributor shall 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 even if the fund fails to pay.

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8 The contributor shall determine whether it has control or joint control of, or significant influence over, the fund by reference to IFRS 10, IFRS 11 and IAS 28. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

9 If a contributor does not have control or joint control of, or significant influence over, the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with IAS 37. This reimbursement shall be measured at the lower of:

- (a) the amount of the decommissioning obligation recognised; and
- (b) 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 right to receive reimbursement other than contributions to and payments from the fund shall be recognised in profit or loss in the period in which these changes occur.

### **Accounting for obligations to make additional contributions**

10 When a contributor has an obligation to make potential 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, this obligation is a contingent liability that is within the scope of IAS 37. The contributor shall recognise a liability only if it is probable that additional contributions will be made.

### **Disclosure**

11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.

12 When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph 10), it shall make the disclosures required by paragraph 86 of IAS 37.

13 When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph 85(c) of IAS 37.

### **Effective date**

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14 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies this Interpretation to a period beginning before 1 January 2006, it shall disclose that fact.

14A [Deleted]

14B IFRS 10 and IFRS 11, issued in May 2011, amended paragraphs 8 and 9. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

14C [Deleted]

- 14D IFRS 9, as issued in July 2014, amended paragraph 5 and deleted paragraphs 14A and 14C. An entity shall apply those amendments when it applies IFRS 9.

### **Transition**

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- 15 Changes in accounting policies shall be accounted for in accordance with the requirements of IAS 8.

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**Appendix**  
**Amendment to IAS 39 *Financial Instruments: Recognition and Measurement***

*The amendment in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies this Interpretation for an earlier period, the amendment shall be applied for that earlier period.*

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*The amendment contained in this appendix when this Interpretation was issued in 2004 was incorporated into IAS 39 as issued on and after 16 December 2004.*