Compiled Interpretation **Interpretation 5**

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

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2014 but before 1 January 2018. Early application is not permitted. It incorporates relevant amendments made up to and including 20 December 2013.

Prepared on 8 July 2014 by the staff of the Australian Accounting Standards Board.

Australian Government

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UIG Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (as amended) is set out in paragraphs 1 – 14B. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation of Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

UIG Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2014 but before 1 January 2018. It takes into account amendments up to and including 20 December 2013 and was prepared on 8 July 2014 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 5 (June 2005) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	**Month issued**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
Interpretation 5	Jun 2005	*(beginning)* 1 Jan 2006	see (a) below
AASB 2007-8	Sep 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2010-2	Jun 2010	*(beginning)* 1 Jul 2013	see (c) below
AASB 2010-7	Dec 2010	*(beginning)* 1 Jan 2018	not compiled*
AASB 2011-7	Aug 2011	*(beginning)* 1 Jan 2013	see (d) below
AASB 2013-9	Dec 2013	Pt B *(beginning)* 1 Jan 2014	see (e) below
AASB 2014-1	Jun 2014	Pt E *(beginning)* 1 Jan 2018	not compiled*

* The amendments made by this Standard are not included in this compilation, which presents the principal Interpretation as applicable to annual reporting periods beginning on or after 1 January 2014 but before 1 January 2018.

(a) Entities may elect to apply this Interpretation to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2006.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards* is also applied to such periods.

(d) AASB 2011-7 has been amended by AASB 2012-6 (made 10 September 2012) and AASB 2012-10 (made 18 December 2012).

For-profit entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013. The Standard applies for not-for-profit entities to annual reporting periods beginning on or after 1 January 2014. Not-for-profit entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014. If an entity elects to apply this Standard to such annual reporting periods, it shall also apply AASB 10 *Consolidated Financial Statements* and associated Standards to such periods.

(e) Early application of Part B of this Standard is not permitted.

Table of Amendments

Paragraph affected	How affected	By … [paragraph]
8-9	amended	AASB 2011-7 [57]
Aus13.1	amended	AASB 2007-8 [7, 8]
Aus13.4	amended deleted	AASB 2007-8 [8] AASB 2013-9B [37, 38]
Aus13.5-Aus13.6 (and preceding heading)	added	AASB 2010-2 [51]
14 (preceding heading)	amended	AASB 2011-7 [58]
14B	added	AASB 2011-7 [59]

COMPARISON WITH IFRIC 5

UIG Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* as amended incorporates International Financial Reporting Interpretations Committee Interpretation IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* as amended, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of IFRIC 5) are identified with the prefix "Aus", followed by the number of the preceding IFRIC paragraph and decimal numbering.

Entities that comply with Interpretation 5 as amended will simultaneously be in compliance with IFRIC 5 as amended, with the exception of entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.

INTERPRETATION 5

UIG Interpretation 5 was issued in June 2005.

This compiled version of Interpretation 5 applies to annual reporting periods beginning on or after 1 January 2014 but before 1 January 2018. It incorporates relevant amendments contained in other AASB pronouncements up to and including 20 December 2013 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 5

RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

References

Accounting Standard AASB 10 *Consolidated Financial Statements*

Accounting Standard AASB 11 *Joint Arrangements*

Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

Accounting Standard AASB 128 *Investments in Associates and Joint Ventures*

Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*

Background

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; and

(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

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 Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* and is not within the scope of this Interpretation.

Issues

6 The issues addressed in this Interpretation are:

(a) how should a contributor account for its interest in a fund; and

(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

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.

8 The contributor shall determine whether it has control or joint control of, or significant influence over, the fund by reference to AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 128 *Investments in Associates and Joint Ventures*. 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 AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. 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 AASB 137. 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 AASB 137.

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 AASB 137.

Application

Aus13.1 This Interpretation applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

Aus13.2 This Interpretation applies to annual reporting periods beginning on or after 1 January 2006.
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]

Aus13.3 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2006, permitting early application only in the context of adopting all Australian equivalents to International Financial Reporting Standards for such periods. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Interpretation to such an annual reporting period when an election has been made in accordance with subsection 334(5) of the Corporations Act in relation to AASB 1048 *Interpretation of Standards*. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.

Aus13.4 [Deleted by the AASB]

Reduced disclosure requirements

Aus13.5 Paragraphs 11 and 13 of this Interpretation do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with one or both of these excluded requirements.

Aus13.6 The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting

Standards – Reduced Disclosure Requirements are identified in this Interpretation by shading of the relevant text.

Effective Date

14 [Deleted by the UIG]

14B AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*, issued in August 2011, amended paragraphs 8 and 9. An entity shall apply those amendments when it applies AASB 10 and AASB 11.

Transition to IFRIC 5

15 [Deleted by the UIG]

APPENDIX

Amendment to AASB 139 *Financial Instruments: Recognition and Measurement*

AASB 139 is amended by Accounting Standard AASB 2005-5 *Amendments to Australian Accounting Standards*. The amendment applies for annual reporting periods beginning on or after 1 January 2006. If an entity applies this Interpretation for an earlier period, the amendment applies for that earlier period.

A1 In paragraph 2 of AASB 139 *Financial Instruments: Recognition and Measurement*, subparagraph (h) is amended by AASB 2005-5 to delete the word "and" at the end, subparagraph (i) is amended to replace the full stop at the end with "; and", and subparagraph (j) is inserted to read as follows:

> **2. This Standard shall be applied by all entities to all types of financial instruments except:**
>
> **…**
>
> **(j) rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognises as a provision in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, or for which, in an earlier period, it recognised a provision in accordance with AASB 137.**

BASIS FOR CONCLUSIONS ON IFRIC 5

This IFRIC Basis for Conclusions accompanies, but is not part of, UIG Interpretation 5. The UIG considers that this Basis for Conclusions is an essential feature of the Interpretation. An IFRIC Basis for Conclusions may be amended to reflect the requirements of the UIG Interpretation and AASB Accounting Standards where they differ from the corresponding International pronouncements.

Introduction

BC1 This Basis for Conclusions summarises the IFRIC's considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

Background (paragraphs 1-3)

BC2 The IFRIC was informed that an increasing number of entities with decommissioning obligations are contributing to a separate fund established to help fund those obligations. The IFRIC was also informed that questions have arisen in practice over the accounting treatment of interests in such funds and that there is a risk that divergent practices may develop. The IFRIC therefore concluded that it should provide guidance to assist in answering the questions in paragraph 6, in particular on the accounting for the asset of the right to receive reimbursement from a fund. On the issue of whether the fund should be consolidated or equity accounted, the IFRIC concluded that the normal requirements of IAS 27 *Consolidated and Separate Financial Statements*, SIC-12 *Consolidation – Special Purpose Entities*, IAS 28 *Investments in Associates*[1] or IAS 31 *Interests in Joint Ventures*[2] apply and that there is no need for interpretative guidance[3]. The IFRIC published its proposed Interpretation on 15 January 2004 as D4 *Decommissioning, Restoration and Environmental Rehabilitation Funds*.

BC3 Paragraphs 1-3 describe ways in which entities might arrange to fund their decommissioning obligations. Those that are within the scope of the Interpretation are specified in paragraphs 4-6.

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1 In May 2011, the Board amended IAS 28 and changed its title to *Investments in Associates and Joint Ventures*.
2 IFRS 11 *Joint Arrangements*, issued in May 2011, replaced IAS 31.
3 The consolidation requirements in IAS 27 and SIC-12 were superseded by IFRS 10 *Consolidated Financial Statements* issued in May 2011.

Scope (paragraphs 4 and 5)

BC4 D4 did not precisely define the scope because the IFRIC believed that the large variety of schemes in operation would make any definition inappropriate. However, some respondents to D4 disagreed and commented that the absence of any definition made it unclear when the Interpretation should be applied. As a result, the IFRIC has specified the scope by identifying the features that make an arrangement a decommissioning fund. It has also described the different types of fund and the features that may (or may not) be present.

BC5 The IFRIC considered whether it should issue a wider Interpretation that addresses similar forms of reimbursement, or whether it should prohibit the application of the Interpretation to other situations by analogy. The IFRIC rejected any widening of the scope, deciding instead to concentrate on the matter referred to it. The IFRIC also decided that there was no reason to prohibit the application of the Interpretation to other situations by analogy and thus the hierarchy of criteria in paragraphs 7-12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would apply, resulting in similar accounting for reimbursements under arrangements that are not decommissioning funds, but have similar features.

BC6 The IFRIC considered comments from respondents that a contributor may have an interest in the fund that extends beyond its right to reimbursement. In response, the IFRIC added clarification that a residual interest in a fund, 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*.

Basis for Consensus

Accounting for an interest in a fund (paragraphs 7-9)

BC7 The IFRIC concluded that the contributor should recognise a liability unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay. This is because the contributor remains liable for the decommissioning costs. Additionally, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* provides that:

(a) when an entity remains liable for expenditure, a provision should be recognised even where reimbursement is available; and

(b) if the reimbursement is virtually certain to be received when the obligation is settled, then it should be treated as a separate asset.

BC8 In concluding that the contributor should recognise separately its liability to pay decommissioning costs and its interest in the fund, the IFRIC also noted the following:

(a) There is no legally enforceable right to set off the rights under the decommissioning fund against the decommissioning liabilities. Also, given that the main objective is reimbursement, it is likely that settlement will not be net or simultaneous. Accordingly, treating these rights and liabilities as analogous to financial assets and financial liabilities would not result in offset because the offset criteria in IAS 32 *Financial Instruments: Disclosure and Presentation*[4] are not met.

(b) Treating the decommissioning obligation as analogous to a financial liability would not result in derecognition through extinguishment. If the fund does not assume the obligation for decommissioning, the criteria in IAS 39 for derecognition of financial liabilities through extinguishment are not met. At best, the fund acts like an in-substance defeasance that does not qualify for derecognition of the liability.

(c) It would not be appropriate to treat decommissioning funds as analogous to pension funds, which are presented net of the related liability. This is because, in allowing a net presentation for pension plans in IAS 19 *Employee Benefits*, the International Accounting Standards Board's predecessor organisation, IASC, stated that it believed the situation is 'unique to employee benefit plans and [it did] not intend to permit this net presentation for other liabilities if the conditions in IAS 32 and IAS 39 are not met' (IAS 19, Basis for Conclusions paragraph BC68I).[5]

BC9 As to the accounting for the contributor's interest in the fund, the IFRIC noted that some interests in funds would be within the scope of IAS 27, IAS 28, IAS 31[6] or SIC-12. As noted in paragraph BC2, the IFRIC concluded that, in such cases, the normal requirements of those Standards would apply and there is no need for interpretative guidance.

BC10 Otherwise, the IFRIC concluded that the contributor has an asset for its right to receive amounts from the fund.

4 In August 2005, IAS 32 was amended as IAS 32 *Financial Instruments: Presentation*.
5 Paragraph BC68I was renumbered as paragraph BC186 when IAS 19 was amended in 2011.
6 IFRS 11 *Joint Arrangements*, issued in May 2011, replaced IAS 31.

The right to receive reimbursement from a fund and amendment to the scope of IAS 39

BC11 The IFRIC noted that under existing IFRSs, there are two forms of rights to reimbursement that would be accounted for differently:

(a) A contractual right to receive reimbursement in the form of cash. This meets the definition of a financial asset and is within the scope of IAS 39. Such a financial asset would be classified as an available-for-sale financial asset (unless accounted for using the fair value option) because it does not meet the definitions of a financial asset held for trading, a held-to-maturity investment or a loan or receivable.[7]

(b) A right to reimbursement other than a contractual right to receive cash. This does not meet the definition of a financial asset and is within the scope of IAS 37.

BC12 The IFRIC concluded that both these forms of reimbursement have economically identical effects. Therefore accounting for both forms in the same way would provide relevant and reliable information to a user of the financial statements. However, the IFRIC noted that this did not appear possible under existing IFRSs because some such rights are within the scope of IAS 39, and others are not. Therefore, it asked the Board to amend the scope of IAS 39 to exclude rights to reimbursement for expenditure required to settle:

(a) a provision that has been recognised in accordance with IAS 37; and

(b) obligations that had been originally recognised as provisions in accordance with IAS 37, but are no longer provisions because their timing or amount is no longer uncertain. An example of such a liability is one that was originally recognised as a provision because of uncertainty about the timing of the cash outflow, but subsequently becomes another type of liability because the timing is now certain.

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7 An interest in a decommissioning fund would not meet the definition of held for trading because it is not acquired or incurred principally for the purpose of selling or repurchasing it in the near term, nor of a held-to-maturity investment because it does not have fixed or determinable maturity. In addition, an interest in a fund is excluded from the definition of loans and receivables in IAS 39 since it is 'an interest acquired in a pool of assets that are not loans and receivables'.

BC13 This amendment was approved by the Board and is set out in the Appendix of IFRIC 5.[8] As a result, all such rights to reimbursement are within the scope of IAS 37.

BC14 The IFRIC noted that paragraph 53 of IAS 37 specifies the accounting for rights to receive reimbursement. It requires this right to reimbursement to be separately recognised when it is virtually certain that reimbursement will be received if the contributor settles the obligation. The IFRIC also noted that this paragraph prohibits the recognition of an asset in excess of the recognised liability. For example, rights to receive reimbursement to meet decommissioning liabilities that have yet to be recognised as a provision are not recognised. Accordingly, the IFRIC concluded that when the right to reimbursement is virtually certain to be received if the contributor settles its decommissioning obligation, it should be measured at the lower of the amount of the decommissioning obligation recognised and the reimbursement right.

BC15 The IFRIC discussed whether the reimbursement right should be measured at:

(a) the contributor's share of the fair value of the net assets of the fund attributable to contributors, taking into account any inability to access any surplus of the assets of the fund over eligible decommissioning costs (with any obligation to make good potential defaults of other contributors being treated separately as a contingent liability); or

(b) the fair value of the reimbursement right (which would normally be lower than (a) because of the risks involved, such as the possibility that the contributor may be required to make good defaults of other contributors).

BC16 The IFRIC noted that the right to reimbursement relates to a decommissioning obligation for which a provision would be recognised and measured in accordance with IAS 37. Paragraph 36 of IAS 37 requires such provisions to be measured at 'the best estimate of the expenditure required to settle the present obligation at the end of the reporting period'. The IFRIC noted that the amount in paragraph BC15(a)—i.e. the contributor's share of the fair value of the net assets of the fund attributable to contributors, taking into account any inability to access any surplus of the assets of the fund over eligible decommissioning costs—is the best estimate of the amount

8 [Aus] The scope of AASB 139 *Financial Instruments: Recognition and Measurement* is amended by AASB 2005-5 *Amendments to Australian Accounting Standards* consistent with the amendment of IAS 39 by IFRIC 5.

available to the contributor to reimburse it for expenditure it had incurred to pay for decommissioning. Thus, the amount of the asset recognised would be consistent with the amount of the liability recognised.

BC17 In contrast, the IFRIC noted that the amount in paragraph BC15(b)—i.e. the fair value of the reimbursement right—would take into account the factors such as liquidity that the IFRIC believed to be difficult to measure reliably. Furthermore, this amount would be lower than that in paragraph BC15(a) because it reflects the possibility that the contributor may be required to make potential additional contributions in the event of default by other contributors. The IFRIC noted that its decision that the obligation to make potential additional contributions should be treated as a contingent liability in accordance with IAS 37 (see paragraphs BC22-BC25) would result in double-counting of the risk of the additional contribution being required if the measure in paragraph BC15(b) were to be used.

BC18 Consequently, the IFRIC concluded that the approach in paragraph BC15(a) would provide the most useful information to users.

The asset cap

BC19 Many respondents to D4 expressed concern about the 'asset cap' that is imposed by the requirement in paragraph 9. This asset cap limits the amount recognised as a reimbursement asset to the amount of the decommissioning obligation recognised. These respondents argued that rights to benefit in excess of this amount give rise to an additional asset, separate from the reimbursement asset. Such an additional asset may arise in a number of ways, for example:

(a) the contributor has the right to benefit from a repayment of any surplus in the fund that exists once all the decommissioning has been completed or on winding up the fund.

(b) the contributor has the right to benefit from reduced contributions to the fund or increased benefits from the fund (e.g. by adding new sites to the fund for no additional contributions) in the future.

(c) the contributor expects to obtain benefit from past contributions in the future, based on the current and planned level of activity. However, because contributions are made before the decommissioning obligation is incurred, IAS 37 prevents recognition of an asset in excess of the obligation.

BC20 The IFRIC concluded that a right to benefit from a repayment of any surplus in the fund that exists once all the decommissioning has been completed or on winding up the fund may be an equity instrument within the scope of IAS 39, in which case IAS 39 would apply. However, the IFRIC agreed that an asset should not be recognised for other rights to receive reimbursement from the fund. Although the IFRIC had sympathy with the concerns expressed by constituents that there may be circumstances in which it would seem appropriate to recognise an asset in excess of the reimbursement right, it concluded that it would be inconsistent with paragraph 53 of IAS 37 (which requires that 'the amount recognised for the reimbursement should not exceed the amount of the provision') to recognise this asset. The IFRIC also noted that the circumstances in which this additional asset exists are likely to be limited, and apply only when a contributor has restricted access to a surplus of fund assets that does not give it control, joint control or significant influence over a fund. The IFRIC expects that most such assets would not meet the recognition criteria in the *Framework* because they are highly uncertain and cannot be measured reliably.

BC21 The IFRIC also considered arguments that there should not be a difference between the treatment of a surplus when a fund is accounted for as a subsidiary, joint venture or associate, and when it is not. However, the IFRIC noted that, under IFRSs, restrictions on assets in subsidiaries, joint ventures or associates do not affect recognition of those assets. Hence it concluded that the difference in treatment between funds accounted for as subsidiaries, joint ventures or associates and those accounted for as a reimbursement right is inherent in IFRSs. The IFRIC also concluded that this is appropriate because, in the former case, the contributor exercises a degree of control not present in the latter case.

Obligations to make additional contributions (paragraph 10)

BC22 In some cases, a contributor has an obligation to make potential additional contributions, for example, in the event of the bankruptcy of another contributor.

BC23 The IFRIC noted that by 'joining' the fund, a contributor may assume the position of guarantor of the contributions of the other contributors, and hence become jointly and severally liable for the obligations of other contributors. Such an obligation is a present obligation of the contributor, but the outflow of resources associated with it may not be probable. The IFRIC noted a parallel with the example in paragraph 29 of IAS 37, which states that 'where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.'

Accordingly, the IFRIC concluded that a liability would be recognised by the contributor only if it is probable that it will make additional contributions. The IFRIC noted that such a contingent liability may arise both when the contributor's interest in the fund is accounted for as a reimbursement right and when it is accounted for in accordance with IAS 27, IAS 28, IAS 31[9] or SIC-12.

BC24 The IFRIC considered the argument that an obligation to make good potential shortfalls of other contributors is a financial instrument (i.e. a financial guarantee) as defined in IAS 32 and hence should be accounted for in accordance with IAS 39. The grounds for this point of view are that the contributor has an obligation to deliver cash to the fund, and the fund has a right to receive cash from the contributor if a shortfall in contributions arises. However, the IFRIC noted that:

(a) a contractual obligation to make good shortfalls of other contributors is a financial guarantee. Financial guarantee contracts that provide for payments to be made if the debtor fails to make payment when due are excluded from the scope of IAS 39.

(b) when the obligation is not contractual, but rather arises as a result of regulation, it is not a financial liability as defined in IAS 32 nor is it within the scope of IAS 39.

BC25 Therefore, the IFRIC concluded that an obligation to make additional contributions in the event of specified circumstances should be treated as a contingent liability in accordance with IAS 37.

Disclosure (paragraphs 11-13)

BC26 The IFRIC noted that the contributor may not be able to access the assets of the fund (including cash or cash equivalents) for many years (e.g. until it undertakes the decommissioning), if ever. Therefore, the IFRIC concluded that the nature of the contributor's interest and the restriction on access should be disclosed. The IFRIC also concluded that this disclosure is equally relevant when a contributor's interest in a fund is accounted for by consolidation, proportional consolidation[10] or using the equity method because the contributor's ability to access the underlying assets may be similarly restricted.

9 IFRS 11 *Joint Arrangements*, issued in May 2011, replaced IAS 31.
10 IFRS 11 *Joint Arrangements*, issued in May 2011, replaced IAS 31. IFRS 11 does not permit an entity to use 'proportional consolidation' for accounting for interests in joint ventures.

Effective date and transition (paragraphs 14 and 15)

BC27 [Deleted by the UIG]

BC28 [Deleted by the UIG]

DELETED IFRIC 5 TEXT

Deleted IFRIC Interpretation 5 text is not part of UIG Interpretation 5.

Paragraph 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.

Paragraph 15

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