

**Urgent Issues Group**

**Interpretation 6**

October 2005

**Liabilities arising from  
Participating in a Specific  
Market – Waste Electrical  
and Electronic Equipment**



**Australian Government**

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**Australian Accounting  
Standards Board**

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## CONTENTS

PREFACE

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

### **UIG INTERPRETATION 6**

### ***LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET – WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT***

	<i>Paragraphs</i>
References	
Background	1 – 5
Scope	6 – 7
Issue	8
Consensus	9
Application	Aus9.1 – Aus9.4

BASIS FOR CONCLUSIONS ON IFRIC 6 *Page 10*

UIG Interpretation 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* is set out in paragraphs 1 – Aus9.4. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation and Application 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.

## PREFACE

### Main Features of UIG Interpretation 6

This Interpretation is applicable to annual reporting periods beginning on or after 1 December 2005. Early adoption of this Interpretation is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 December 2005.

When application of this Interpretation begins in the context of adopting all Australian equivalents to IFRSs, the requirements of Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Interpretation had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

This Interpretation clarifies when a liability arises under the European Union's Directive on Waste Electrical and Electronic Equipment in relation to the cost of waste management for the decommissioning of electrical and electronic equipment that had been sold to private households up to 13 August 2005 (termed 'historical household equipment'). The Interpretation specifies that the event giving rise to a liability for such costs is participation in the market by a producer of that type of equipment in the measurement period specified in the relevant national legislation. The manufacture or sale of historical household equipment is not the obligating event.

For example, an entity selling historical household equipment in one period may no longer be in the market when the waste management costs for its products are attributed to a particular measurement period, and thus has no liability for any of those costs. Conversely, an entity selling products in the market in a measurement period without having produced any of the products for which waste management costs are attributed to the period has a liability for a proportion of those costs.

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

UIG Interpretation 6 is equivalent to International Financial Reporting Interpretations Committee Interpretation IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of the equivalent IFRIC Interpretation) are identified with the prefix “Aus”, followed by the number of the relevant IFRIC paragraph and decimal numbering.

Entities that comply with Interpretation 6 will simultaneously be in compliance with IFRIC 6.

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants. They do not contain specific requirements concerning liabilities arising from participating in a specific market.

## **URGENT ISSUES GROUP**

### **INTERPRETATION 6**

#### ***LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET – WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT***

#### **REFERENCES**

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

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

#### **BACKGROUND**

- 1 Paragraph 17 of Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* specifies that an obligating event is a past event that leads to a present obligation that an entity has no realistic alternative to settling.
- 2 Paragraph 19 of AASB 137 states that provisions are recognised only for ‘obligations arising from past events existing independently of an entity’s future actions’.
- 3 The European Union’s Directive on Waste Electrical and Electronic Equipment (WE&EE), which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, has given rise to questions about when the liability for the decommissioning of WE&EE should be recognised. The Directive distinguishes between ‘new’ and ‘historical’ waste and between waste from private households and waste from sources other than private households. New waste relates to products sold after 13 August 2005. All household equipment sold before that date is deemed to give rise to historical waste for the purposes of the Directive.
- 4 The Directive states that the cost of waste management for historical household equipment should be borne by producers of that type of equipment that are in the market during a period to be specified in the

applicable legislation of each Member State (the measurement period). The Directive states that each Member State shall establish a mechanism to have producers contribute to costs proportionately 'e.g. in proportion to their respective share of the market by type of equipment.'

- 5 Several terms used in the Interpretation such as 'market share' and 'measurement period' may be defined very differently in the applicable legislation of individual Member States. For example, the length of the measurement period might be a year or only one month. Similarly, the measurement of market share and the formulae for computing the obligation may differ in the various national legislations. However, all of these examples affect only the measurement of the liability, which is not within the scope of the Interpretation.

## **SCOPE**

- 6 This Interpretation provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the EU Directive on WE&EE in respect of sales of historical household equipment.
- 7 The Interpretation addresses neither new waste nor historical waste from sources other than private households. The liability for such waste management is adequately covered in AASB 137. However, if, in national legislation, new waste from private households is treated in a similar manner to historical waste from private households, the principles of the Interpretation apply by reference to the hierarchy in paragraphs 10–12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The AASB 108 hierarchy is also relevant for other regulations that impose obligations in a way that is similar to the cost attribution model specified in the EU Directive.

## **ISSUE**

- 8 The issue is to determine in the context of the decommissioning of WE&EE what constitutes the obligating event in accordance with paragraph 14(a) of AASB 137 for the recognition of a provision for waste management costs:
  - the manufacture or sale of the historical household equipment?
  - participation in the market during the measurement period?
  - the incurrence of costs in the performance of waste management activities?

## CONSENSUS

- 9 Participation in the market during the measurement period is the obligating event in accordance with paragraph 14(a) of AASB 137. As a consequence, a liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold. Because the obligation for historical household equipment is linked to participation in the market during the measurement period, rather than to production or sale of the items to be disposed of, there is no obligation unless and until a market share exists during the measurement period. The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.

## Application

- Aus9.1 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 reports of each other reporting entity; and
  - (c) financial reports that are, or are held out to be, general purpose financial reports.
- Aus9.2 This Interpretation applies to annual reporting periods beginning on or after 1 December 2005.
- Aus9.3 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 December 2005, permitting early application 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 annual reporting periods when an election has been made in accordance with subsection 334(5) of the *Corporations Act* in relation to AASB 1048 *Interpretation and Application of Standards*. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.
- Aus9.4 The requirements specified in this Interpretation apply to the financial report where information resulting from their

application is material in accordance with AASB 1031  
*Materiality.*

### **Effective date of IFRIC 6**

10 [Deleted by the UIG]

### **Transition to IFRIC 6**

11 [Deleted by the UIG]

## BASIS FOR CONCLUSIONS ON IFRIC 6

*This IFRIC Basis for Conclusions accompanies, but is not part of, UIG Interpretation 6. 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.*

- 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.
- BC2 The IFRIC was informed that the European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE) had given rise to questions about when a liability for the decommissioning of WE&EE for certain goods should be recognised. The IFRIC therefore decided to develop an Interpretation that would provide guidance regarding what constitutes an obligating event in the circumstances created by the Directive.
- BC3 The IFRIC's proposals were set out in Draft Interpretation D10 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*, which was published in November 2004. The IFRIC received 22 comment letters on the proposals.
- BC4 The Directive indicates that it is participation in the market during the measurement period that triggers the obligation to meet the costs of waste management.
- BC5 For example, an entity selling electrical equipment in 20X4 has a market share of 4 per cent for that calendar year. It subsequently discontinues operations and is thus no longer in the market when the waste management costs for its products are allocated to those entities with market share in 20X7. With a market share of 0 per cent in 20X7, the entity's obligation is zero. However, if another entity enters the market for electronic products in 20X7 and achieves a market share of 3 per cent in that period, then that entity's obligation for the costs of waste management from earlier periods will be 3 per cent of the total costs of waste management allocated to 20X7, even though the entity was not in the market in those earlier periods and has not produced any of the products for which waste management costs are allocated to 20X7.

- BC6 The IFRIC concluded that the effect of the cost attribution model specified in the Directive is that the making of sales during the measurement period is the 'past event' that requires recognition of a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* over the measurement period. Aggregate sales for the period determine the entity's obligation for a proportion of the costs of waste management allocated to that period. The measurement period is independent of the period when the cost allocation is notified to market participants. The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred. Incurring costs in the performance of the waste management activities is a separate matter from incurring the obligation to share in the ultimate cost of those activities.
- BC7 Some constituents asked the IFRIC to consider the effect of the following possible national legislation: the waste management costs for which a producer is responsible because of its participation in the market during a specified period (for example 20X6) are not based on the market share of the producer during that period but on the producer's participation in the market during a previous period (for example 20X5). The IFRIC noted that this affects only the measurement of the liability and that the obligating event is still participation in the market during 20X6.
- BC8 The IFRIC considered whether its conclusion is undermined by the principle that the entity will continue to operate as a going concern. If the entity will continue to operate in the future, it treats the costs of doing so as future costs. For these future costs, paragraph 18 of IAS 37 emphasises that 'Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future.'
- BC9 The IFRIC considered an argument that manufacturing or selling products for use in private households constitutes a past event that gives rise to a constructive obligation. Allocating waste management costs on the basis of market share would then be a matter of measurement rather than recognition. Supporters of this argument emphasise the definition of a constructive obligation in paragraph 10 of IAS 37 and point out that in determining whether past actions of an entity give rise to an obligation it is necessary to consider whether a change in practice is a realistic alternative. These respondents believed that when it would be necessary for an entity to take some unrealistic action in order to avoid the obligation then a constructive obligation exists and should be accounted for.

BC10 The IFRIC rejected this argument, concluding that a stated intention to participate in a market during a future measurement period does not create a constructive obligation for future waste management costs. In accordance with paragraph 19 of IAS 37, a provision can be recognised only in respect of an obligation that arises independently of the entity's future actions. For historical household equipment the obligation is created only by the future actions of the entity. If an entity has no market share in a measurement period, it has no obligation for the waste management costs relating to the products of that type which it had previously manufactured or sold and which otherwise would have created an obligation in that measurement period. This differentiates waste management costs, for example, from warranties (see Example 1 in Appendix C to IAS 37), which represent a legal obligation even if the entity exits the market. Consequently, no obligation exists for the future waste management costs until the entity participates in the market during the measurement period.