



**BY E-MAIL AND BY POST**

Our Ref.: C/UII

26 March 2004

The International Financial Reporting Interpretations Committee,  
International Accounting Standards Board,  
30 Cannon Street,  
London EC4M 6XH,  
United Kingdom.

Dear Sirs,

**International Financial Reporting Interpretations Committee  
- IFRIC Draft Interpretations D3 & D4**

In response to the International Financial Reporting Interpretations Committee's Draft Interpretations D3 and D4, we are pleased to set out below our comments for your consideration.

**D3 Determining whether an Arrangement contains a Lease**

We support the IFRIC's initiative in issuing D3 to provide guidance for accounting for an arrangement that does not take the legal form of a lease but which, in substance, constitutes a lease and to converge with the treatment under US GAAP.

While we agree in principle the consensus reached in D3, we have reservations about its application to a component of a larger item. D3 currently leaves open the issue of how to determine if and when a right to use a component of a larger item should be accounted for as a lease, even though the current wording in paragraph 3 suggests that D3 can be applied to such a component item. BC4 specifies that the subject of a lease can be defined by reference to the capacity (or output) of a larger item or by reference to the time that the larger item is made available, rather than by reference only to physical attributes. In view of this, one may question how far down an entity should go in determining whether a component of a larger item should be accounted for as a lease. Can an entity have a lease over 1% of the supplier's pipeline? We believe, without proper guidance, this might be subject to abuse and cause inconsistent treatment in practice.

We therefore recommend that IFRIC provide more guidance on the issue of component accounting (in particular, expanding on the words "in some cases" in paragraph 3) before finalising D3. If such an issue cannot be resolved, we recommend that this issue be given priority on IFRIC's agenda.

**D4 Decommissioning, Restoration and Environmental Rehabilitation Funds**

We question the need for an interpretation on the accounting of decommissioning funds that have the common structures as described in paragraph 3 of the exposure draft. We do not believe that D4 contains guidance in addition to that already found in existing IFRS. However, given these funds potentially have structures that are widely different in nature, we consider that D4 might restrict the accounting of such funds in general. This might create unforeseen and undesirable outcomes in particular for those funds that are not envisaged under paragraph 3.

Paragraph 3(c) identifies a structure within the scope of the Interpretation that involves a “potential mismatch” in the amount of contributions made by a contributor and the value realisable from the fund. We do not find that this example is clear in its reference to “past activity” and “current activity” and we also consider that the accounting consequences that arise from this mismatch do not appear to have been clearly addressed in the Interpretation. We recommend that the Interpretation is clarified in this respect, preferably by including an example.

We also have concerns about the imposition of the asset cap on the recognition of reimbursement proposed in paragraph 7. Such limitation might not reflect the economic reality of the terms of the funds, in particular where the contributor has access, albeit restricted, to any surplus assets of the fund (see paragraph 2(d)). Without any explicit guidance, this limitation appears not to allow the recognition of an over-contribution to a fund even if the terms of the fund would allow such repayment or a refund of contribution when the related decommissioning liability has already been extinguished through other means. We believe that this might be inconsistent with the IFRS framework and hinder the quality of information being reported in financial statements.

If you have any questions on our comments, please do not hesitate to contact Mr. Simon Riley, Technical Director (Financial Reporting) at the Society, in the first instance.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Winnie C.W. Cheung', is centered on the page.

WINNIE C.W. CHEUNG  
CHIEF EXECUTIVE & REGISTRAR  
HONG KONG SOCIETY OF ACCOUNTANTS

WCC/SR/al