



International Accounting Standards Board®

# Press Release

For immediate release

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## **Proposed accounting Interpretations clarify scope of leasing standard and provide guidance on accounting for decommissioning funds**

The International Financial Reporting Interpretations Committee (IFRIC)\* has today released two Draft Interpretations—D3 *Determining whether an Arrangement contains a Lease* and D4 *Decommissioning, Restoration and Environmental Rehabilitation Funds*.

The proposed Interpretation D3 contains guidance on determining whether arrangements that do not take the legal form of a lease (eg some take-or-pay contracts) should, nonetheless, be accounted for in accordance with IAS 17 *Leases*. The proposed Interpretation D4 addresses the accounting to be adopted by entities that contribute to funds used to help meet decommissioning costs or environmental rehabilitation costs.

Both proposals are open for public comment until 19 March 2004.

Introducing the draft Interpretations, Kevin Stevenson, IFRIC Chairman, said:

“The IFRIC has developed these draft Interpretations to deal with questions that have arisen in practice of how to apply International Accounting Standards in certain cases. D3 clarifies that the leasing Standard has wider applicability than simply those agreements specifically described as leases. For example, it proposes that elements of some supply contracts or outsourcing arrangements should be accounted for as leases. One important consequence of this will be significantly increased disclosures about these types of transactions, because the disclosures for leases, even operating leases, are reasonably demanding. At present there is little required disclosure for these transactions when they are not viewed as leases.”

Mr Stevenson noted that the IFRIC’s proposals in D3 will reinforce the IASB’s commitment to convergence, as the proposals are similar to guidance issued last year by its US counterpart, the Emerging Issues Task Force. On D4 he commented:

“Funds established to help finance decommissioning costs are becoming increasingly common. The IFRIC was aware that questions about the appropriate accounting were arising in this area. The proposals in D4 are intended to ensure that decommissioning obligations are transparently reported

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

on the balance sheet and are not hidden behind related decommissioning funds. The disclosure requirements in D4 also make it clear if reimbursement from the funds will not occur for many years.”

Subscribers to the IASB’s Comprehensive Subscription Service can view the draft Interpretations from the secure online services area of the IASB’s Website ([www.iasb.org](http://www.iasb.org)). From 16 January the complete text of the draft Interpretation will be freely available from the Website.

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**NOTES TO EDITORS**

**About the proposals**

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

1. In recent years arrangements have developed that do not take the legal form of a lease but which convey rights to use items (eg an item of property plant and equipment) for agreed periods of time in return for a payment or series of payments. Examples of such arrangements include:
  - outsourcing arrangements;
  - telecommunication contracts that provide rights to capacity;
  - take-or-pay and similar contracts, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services; and
  - service concession arrangements, in which one entity provide the use of an item of infrastructure to another entity.
2. The main proposal in the draft Interpretation is that an arrangement that meets all three of the following criteria is, or contains, a lease that should be accounted for in accordance with IAS 17 *Leases*:

- (a) the arrangement depends upon a specific item. The item need not be explicitly identified by the contractual provisions of the arrangement. Rather it may be implicitly identified because it is not economically feasible or practical for the supplier to fulfil the arrangement by providing use of alternative items.
  - (b) the arrangement conveys a right to use the item for an agreed period of time such that the purchaser is able to exclude others from using the item.
  - (c) payments under the arrangement are made for the time that the item is made available for use rather than for actual use of the item.
3. The draft Interpretation also explains that an arrangement in which there is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output produced by an item (eg under a take-or-pay power contract) meets the second of the criteria above. Accordingly such arrangements can contain leases.

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

4. 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.
5. The main proposals in the draft Interpretation are:
  - If an entity recognises a decommissioning obligation under 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, and that fund does not relieve the contributor of its obligation to pay decommissioning costs, the contributor should recognise an asset (for rights to reimbursement from the fund) in addition to the liability for the decommissioning obligation.
  - 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.
6. The IFRIC's proposals include an amendment to IAS 39 *Financial Instruments: Recognition and Measurement* so as to exclude from its scope rights to reimbursement for expenditure required to settle a liability recognised as a provision. Such rights will be accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

## About the IFRIC and the IASB

7. 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 every two months. The IFRIC's principal role is to consider, on a timely basis within the context of existing 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.
  
8. 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) reside in 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 cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

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