

31 March, 2004

Kevin Stevenson  
Chairman IFRIC  
30 Cannon Street  
London EC4M 6XH  
UK

Dear Kevin,

**Re: IFRIC Draft Interpretation D4 *Decommissioning, Restoration and Environmental Rehabilitation Funds***

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the draft of the IFRIC Interpretation D4 *Decommissioning, Restoration and Environmental Rehabilitation Funds* ("D4"). This letter is submitted in EFRAG's role of contributing to IASB's and IFRIC's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRIC on the issue.

We support the objective of the draft interpretation to provide guidance on (i) how a contributor should account for its interest in a decommissioning fund and (ii) when a contributor has an obligation to make additional contributions, for example, in the event of the bankruptcy of another contributor, how that obligation should be accounted for.

Several EFRAG commentators expressed the concern that the scope of the (draft) Interpretation is not precise enough. For instance, it was commented that a possible understanding of the Interpretation would be that all funds should be excluded from IAS 39 *Financial Instruments: Recognition and Measurement* whatever rights they give to their participants.

As explained in paragraph 1, the (draft) Interpretation is written to provide interpretive accounting guidance for those funds of which the purpose is to segregate assets to fund some or all of the costs of decommissioning of plant or certain equipment, or in undertaking environmental rehabilitation. Further, the Consensus paragraph 5 states that if a contributor has control, joint control or significant influence over the fund, the relevant IFRS instead of the (draft) Interpretation needs to be applied. Consequently, we concluded that the scope of the (draft) Interpretation D4 is sufficiently clear.

However, in describing the general features of decommissioning funds for which the (draft) Interpretation is developed, paragraph 2 (d) mentions that contributors may

have restricted or no access to any surplus of assets of the decommissioning fund over those used to meet eligible decommissioning costs. The Consensus paragraphs suggest that rights to any surplus of assets should not be recognised by the contributor. We believe that such a ceiling approach is not appropriate and that the right to any surplus, if it exists, should be separately accounted for from the right to reimbursement. In our opinion, both rights are part of *a contributor's interest in a decommissioning fund* – the main issue that the (draft) Interpretation is addressing.

Therefore, we recommend IFRIC to provide guidance on how, if applicable, a right to any surplus of (net) assets of the fund over those used or needed to meet eligible decommissioning costs should be accounted for. Similarly, we believe that the Interpretation should address the accounting for any over contribution that could for instance occur if a government were to insist on companies making initial contributions to a decommissioning fund in advance of creating the damage that would result in a decommissioning liability.

As regards the right to reimbursement we support IFRIC's proposal that this should be measured at the lower of (i) the amount of the decommissioning obligation recognised and (ii) the right to the assets from the fund following contributions made.

If you would like further clarification of the points raised in this letter, Paul Rutteman or myself would be happy to discuss these further with you.

Yours sincerely

Johan van Helleman  
EFRAG, Chairman