Dr. Alexander Schaub
Director General
European Commission
Directorate General for the Internal Market

1049 Brussels

XX July 2004

Dear Dr. Schaub,

DRAFT FOR COMMENTS BY NO LATER THAN 10 JULY 2004

Re: Adoption of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* (IFRIC 1) as published by the IFRIC on 27 March 2004.

EFRAG welcomes that IFRIC 1, which was exposed as IFRIC D2, provides guidance on accounting for changes in the measurement of existing decommissioning, restoration and similar liabilities that are initially recognised as part of the cost of an item of property, plant and equipment (in accordance with IAS 16 *Property, Plant and Equipment*) and as a liability (in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

EFRAG's main concern expressed when commenting on D2 was the retrospective approach taken. As initially proposed by IFRIC the main principle was that a change in cost or discount rate used in an estimation of decommissioning, restoration or similar liability should have been viewed as revising the initial liability and the cost of the asset. The effect of making any adjustment to the initial cost of the asset and the liability would then have been reflected in consequential changes to the depreciation to date and subsequently. The "catch-up" effect to date would have been reflected in the current year's income.

In EFRAG's view this proposal was inconsistent with the way in which existing standards, e.g. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 16 *Property, Plant and Equipment* are interpreted. They require changes in estimates to be accounted for on a prospective basis.

EFRAG welcomes that IFRIC has changed its requirements in the final IFRIC 1 to a prospective approach. It now requires changes in the liability arising from changes in cash flows or the discount rate to be capitalized prospectively over the life of the item to which they relate, while the periodic unwinding of the discount (passage of time) shall be recognised in profit or loss as a finance cost as it occurs.

IFRIC 1 becomes effective for annual periods beginning on or after 1 September 2004.

EFRAG has evaluated IFRIC 1 based on input from standard setters and market participants in accordance with EFRAG's due process.

EFRAG conclusion

EFRAG supports the new interpretation and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and, accordingly, EFRAG recommends its adoption.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen
EFRAG, Chairman