International Accounting Standards Board®

Press Release

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Proposed new accounting Interpretation – Changes in Decommissioning, Restoration and Similar Liabilities

The International Financial Reporting Interpretations Committee (IFRIC)[1] has today released IFRIC Draft Interpretation D2 *Changes in Decommissioning, Restoration and Similar Liabilities*. The proposed Interpretation contains guidance on accounting for certain changes in decommissioning, restoration and similar liabilities that are recognised both 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.*

More specifically, the proposal addresses accounting for changes in (i) the estimated outflow of resources embodying economic benefits (eg cash flows); (ii) the current market-assessed discount rate; and (iii) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

The proposal is open for public comment until 3 November 2003.

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

> "The IFRIC was informed that differing views and potentially divergent practices exist in accounting for changes in decommissioning, restoration and similar liabilities, and it therefore agreed to a request to develop guidance.
>
> The proposed Interpretation would require companies to capitalise only the portion of a change in an estimated decommissioning liability that relates to the future use of the related asset: the remaining amount would be recognised in current period profit or loss."

Pointing to the IFRIC's confirmation that, under existing requirements, decommissioning, restoration and similar liabilities should be measured using a current market-assessed discount rate, Mr Stevenson said "This may come as a shock for some."

[1] The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

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Welcoming the draft Interpretation, Sir David Tweedie, IASB Chairman said:

> "I recognise that finding a suitable approach to accounting for changes in decommissioning, restoration and similar liabilities is challenging and potentially controversial. I therefore commend the IFRIC members for the time and effort they have spent in developing this proposal. I urge constituents most affected by the proposals to take an active part in the IFRIC consultation process by responding to the exposure draft."

Subscribers to the IASB's Comprehensive Subscription Service can view the draft Interpretation from the secure online services area of the IASB's Website (www.iasb.org.uk). From 5 September the complete text of the draft Interpretation will be freely available from the Website.

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NOTES TO EDITORS

About the proposals

1. The draft Interpretation addresses the accounting for certain changes in estimated costs to dismantle, restore and remove items of property, plant and equipment that fall within the scope of IAS 16 and are recognised as a provision under IAS 37.

2. The main changes dealt with in the Interpretation are those that arise from (i) the revision of estimated outflows of resources embodying economic benefits and (ii) revisions to the current market-assessed discount rate. Under the proposed Interpretation, these two changes are accounted for in the same manner as the initial

estimated cost. Hence, amounts relating to the depreciation of the asset that would have been recognised to date are reflected in current period income or expense and amounts relating to future depreciation are capitalised. This approach views the asset, from the time the liability for decommissioning is initially incurred until the end of the asset's useful life, as the unit of account to which decommissioning costs relate.

3. In the spirit of convergence, the IFRIC considered the US GAAP approach in Statement of Financial Accounting Standards No. 143 *Accounting for Asset Retirement Obligations* and, in particular, that changes in estimated cash flows are capitalised as part of the cost of the asset and depreciated prospectively, and the decommissioning obligation is not required to be revised to reflect the effect of a change in the current market-assessed discount rate. The IFRIC did not choose this approach because IAS 37, unlike SFAS 143, requires a decommissioning obligation to reflect the effect of a change in the current market-assessed discount rate. The IFRIC agreed that it was important that any Interpretation it developed should deal consistently with changes in estimated cash flows and changes in the discount rate.

About the IFRIC and the IASB

4. 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.

5. 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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