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IFRIC 6 on Waste Management Costs

On 1 September 2005, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 6 **Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment**. The Interpretation gives guidance on the accounting for liabilities for waste management costs. Specifically, it considers the appropriate trigger for recognition of an obligation to contribute to the costs of disposing of waste equipment based on the entity's share of the market in a measurement period. IFRIC 6 concludes that the event that triggers liability recognition is participation in the market during a measurement period.

The Interpretation is effective for annual periods beginning on or after 1 December 2005.

Scope

IFRIC 6 addresses the recognition of liabilities for waste management under the European Union's Directive on Waste Electrical and Electronic Equipment (the WE&EE Directive). Specifically, the Interpretation deals with waste from private households, and to waste defined as historical under the WE&EE Directive (i.e. waste arising from products sold on or before 13 August 2005). It does not apply to historical waste from sources other than private households, nor to household waste arising from products sold after 13 August 2005.

The Interpretation is therefore quite narrow in scope. The general principles of IAS 37 **Provisions, Contingent Liabilities and Contingent Assets** should be applied to determine the appropriate recognition point for other remediation and recycling obligations. However, IFRIC 6 paragraph 7 states that "if, in national legislation, new waste from private households is treated in a similar manner to historical waste from private households, the principles of the Interpretation apply by reference to the hierarchy in paragraphs 10–12 of IAS 8." Therefore, before determining an accounting policy for 'new' household waste, entities will need to determine how the WE&EE Directive has been transposed into local law. The Interpretation will also be a source of authoritative guidance on the appropriate accounting for obligations that are imposed by similar cost attribution models.

The issue

Under the WE&EE Directive, the obligation to contribute to waste management costs is allocated proportionately to producers of the relevant type of equipment who participate in the market during a specified period (the measurement period). The IFRIC was asked to determine what constitutes the obligating event for the recognition of a provision for the waste management costs.

The alternatives considered were:

- the manufacture or sale of the equipment;
- participation in the market during the measurement period; and
- the incurrence of costs in the performance of waste management activities.

The consensus

The IFRIC decided that the event that triggers liability recognition is participation in the market during a measurement period (and not the production of the equipment, nor the actual incurrence of waste management costs).

Examples

Country A determines that producers within its jurisdiction will be responsible for 'historical' household waste management costs in proportion to their respective share of the market for that type of equipment in each calendar year. The government notifies participants in the relevant markets in February each year of their market share for the immediately preceding calendar year.

Company X has been a manufacturer of domestic washing machines since 1980. In February 2007, the government of A Land notifies X that its market share for 2006 was 25 per cent. This market share will be used to allocate historical waste management costs for washing machines sold between 2003 and August 2005, which are estimated at CU24 million. Company X will recognise a liability of CU6 million at 31 December 2006, since the recognition of the liability is triggered by participation in the market during 2006, rather than by the government notification in February 2007.

Company Z began manufacturing domestic washing machines in September 2005, and is notified by government in February 2007 that its market share for 2006 was 3 per cent. Even though it was not responsible for producing any 'historical' WE&EE, because it participates in the market currently, it will contribute to the cost of recycling historical WE&EE and will recognise a liability of CU0.72 million at 31 December 2006.

Company T ceased to produce washing machines in 2005. Because T no longer produces domestic washing machines (i.e. its market share in the measurement period was zero), it has no obligation to fund the collection and recycling of historical WE&EE it produced.

The rationale

The IFRIC's conclusion on this issue is a pragmatic one. The WE&EE Directive attaches the liability for the disposal of historical waste to currently active producers and distributors on the basis of their current market share – irrespective of the extent of their participation in the market at the time the equipment was produced. To apply the Directive retrospectively was not thought practicable. Working with this result, the IFRIC determined that the only workable 'past event,' required by IAS 37 for recognising a liability, was current participation in the market, evidenced by sales in that market.

Effective date and transition

IFRIC 6 is effective for annual periods beginning on or after 1 December 2005. Earlier adoption is encouraged. If an entity applies IFRIC 6 for a period beginning before 1 December 2005, that fact should be disclosed.

Changes in accounting policies arising from the implementation of IFRIC 6 should be accounted for in accordance with the requirements of IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors**. Therefore, where practicable, such changes in accounting policies should be applied retrospectively.

First-time adopters

Entities adopting IFRSs for the first time for December 2005 accounting year ends, will not be required to apply IFRIC 6 until their 2006 accounting periods. However, any entity that elects to adopt the Interpretation for December 2005, in advance of its effective date, should adopt the accounting policies required by IFRIC 6 with retrospective effect at its date of transition.

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