

IFRIC 5

Rights to interests arising from decommissioning, restoration and environmental restoration funds

REFERENCES

- IAS 8 Accounting policies, changes in accounting estimates and errors
IAS 28 Investments in associates
IAS 37 Provisions, contingent liabilities and contingent assets
IFRS 9 Financial instruments
IFRS 10 Consolidated financial statements
IFRS 11 Joints arrangements

ISSUE

Certain companies with production facilities may be faced with obligations of a decommissioning, restoration, or environmental nature. Such companies may contribute voluntarily or as required by regulation, either alone or collectively, to a decommissioning fund.

In these cases, it is necessary to know:

- how should a company (contributor) account for its interest in a fund?
- when a contributor has an obligation to make additional contributions, how should that obligation be accounted for?

POSITION ADOPTED

The contributor must recognize its interest in the fund separately from its obligation to pay decommissioning costs. These costs must be recognized as a liability.

If the contributor holds the majority control, joint control or exerts significant influence over the fund as provided for in IAS 28, IFRS 9 and IFRS 10, it must then recognize its interest in the fund based on the requirements of these Standards.

Otherwise, it must recognize the right to receive reimbursement of the fund in accordance with IAS 37 at the lower of the two following values:

- the amount of the decommissioning obligation recognized,

- its share in the fair value of the net assets held by the fund.

Variations in the carrying amount of the contributor's right to reimbursement, as long as these variations do not come from new payments, must be recognized in profit or loss for the period.

When a contributor has an obligation to make potential additional contributions, for example as a result of the default of another contributor, or if the value of the investment assets held by the fund falls below the amount of the fund's reimbursement obligations, a contingent liability must be recognized in accordance with IAS 37.