

NZ IFRIC 6: LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET - WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

BACKGROUND AND ISSUE

NZ IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* specifies that an obligating event is a past event that leads to a present obligation that an entity has no realistic alternative to settling and that provisions are recognised only for “obligations arising from past events existing independently of an entity’s future actions”.

The European Union’s directive on Waste Electrical and Electronic Equipment (WE&EE), which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, has given rise to questions over when the liability for the decommissioning of WE&EE should be recognised. The Directive states that the cost of waste management for historical household equipment should be borne by producers of that type of equipment that are in the market during a period to be specified in the applicable legislation of each Member State (the Measurement Period). The Directive states that each Member State is required to establish a mechanism to have producers contribute to costs proportionately - e.g. in proportion to their respective share of the market by type of equipment. Member States within the EU will have their own interpretation of WE&EE directive and therefore the detailed requirements are likely to vary from state to state.

The interpretation does not deal with new waste (being waste relating to products sold on or after 13 August 2005) or historical waste from sources other than private households. The IFRIC considers that the liability for such waste management is dealt with by NZ IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*.

NZ IFRIC 6 seeks to determine in the context of decommissioning of WE&EE which of the following constitute an obligating event in accordance with NZ IAS 37 for the reconciliation of a provision for waste management costs:

- The manufacture or sale of the historical household equipment.
- Participation in the market during the measurement period.
- The incurrence of costs in the performance of waste management activities.

SCOPE

- NZ IFRIC 6 provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the European Union (EU) Directive on Waste Electrical and Electronic Equipment (WE&EE) in respect of sales of historical household equipment.
- NZ IFRIC 6 does not address new waste or historical waste from sources other than private households. The liability for such waste management is adequately covered in NZ IAS 37. However, 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 NZ IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

CONSENSUS

- Participation in the market during the measurement period is the obligating event in accordance with NZ IAS 37. As such, a liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold.
- As the obligation for historical household equipment is linked to participation in the market during the measurement period, rather than to production or sale of the items to be disposed of, there is no obligation unless and until a market share exists during the measurement period.
- The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.

EXAMPLE

An entity selling electrical equipment in 20X4 has a market share of 4% for that calendar year. It subsequently discontinues operations and is thus no longer in the market when the waste management costs for its products are allocated to those entities with market share in 20X7. With a market share of 0% in 20X7, the entity’s obligation is zero. However, if another entity enters the market for electronic products in 20X7 and achieves a market share of 3% in that period, then that entity’s obligation for the costs of waste management from earlier periods will be 3% of the total costs of waste management allocated in 20x7, even though the entity was not in the market in those earlier periods and has not produced any products for which waste management costs are allocated in 20X7.

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