

NZ IFRIC 5: RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

BACKGROUND AND ISSUE

The purpose of decommissioning funds is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as “decommissioning”. Contributions to these funds, by multiple contributions, may be voluntary or required by law or regulation.

Decommissioning funds generally have the following features:

- ▶ Fund is separately administered by independent trustees;
- ▶ Entity contributions to the fund are invested in a range of assets that are available to help pay contributors decommissioning costs;
- ▶ Contributors retain the obligation to pay decommissioning costs; and
- ▶ Contributors may have restricted access or no access to any surplus assets of the fund

SCOPE

NZ IFRIC 5 applies to accounting in the financial statements of a contributor for interests arising from decommissioning, restoration and environmental funds (hereafter referred to as ‘decommissioning funds’) that have both of the following features:

- ▶ The assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
- ▶ A contributor’s right to access the assets is restricted.

Residual interests in funds that extend beyond a right of reimbursement may be an equity instrument within the scope of NZ IFRS 9 *Financial Instruments*, and is scoped out of NZ IFRIC 5.

CONSENSUS

INTEREST IN A FUND

- ▶ The contributor recognises its obligation to pay decommissioning costs as a liability and recognises its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.
- ▶ The contributor determines whether it has control, joint control or significant influence over the fund by reference to NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IAS 28 *Interests in Associates and Joint Ventures*. If it does, the contributor accounts for its interest in the fund in accordance with those Standards.
- ▶ If a contributor does not have control, joint control or significant influence over the fund, the contributor recognises the right to receive reimbursement from the fund as a reimbursement in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This reimbursement is measured at the lower of:
 - The amount of the decommissioning obligation recognised; and
 - The contributor’s share of the fair value of the net assets of the fund attributable to contributors.
- ▶ Changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund are recognised as a profit or loss in the period in which these changes occur.

OBLIGATIONS TO MAKE ADDITIONAL CONTRIBUTIONS

When a contributor has an obligation to make potential additional contributions, e.g., in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund’s reimbursement obligations, this obligation is a contingent liability that is within the scope of NZ IAS 37.

The contributor recognises a liability only if it is probable that additional contributions will be made.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters are required to comply with NZ IFRIC 5 in full.

DISCLOSURE

- ▶ A contributor discloses the nature of its interest in a fund and any restrictions on access to the assets in the fund.
- ▶ When a contributor has an obligation to make potential additional contributions that is not recognised as a liability, it makes the disclosures required by NZ IAS 37.
- ▶ When a contributor accounts for its interest in the fund in accordance with paragraph 9 of NZ IFRIC 5, it makes disclosures as required by NZ IAS 37.