

Dr. Alexander Schaub  
Director General  
European Commission  
Directorate General for the Internal Market

1049 Brussels

15 February 2005

Dear Mr. Schaub,

***Adoption of IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds***

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (IFRIC 5), which is based on IFRIC D4 and finally published by the IFRIC on 16 December 2004.

EFRAG welcomes the objective of IFRIC 5 to provide guidance on accounting issues in the context of funds which are set up for the purpose of segregating assets to fund some or all of the costs of decommissioning obligations. IFRIC 5 particularly provides guidance on (i) how contributors should account for their interest in a fund and (ii) when a contributor has an obligation to make additional contributions, how that obligation should be accounted for.

We agree with the consensus that a contributor should account separately for the obligation to pay decommissioning costs and its interest in the fund by applying IAS 37. We also agree that if the criteria of control, joint control or significant influence are met the relevant IASs should be applied instead of IAS 37.

We understand that without the guidance provided by IFRIC 5 two forms of rights to reimbursement would be accounted for differently, i.e. a contractual right to receive reimbursement in the form of cash meeting the definition of a financial asset would fall under IAS 39, whereas a right to reimbursement other than a contractual right to receive cash would be within the scope of IAS 37. Since we agree that the two forms are of equal economic substance accounting for both forms should be the same. We therefore support the consequential change to the scope of IAS 39 in paragraph 2 in order to exclude from that standard rights to reimbursement for expenditure made to settle liabilities recognised as provisions in accordance with IAS 37.

IFRIC 5 becomes effective for annual periods beginning on or after 1 January 2006.

EFRAG has evaluated IFRIC 5 based on input from standard setters and market participants in accordance with EFRAG's due process.

EFRAG supports the new interpretation and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and, accordingly, EFRAG recommends its adoption.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen  
**EFRAG, Chairman**