Rechnungslegungs Interpretations
Accounting Interpretations Committee e. V.

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Berlin, 25. März 2004

Kevin Stevenson
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Dear Kevin

Comment letter on IFRIC Interpretation D4

We appreciate the opportunity to comment on IFRIC D4 *Decommissioning, Restoration and Environmental Rehabilitation Funds*.

We fully endorse IFRIC´s aim to support the IASB in establishing and improving International Financial Reporting Standards. In general we are in agreement with the proposed approach. However, concern has grown on the following issues.

Scope of D4
Paragraph 3 of D4 describes a range of structures and terms for decommissioning, restoration and environmental rehabilitation funds. However, we do not think that these structures and terms provide a comprehensive list of all possible fund structures and that the financial reporting solution does not cater for all the structures listed. What we would see as the objective of D3 is that it deals indeed with all known versions of such arrangements and provides a solution for all of them.

“Asset ceiling” in par. 7
Paragraph 7 would require the asset to be measured at the lower of the amount of the decommissioning liability and the entity´s share of the fair value of the net assets of the fund. However, there may be circumstances, where the decommissioning liability is overfunded. We understand that when taking the requirement literally, the overfunded amount has to be written off. However, this would contradict the true and fair presentation of the net assets; we would see merit in an explicit statement that in case of overfunding a separate asset (financial instrument) has to be recognised.

Additionally there seems to be no equivalent requirement in cases where the fund is accounted for as a subsidiary.

Mismatch of the accounting for changes in discount rates between D4 and D2
Assume a fund comprises fixed interest bonds.
Changes in the current market yield affect the fair value of the bonds. According to D4 par. 8 the entity would be required to recognise changes in the fair value of the right to receive reimbursement (other than contributions to and payments from the fund) in the income statement.
We understand that a change in the current market yield leads to a change in the discount rate regarding a decommissioning liability. However, according to D2 a change in discount rates is added to or deducted from the corresponding asset rather than recognised in the income statement in the period the change occurs.
Thus there is a lack of symmetry in the accounting and the resulting volatility of reported profit or loss.
We recommend to IFRIC to reconsider both approaches in the light of the conjunction of decommissioning liabilities and decommissioning funds.

Other
We recommend replacing the term “profit or loss” in par. 8 as the current IASB literature uses the phrase “income statement”.

With best regards

Liesel Knorr
Chairman