Accounting Standards Board

ANALYSIS AND RESPONSES TO WRITTEN COMMENT RECEIVED ON

PROPOSED GUIDELINE ON *ACCOUNTING FOR LANDFILL SITES* (ED 166)

RESPONSES TO WRITTEN COMMENT RECEIVED ON THE PROPOSED GUIDELINE ON *ACCOUNTING FOR LANDFILL SITES* (ED 166)

The Accounting Standards Board (Board) approved the exposure of the proposed Guideline on *Accounting for Landfill Sites* (ED 166) in May 2018 for comment. A Notice was published in the Government Gazette on 22 June 2018 (Notice 41722). The comment period closed on 30 November 2018.

The Board received two comment letters, including comment from the Department of Treasury of the Free State Province that issued a questionnaire, to which the entities listed in the table on the next page, responded.

The results of the formal comment process are summarised in this document into general and specific matters, and include the Board's responses to the comment received.

In addition to the comment letters received, the proposed Guideline was also discussed with preparers, users, auditors, consultants and other affected stakeholders by way of workshops, roundtable discussions and other meetings. The summary of comment received during these discussions is included in a separate analysis.

CLASSIFICATION OF WRITTEN COMMENT RECEIVED ON THE PROPOSED GUIDELINE ON *ACCOUNTING FOR LANDFILL SITES* (ED 166)

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	Submission by the Free State Department of Treasury, including inputs from the following entities: • Department of Sport, Arts, Culture and Recreation • Department of Agriculture and Rural Development • Department of Police, Roads and Transport • Department of Education	 √ √ √ √			
2.	David Hardidge				√

COMMENTS ON ED 166 PROPOSED GUIDELINE ON *ACCOUNTING FOR LANDFILL SITES* (ED 166)		
No.	**Comments**	**Board's response**
	SPECIFIC MATTER FOR COMMENT #1	
	Paragraph 2.26 of the proposed Guideline explains that the land in a landfill usually has an unlimited useful life as, after the landfill site stops receiving waste, the land needs to be rehabilitated and the end-use plan implemented. However, an entity applies judgement to assess if the land in a landfill has a limited useful life, as, even though land generally has an unlimited useful life, there may be exceptions. This may be, for example, where the land is not rehabilitated when the landfill stops receiving waste, and the land has no alternative use following the closure of the landfill site. **In your view, could the land in a landfill site have a limited useful life if the Minimum Requirements and the entity's licence conditions require that the land should be rehabilitated after the landfill stops receiving waste? Please explain your response.**	
1.1	**Free State Department of Treasury**	
	Department of Police, Roads and Transport	
1.1.1	No. If the Minimum requirements of the license is that the land should be rehabilitated the management's intention would be to rehabilitate. An entity cannot argue that it is not their intention to rehabilitate as this is would be an illegal action based on current laws. Therefore the intension would be to rehabilitate and therefore the land has an unlimited useful life. Furthermore in order to obtain a licence the entity requires an environmental rehabilitation plan/approach. This further strengthens the argument that management's intention is to rehabilitate. The cost to rehabilitate and the available fund to do so should not be a factor in determining the useful life of land.	Noted. The guidance in Chapter 2 of the Guideline has been amended to clarify that the economic life of land is the period over which the land is expected to yield economic benefits or service potential. As land has an unlimited useful life, it is not depreciated. The land will exist and/or will be available for use, even if, after use as a landfill site, it is not rehabilitated in accordance with the entity's licence conditions and the Minimum Requirements. The land in a landfill should, however, be assessed for impairment.

No.	Comments	Board's response
	Free State Department of Treasury (continued)	
	Department of Education	
1.1.2	No. Although the entity has to apply judgement to assess if it has a limited useful life this assessment should have been done when the entity applied for a licence.	Noted. Refer to the response to comment 1.1.1.

No.	Comments	Board's response
	GENERAL MATTERS FOR COMMENT	
2.	**CHAPTER 1 Overview of the legislative requirements that govern landfill sites**	
2.1	**David Hardidge**	
	Paragraph 1.11 - Estimation of timing of liability I suggest including some guidance on estimating the timing of the rehabilitation – in particular, whether or not you can estimate the probability of renewal of licence, if the original term is for 10 or 20 years. Can you use longer than 20 years? E.g. based on expectations, even if you do not have the legal right?	Noted. The period over which the landfill rehabilitation provision is discounted, is not based on the licence period, but will depend on how long the landfill site asset is used.

No.	Comments	Board's response
3.	**CHAPTER 3 Accounting for the landfill site asset**	
3.1	**David Hardidge**	
3.1.1	**Revaluation and landfill sites** In Australia, we adopt IFRSs for the public sector, and revalue property, plant and equipment to fair value for each reporting entity – to be consistent with whole of government GFS reporting.	Noted.
	I suggest that the guideline includes come guidance on determining the fair value of the landfill land and landfill site asset. Significant issues include: • Application of cost (replacement cost) – is it a value for the land, and then add the "cost" of the rehabilitation liability as at balance date? • How do you determine a value for the land under the landfill site (landfill land)? Do you estimate the cost of replacing the land with the original characteristics (e.g. valley)? How do you adjust for airspace consumed? Do you adjust the landfill land for restrictions and conditions (in addition to the rehabilitation liability) because it is being used as a landfill?	Entities in the South African public sector can either apply the cost model or the revaluation model in measuring the land in a landfill. As the comment relates to a practical application issue, the Board shared the comment with the National Treasury for their consideration in developing guidance on determining fair value as part of the GRAP Implementation guidance.

No.	Comments	Board's response
	David Hardidge (continued)	
3.1.2	**Trench and cell structures** Explaining common structures, like trenches and cells, should be made much earlier. This is going to be a common practical issue in determining useful lives. At present, these common structures are first mentioned on page 25.	Noted. The Minimum Requirements, that outline all the requirements applicable to landfill classification, investigation, design operation and the monitoring of landfill sites, contain a glossary of terms applicable to landfill sites. The Board agreed not to duplicate the guidance already included in other pronouncements, and therefore only includes a summary of the most commonly used terms in the Guideline. Reference should therefore be made to the glossary, as included in the Minimum Requirements, for an explanation of these terms.
3.1.3	Paragraph 3.30 should be expanded to give an example of subsequent capitalisation being additional trench and cell structures.	The objective of the paragraph is to explain the accounting principle of when subsequent costs incurred should be expensed or capitalised to the cost of the landfill site asset. An entity should apply judgement in assessing whether the construction of an additional trench or cell meets the recognition criteria to be capitalised to the cost of the landfill site asset. The Board concluded that the inclusion of an example in this paragraph is inappropriate.

No.	Comments	Board's response
	David Hardidge (continued)	
3.1.4	Paragraph 3.38 (or elsewhere) should highlight that trenches or cells should be separately depreciated if they have different useful lives to other assets, or constructed at different times.	Noted. The paragraph already clarifies that a part of the landfill site asset with a cost that is significant in relation to the total cost of the asset, is depreciated separately, whereas insignificant parts are grouped together for deprecation purposes. The guidance in this section has been amended to explain that judgement should be applied to allocate the landfill site asset into its different parts. The Board concluded that the guidance included on depreciation and the useful life, will assist entities in applying the principles to their specific circumstances.
3.1.5	Similar to the above, the implications of progressive capping (a common practice) should be discussed. For example, progressive capping is common as cells are filled (e.g. by using an earth covering), and also during cell use for health or environmental reasons.	Noted. As this is a practical issue involving the rehabilitation of the landfill site, additional guidance has not been included in the Guideline.

No.	Comments	Board's response
	David Hardidge (continued)	
3.1.6	**Monitoring costs** The treatment of monitoring costs is confusing, particularly the apparent different accounting for pre-closure monitoring costs and post-closure monitoring costs. While paragraph 4.28 is emphatic that post-closure monitoring and inspection costs are a provision and asset, paragraph 3.32 is indecisive about whether pre-closure monitoring and inspection is a provision and asset. This seems like an inconsistency, assuming the activities are of a similar nature and they are a condition of the licence. IAS 16.16(c) only refers to capitalising dismantling and restoration costs. I don't think that something like testing soil samples falls within these categories. To me, these costs feel more like operating costs (i.e. more like maintenance than capital). I think that the guideline should clarify the accounting for these costs, and whether they should be accounted for similarly in the provision, and similarly for adjustments to PPE.	Noted. Monitoring and inspection costs to be undertaken during the operation of the landfill site are not a prerequisite for rehabilitation and therefore not part of the restoration and rehabilitation activities following the closure of the landfill site. Chapter 3 already explains that these costs should only be capitalised to the cost to the landfill site asset if the recognition criteria are met, otherwise they should be expensed when incurred. Chapter 4 has been amended to explain that, as the monitoring and inspection costs to be undertaken after the closure of the landfill site are part of rehabilitating the environmental damage of the land, an estimate is included in the landfill rehabilitation provision.

No.	Comments	Board's response
	David Hardidge (continued)	
3.1.7	**Useful life** Paragraphs 3.40 and 3.55 support that useful life ends when the landfill site ceases to receive waste. Other views have been presented to us. One view is that the service provided is not just the disposal of waste, but the safe disposal of waste. Councils pay more than they otherwise would to enable this level of safety to be achieved. Councils are prevented from generating other economic benefits from the land during the post-closure period because the objectives of the landfill site asset (safe disposal) have not yet been completed. Under this view, the life associated with this safe disposal service is to be the period until the land becomes available for an alternative use. That is, the landfill site asset continues to provide landfill services (have the nature of a landfill asset) while its landfill nature prevents other uses. If this view is adopted, consequential changes are required to other parts of the ED. Another view is that useful life extends to the benefits that arise from subsequent use. For example, for councils, this may be the use of the remediated land as a sports ground. In other situations, the subsequent use may be the sale of land for industrial or residential use. Under this view, the remediation costs would be considered part of the development for the subsequent use, and not amortised.	Noted. The Board reconsidered the principle on the useful life of a landfill site asset. The Board agreed that the useful life includes the period over which waste is received and stored, as the landfill site asset has service potential while it safely stores waste. The guidance in Chapter 3 has been amended to explain that the useful life of parts of the landfill site asset is determined based on the period over which the part is available for use. The landfill site asset may generate future economic benefits or service potential while the site is in operation, or for a shorter period, or during the period that the landfill site stores waste. The useful life ends when the post-closure monitoring and inspection is completed.

No.	Comments	Board's response
	David Hardidge (continued)	
	The guideline should include discussion of these alternate views.	Noted. As the purpose of the Guideline is to address the divergent practice in accounting for landfill sites, the Board agreed that the inclusion of alternative views in the Guideline is inappropriate.
3.1.8	Paragraph 3.42 - Example 1 – depreciation of part of an asset – the bottom-liner. How is this replacement undertaken in practice when the original bottom-liner is covered in tonnes of waste?	Noted. The bottom-liner has been replaced with a more appropriate component in the example.
3.1.9	**Derecognition of landfill site (paragraphs 3.52 to 3.55) and Construction of assets for use in rehabilitation (paragraphs 3.56 to 3.57)** These paragraphs are somewhat inconsistent. They should be linked back to useful lives. For example, while the landfill site should have been largely depreciated to nil over its useful life, some assets (such as monitoring equipment) may have useful lives extending into the subsequent monitoring period	Noted. The guidance on the residual value has been amended to explain that, parts of the landfill site may have a residual value if they will be disposed of, or when their useful life is longer than that of the landfill site. GRAP 17 is applied to assess changes in the residual value at each reporting date. Also refer to the response to comment 3.1.7.

No.	**Comments**	**Board's response**
4.	**CHAPTER 4 Accounting for the provision for rehabilitation, closure, end-use and monitoring**	
4.1	**Free State Department of Treasury**	
	Department of Police, Roads and Transport	
	Further consideration needs to be given with regard to the measurement criteria of the environmental liability. Based on the standards (GRAP 19) this liability needs to be determined annually for the liability (provisions or contingent liabilities), this is required in order to measure the present obligation. The standard also requires the "best estimate" and this tends to be a complex and costly calculation. For the Department, which applies the Modified cash standards, a similar measurement criteria is required for contingent liabilities and provisions. With this in mind the Department has over 5 500 borrow pits (quarries) that are utilised for their materials in maintaining and rehabilitating the road network in the province and a similar rehabilitation liability needs to be recognised. The challenge for the Department is that the "best estimation" of the rehabilitation cost would require each borrow pit to be measured (surveyed) by an expert to determine the total land used and the rehabilitation cost at each reporting date. The Department only has 1 land surveyor on its payroll and it would therefore take an estimated 8 years to measure all the borrow pits. Should the Department make use of consultants to measure the liability, the timeframe will decrease but the cost related to the measurement could be in excess of R100 million. That is just for the calculation, this does not include the "reserve" that Department would need to build up in order to perform the rehabilitations.	Noted. GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets* requires that the amount to be recognised as a provision, should be the best estimate of the expenditure required to settle the present obligation at the reporting date. This estimate is determined by management's judgement, supplemented by experience of similar transactions, and may include reports from independent experts. The use of experts to estimate the provision is therefore not required by GRAP 19. Furthermore, the entity could consider alternative methods to estimate the amount to be recognised as a provision at each reporting period if these methods provide reliable information that meet the requirements in the Standards of GRAP.

No.	Comments	Board's response
	***Department of Police, Roads and Transport* (continued)**	
	The current situation is that the Department has been qualified on the measurement of its contingent liability in its audit report by the AGSA as the Department did it perform the "best estimate" calculation. There has been discussions to consider a "desk top" measurement using platforms like Google earth, however the standard still refers to the best estimate and therefore this poses a problem. A desk top measurement would be far more practical, cost effective and can be implemented and completed in a shorter space of time. The Department requires guidance from National Treasury with regard to the measurement of the rehabilitation cost of the borrow pits.	The comment was shared with the National Treasury for their consideration.

No.	Comments	Board's response
4.2	**David Hardidge**	
4.2.1	Discount rates are a complex and difficult area. The IASB research has seemed to have stalled over the last couple of years. Also, I am not sure if the IPSASB Measurement project, that is at least partially considering discount rates in the cost of fulfillment, will resolve the issues. I suggest that additional discussion be included that when adjusting the discount rate for risk, the discount rate will be reduced, and may become negative. A lower discount rate means a higher liability to take into account a high proportion of outcomes. Many preparers, and auditors, are not aware of this outcome, and it should be highlighted to them. Also, a reference to the what the quantum of risk that should be considered should be included. One example of a valuation of a rehabilitation liability I reviewed gave a range of outcomes 50% below to 50% above. What is a reasonable range?	Noted. The Board will monitor the work of other standard-setters on the development of guidance on discount rates. Noted. As the principles in the Guideline are based on the existing principles in the Standards of GRAP, the Board agreed that the guidance should not be that prescriptive as an entity needs to apply judgement. It is also unlikely in a high inflationary environment that discount rates will be negative. The Guideline also encourages an entity to adjust the cash flows rather than the discount rate in calculating the landfill rehabilitation provision.

No.	Comments	Board's response
	David Hardidge (continued)	
4.2.2	Other questions we get on discount rates are: • Do you use the same discount rate (e.g. 30 year rate) for discounting all cash flows, or do you match Year 1 cash flows with a one year rate, and Year 2 cash flows with a two year rate? Paragraph 4.33 is not clear. • How do you get a 30+ year discount rate when the government does not issue bonds for that long a period? • Can you use an average of rates over the last 3 years, or some other sort of historical average?	Noted. Chapter 4 explains that the discount rate applied to calculate the landfill rehabilitation provision should be consistent with the estimated cash flows required to settle the landfill rehabilitation provision. Chapter 4 has been amended to clarify that the period over which the landfill rehabilitation provision is discounted, is based on the timing of the cash flows required to settle the obligation.
4.2.3	**Corporate rate** Paragraph 4.42 refers to the possible use of the corporate bond rate as a suitable discount rate. In Australia, in respect of not-for-profit public sector entities (i.e. federal, state and local government entities), post-employment benefit obligations denominated in Australian currency shall be discounted using market yields on (Australian) government bonds.	Noted. Chapter 4 concluded that either a government bond rate of a corporate bond rate can be applied in the calculation of the landfill rehabilitation provision, as these rates are specifically associated with the risk of the liability to dismantle, remover, rehabilitate and/or restore the landfill site. An entity should, however, apply judgement to determine the most appropriate discount rate based on its specific facts and circumstances.

No.	**Comments**	**Board's response**
	David Hardidge (continued)	
4.2.4	**Consistency between inflation and discount rate** I suggest including some discussion in paragraph 4.14 and / or 4.34 as to whether it is appropriate to use the current prices approach, when there are expected to be different inflation rates applied to the different cost components. Examples of different inflation rates include: ▪ Wages growth for monitoring ▪ Above CPI or labour indexes for leachate disposal, as these have been increasing above CPI for some time, due to environmental considerations and additional charges being imposed.	Noted. As the comment relates to a practical application issue on the use of the current price approach, the comment was shared with the National Treasury for their consideration. Also refer to the response to comment 4.2.1.
4.2.5	**Illustrative discount rate** With current South African government bond yields (10 years) at approximately 9% (https://www.resbank.co.za/Research/Rates/Pages/CurrentMarketRates.aspx), I think the illustrative rate in the examples of 11.48% gives the wrong impression on how to adjust discount rates. Specifically, based on the discussion above, I would have expected an illustrative discount rate of less than 9%. I suggest including additional explanations of how the discount rate was arrived at, to cater for the future when interest rates may be different to current levels.	Noted. The purpose of the example is to illustrate the application of the principles in the Guideline. The Board concluded that an explanation of how the discount rate was obtained, is not required.

No.	Comments	Board's response
	David Hardidge (continued)	
4.2.6	**Revaluation – Example 3 (should be renumbered to 4)**	
	I suggest that Example 3 be renumbered Example 4, as there are two Example 1s (paragraph 3.42 and paragraph 4.48). I have retained the existing numbering.	Noted. The example has been renumbered as proposed.
	Example 3 appears to lack depreciation being recognised as an expense. In Australia, when we revalue infrastructure assets, such as roads, the accounting is normally along the lines of: Opening balance Less depreciation expense (based on a componentised approach – i.e. earthworks are not depreciated, and seal and pavement have different lives) Then recognise the revaluation adjustment (for example change in replacement cost inputs and changes in obsolescence) = closing balance	Noted. The example has been amended and clarified to explain the principles.
	I did not identify a depreciation expense being recognised, like for the cost model in Example 2 (should be numbered Example 3). It appears that the reduction in service potential over the year is taken direct to the revaluation reserve. Also, it appears that the calculation of the movement amount in Example 3 (should be numbered Example 4) of 67 048 should be the same as for Example 2 (should be numbered Example 3) of 670 482.	Noted. The depreciation amount has been amended.

No.	Comments	Board's response
	David Hardidge (continued)	
4.2.7	**Paragraph 4.12** I suggest that the paragraph be drafted to link to the requirements of IAS 37 paragraphs 48 to 50, as the current drafting appears to conflict with other pronouncements about legislation needing to be substantively enacted before the effect is recognised. I also suggest some guidance be included in relation to the extent of the rehabilitation. In some circumstances, I have seen argued that only the minimum (e.g. to an industrial usage standard) be recognised. In others, I have seen "best practice" adopted (that might be for residential usage). Also, do intentions for post rehabilitation use affect the provision? If the minimum required is for use as industrial land or as a park, but the intention is to develop the land for sale for residential properties affect the provision? It could be argued that any expenditure over the minimum is really part of the development of the land for subsequent use, not part of the rehabilitation provision.	Noted. The guidance in this paragraph is based on the principle in GRAP 19 with the objective to address the divergent practice in accounting for the provision. The Board agreed not to amend the guidance in this paragraph. The cash flows included in the landfill rehabilitation provision needs to be the best estimate required to settle the obligation to restore any environmental damage to the land, and/or dismantle or remove any items and/or rehabilitate and/or restore the site on which it is allocated. The end-use plan should also be considered in determining the extent of rehabilitation to be undertaken for the rehabilitation of the land.

No.	Comments	Board's response
	David Hardidge (continued)	
4.2.8	**Impairment – for-profit** The guideline should acknowledge some of the practical difficulties for-profit entities may have in determining future cash flows for a rehabilitated site that is planned to be redeveloped for the sale of the property. Trying to predict the future sale price for land, in over 30 years, that used to be landfill is very difficult.	Noted. The Guideline requires that the provision should be measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. Future events can only be considered if there is sufficient evidence that the future event will occur. Furthermore, the Guideline is not applicable to profit orientated entities. No further action is required.

No.	Comments	Board's response
	Other matters	
5.1	**David Hardidge**	
5.1.1	I support the Accounting Standards Board's initiative to provide guidelines on accounting for landfill sites. In the absence of guidance in Australia, I have found diverse approaches.	Noted. No further action required.
5.1.2	**Accounting for adjustments to the provision (the debit), and when PPE assets are adjusted** **Initial Disturbance** My understanding is that IAS 16 (GRAP 17) *Property, Plant and Equipment* includes in the cost of the PPE the costs of dismantling the asset. Further, that IFRIC 1 (IGRAP 2) *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires that changes in the liability (other than the finance charge) related to that initial disturbance are adjusted against the carrying value of the asset. Further, I understand that the initial recognition of a provision that does not relate to the initial recognition of an asset should be recognised in profit or loss, as well as subsequent adjustments.	Noted. The requirements in GRAP 17 and IGRAP 2 are similar to that in IAS 16 and IFRIC 1. Noted. No further action required.

No.	Comments	Board's response
	David Hardidge (continued)	
	Therefore, I would expect that there will be different accounting for the initial disturbance (e.g. the hole in the ground and the trench and cell structures and getting ready to accept waste), and from use (accepting waste). The guideline should explain the accounting for each of the two main drivers of the costs. In particular, the initial disturbance costs would be able to be capitalised under IAS 16, IFRIC 1 as part of the initial cost of the asset. However, additional costs from the acceptance of waste would not appear to be able to be capitalised into the cost of the asset, or changes in the provision adjusted against the cost of the asset. Instead they would be expensed as a cost against the revenue recognised from the acceptance of waste. IAS 37 Example 3 (the oilfield) (refer extract below) distinguishes between the two drivers. The guideline as drafted appears to allow the capitalisation of all future costs into the landfill site asset, irrespective of whether the costs arose from initial disturbance and commissioning, or through use.	Chapter 3 explains the accounting for the recognition, and measurement during, and after the development and construction of the landfill site asset are based on the principles in the applicable Standards of GRAP. This includes guidance on the elements of cost of the landfill site asset on initial recognition, i.e. (a) the purchase price of assets acquired; (b) any costs directly attributable to bringing the landfill site asset to the location and condition necessary to operate in the manner intended by management; and (c) the estimate of costs to dismantle, remove, rehabilitate and/or restore the site on which it is located. Chapter 3 also includes criteria that may be considered to decide whether costs incurred should be expensed or capitalised prior to the landfill site receiving waste. The Guideline also clarifies that costs incurred subsequent to the development and construction of the landfill site asset can only capitalised to the carrying amount of the landfill site asset if the recognition criteria are met. Where appropriate, examples have been included to explain the requirements in the Standards of GRAP. As a result, the Board concluded that no additional guidance is required in the Guideline.

No.	Comments	Board's response
	David Hardidge (continued)	
	For example, paragraph 4.24 appears to require the inclusion in the rehabilitation provision costs for topsoil & vegetating – these appear to be related to the costs of accepting waste, not the initial disturbance for the constructing of monitoring equipment. Also, in Example 1 (paragraph 4.48) the accounting appears to include all costs to restore the site, based on 15 years of operation, not just the costs to restore the site (before acceptance of waste) as at 1 February 20X1.	Noted. GRAP 19 requires that a provision should be measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. The paragraph explains that any costs required for the final rehabilitation and closure the landfill site, are cash flows that relate to the rehabilitation provision, which include costs for topsoil and vegetating. An estimate of these costs should therefore be included in the landfill rehabilitation provision. Noted. Chapter 4 has been amended to explain that rehabilitation costs to restore the environmental damage to the land is part of the landfill rehabilitation provision.

No.	Comments	Board's response
	David Hardidge (continued)	
	Also paragraphs 4.41 and 4.44 appear to be inconsistent. Paragraph 4.44 appears to refer to all adjustments being against the carrying value of the landfill site asset, while paragraph 4.41 requires the derecognition of the provision to be recognised in net profit.	Noted. The Board concluded that these paragraphs are not inconsistent as paragraph 4.41 explains the accounting when the landfill rehabilitation provision is no longer needed. The paragraph further explains that the provision is derecognised when (a) the landfill site stops receiving waste or (b) when the assets required for rehabilitation are constructed or developed. Paragraphs 4.45 and 4,46 explain the application of the principles in IGRAP 2 and how adjustments to the provision should be accounted for while landfill site is still in operation. As a result, the Board concluded that no changes are required to these paragraphs.
	Extract from AASB 137 (equivalent to IAS 37) **Example 3 Offshore Oilfield** An entity operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety per cent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and 10 per cent arise through the extraction of oil. At the end of the reporting period, the rig has been constructed but no oil has been extracted. **Present obligation as a result of a past obligating event** – The construction of the oil rig creates a legal obligation under the terms of the licence to remove the rig and restore the seabed and is thus an obligating event. At the end of the reporting period, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. **An outflow of resources embodying economic benefits in settlement** – Probable. **Conclusion** – A provision is recognised for the best estimate of 90 per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it (see paragraph 14). These costs are included as part of the cost of the oil rig. The 10 per cent of costs that arise through the extraction of oil are recognised as a liability when the oil is extracted.	Noted.

No.	Comments	Board's response
	David Hardidge (continued)	
5.1.3	**Different ways of acquiring landfill** Landfill land and landfill sites can be acquired and/or developed in a variety of ways. These include: • Acquiring land and using the trench-and-fill method, where a hole is dug and backfilled with waste using the excavated material as cover • Acquiring land and building a mound (of waste and capping) on top. • Acquiring land which has a valley or other natural depression that is filled by the waste • Acquiring land that was formerly used as a mine or quarry, that will often have an existing associated remediation liability • Acquiring an existing landfill site, that is currently used as a landfill, that has an existing associated remediation liability. Does the accounting for the movements in the remediation provision outlined above, change depending on how the site was acquired? For example, would movements in the remediation liability for an acquired existing landfill site be adjusted against the acquisition cost – if those movements related to the waste already accepted prior to acquisition date? Also, would the movements in (say) the capping costs of an acquired mine or quarry be adjusted against the acquisition cost, as the liability for revegetation would have been acquired at acquisition date?	Noted. No. The principles in Chapter 4 on the accounting for the landfill rehabilitation provision, and changes in the estimate of the provision, apply irrespective how the landfill site asset was acquired, constructed for developed. As an entity needs to apply judgement in assessing which costs are part of the landfill site assets, the Board concluded that more specific guidance should not be included in the Guideline.

No.	Comments	Board's response
	David Hardidge (continued)	
	A related issue for the landfill land that was formerly used as a mine or quarry is that as the site accepts waste (and fills up), the obligation to restore the land may decline – as there is no need to fill up that portion of the land. Are the reductions in the provision relating to the pre-acquisition remediation liability recognised as an adjustment to the cost of the asset?	Noted. Chapter 4 already includes guidance in accounting for changes to the landfill rehabilitation provision during the operation of the landfill site asset. The guidance is based on the principles in IGRAP 2. The Board agreed that no further clarification is required.
	Do the above responses apply in the same way if the landfill land or landfill site was acquired as part of a business combination (noting the recent changes in the definition to business made by the IASB). In particular, are adjustments relating to the initial recognition of a remediation liability for an acquired landfill land or landfill site apply the same as for when the site is acquired through a business combination – are subsequent adjustments made against the carrying value of the asset?	Yes. Chapters 2 to 4 explain that the land, the landfill site asset and/or the landfill rehabilitation provision may be acquired through a transfer of functions, in which case reference should be made to applicable Standard of GRAP to account for the transfer of functions. Subsequent to the recognition of the land, the landfill site and/or the landfill rehabilitation provision in the transfer of functions, the principles in the Guideline should be applied. Also refer to the response to comment 3.1.1.

No.	Comments	Board's response
	David Hardidge (continued)	
5.1.4	**Transfer of functions** Paragraph 3.13 refers to accounting for transfer of functions, and refers to GRAP 105, GRAP 106 and GRAP 107. I am not familiar with those standards, so it was not clear to me whether subsequent adjustments to the rehabilitation provision are adjusted against the carrying value of the asset. In Australia, transfers of operations may be considered a transfer of assets and liabilities, or as a Machinery of Government (MOG) change. MOG changes are essentially accounted for as business combinations under common control. Similar to issues raised above, with assets acquired with existing remediation liabilities, are adjustments post-transfer recognised against the cost of the asset?	Refer to the response to comment 5.1.3.

No.	Comments	Board's response
	David Hardidge (continued)	
5.1.5	**Accounting for the airspace for the hole in the ground** Part of the value of land acquired for the landfill site (i.e. those with big holes in them) have additional value because they have airspace that can be used to accept waste. Should part of the acquired land value that represents the airspace (to be filled) be componentised under IAS 16 and depreciated as the airspace is filled? Under IAS 16, a component does not need to be physically separate. If the airspace component is not depreciated, then the reduction of the land value may be recognised: • by an impairment charge (if the cost basis is used) • by a reduction in the asset revaluation reserve as the current replacement cost is reduced (it will cost less to replace the airspace capacity as the remaining capacity is reduced).	Noted. Where an entity applies the revaluation model to measure the land in a landfill site, the assessment of available airspace may be considered as part of the valuation. In addition, the landfill site asset's useful life should be assessed at each reporting date by considering, among others, the available airspace. The Board agreed that no specific guidance on considering the airspace should be included in the Guideline. Also refer to the response to comment 1.1.1.
5.1.6	**Methane revenue** The guideline should clarify when revenue from sale of by-products (e.g. methane) should be recognised. Should estimates be included as a reduction in future remediation costs, or only recognised when earned (i.e. when delivered)? How should methane etc. sales be included in impairment calculations?	Noted. Chapter 5 has been expanded to explain that, where the entity generates revenue from undertaking revenue generating activities at the landfill site, the principles in GRAP 9 and GRAP 23 are applied in accounting for the revenue generated.

No.	Comments	Board's response
	David Hardidge (continued)	
5.1.7	**Infrequent events and contingencies** The guideline should include consideration of risks for infrequent or contingent events. For example, erosion or damage from extreme weather events, from fire, from the failure or breakdown of leachate or LFG management systems.	Noted. The principles in GRAP 19 should be applied to the fact pattern to assess whether a liability should be recognised, or a contingent liability should be disclosed in its financial statements
5.1.8	**Encroachment of development** Encroachment of development appears to be common situation, as residential property development grows closer and closer to what were distant landfill sites. The guideline should discuss whether increasing standards required by gradual encroachment should be included when considering the standard of rehabilitation.	Noted. The objective of a Guideline is to explain the existing principles in the Standards of GRAP. As this consideration is not an accounting principle addressed in the Standards of GRAP, specific guidance cannot be included in the Guideline. The Board is of the view that guidance on increasing standards that are required by gradual encroachment in considering the standard of rehabilitation, is more a legislative requirement that impacts the management and operation of the landfill site. The Board therefore concluded that this guidance should not be included in the Guideline.

No.	Comments	Board's response
	David Hardidge (continued)	
5.19	**Editorial amendments** • Whether landfill assets should be a stand-alone class or not. I suggest the guideline includes some consider points on this issue. • I suggest using the term landfill land, rather than land in the landfill. • Standards of GRAP – there are some references to Standard of GRAP (singular) instead of Standards of GRAP. • Paragraph 3.5 as drafted appears to allow an accounting policy choice as to whether expensed or capitalised. Suggest deleting last sentence.	Noted. This is a practical application matter that cannot be addressed in the Guideline. The term "land in the landfill" has been replace with "land". Other amendments have been made, where appropriate. Noted. As guidance is provided in the paragraphs that follow in considering whether costs incurred should be expensed or capitalised, the Board agreed not to amend the existing guidance.

No.	Comments	Board's response
	David Hardidge (continued)	
	• Paragraph 3.54 The guideline states "The entity can only derecognise a part of the landfill site asset if it was recognised as a separate part of the landfill site asset". I believe that IAS 16 paragraph 70 requires pro-rata de-recognition, even if the part was not separately recognised.	Noted. Paragraph 3.51 has been amended to explain that an entity can derecognise a part of the landfill site asset regardless of whether the replaced part has been identified as a separate part.
	• Paragraph 4.15 – Suggest that the exclusion of end-use costs from the provision be reinforced.	As the detail of these bullets are explained in the sections that follow, no amendment is proposed.
	• Paragraph 4.26 has a typo and. It is also required	The sentence has been amended.
	• Paragraph 4.48 onwards – Examples 1, 2 and 3. Suggest these be moved to an Appendix, as they distract from the flow of the other paragraphs. Also, Example 1 is really Eexample 2, as there is already an Example 1 at paragraph 3.42	The numbers of the examples were amended.
	• Benchmarking data for rehabilitation costs QAO are considering (as auditors) whether there is an opportunity to benchmark rehabilitation cost data across the 77 local councils that we audit.	No further action required.