ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

(IGRAP 4)

Issued by the
Accounting Standards Board

February 2010

Acknowledgement

This Interpretation of the Standards of Generally Recognised Accounting Practice (IGRAP) is drawn primarily from the equivalent IFRIC Interpretation on *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (IFRIC 5) published by the IFRS® Interpretations Committee of the International Accounting Standards Board (IASB) in December 2004. The IASB has issued a comprehensive body of IFRS® Accounting Standards and IFRIC® Interpretations. Extracts of IFRIC 5 are reproduced in this Interpretation of the Standards of GRAP with the permission of the IASB.

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Introduction

This pronouncement is set out in paragraphs .01 to .16. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

IGRAP 4

Interpretation of the Standards of GRAP on *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

References

- GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*
- GRAP 6 *Consolidated and Separate Financial Statements*
- GRAP 7 *Investments in Associates*
- GRAP 8 *Interests in Joint Ventures*
- GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*
- GRAP 104 *Financial Instruments*
- IGRAP 11 *Consolidation – Special Purpose Entities*

Background

.01 The purpose of decommissioning, restoration and environmental rehabilitation funds, hereafter referred to as ”decommissioning funds” or ”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 motor vehicles), or in undertaking environmental rehabilitation (such as rectifying pollution of water), together referred to as ”decommissioning”.

.02 Contributions to these funds may be voluntary or required by regulation or law. The funds may have one of the following structures:

(a) Funds that are established by a single contributor to fund its own decommissioning obligations, whether for a particular site, or for a number of geographically dispersed sites.

(b) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations, when contributors are entitled to reimbursement for decommissioning expenses to the extent of their contributions plus any actual earnings on those contributions less their share of the costs of administering the fund. Contributors may have an obligation to make additional contributions, for example, in the event of the liquidation of another contributor.

(c) Funds that are established with multiple contributors to fund their individual or joint decommissioning obligations when the required level of contributions is based on the current activity of a contributor and the benefit obtained by that contributor is based on its past activity. In such cases there is a potential mismatch in the amount of contributions made by a contributor (based on current activity) and the value realisable from the fund (based on past activity).

.03 Such funds generally have the following features:

(a) The fund is separately administered by independent trustees.

(b) Entities (contributors) make contributions to the fund, which are invested in a range of assets that may include both debt and equity investments, and are available to help pay the contributors' decommissioning costs. The trustees determine how contributions are invested, within the constraints set by the fund's governing documents and any applicable legislation or other regulations.

(c) The contributors retain the obligation to pay decommissioning costs. However, contributors are able to obtain reimbursement of decommissioning costs from the fund up to the lower of the decommissioning costs incurred and the contributor's share of assets of the fund.

(d) The contributors may have restricted access or no access to any surplus of assets of the fund over those used to meet eligible decommissioning costs.

Scope

.04 This Interpretation applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

(a) the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and

(b) a contributor's right to access the assets is restricted.

.05 A residual interest in a fund that extends beyond a right to reimbursement, such as a right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of the Standard of GRAP on *Financial Instruments* and is not within the scope of this Interpretation.

Issues

.06 The issues addressed in this Interpretation are:

(a) How should a contributor account for its interest in a fund?

(b) When a contributor has an obligation to make additional contributions, for example, in the event of the liquidation of another contributor, how should that obligation be accounted for?

Consensus

Accounting for an interest in a fund

.07 The contributor shall recognise its obligation to pay decommissioning costs as liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.

.08 The contributor shall determine whether it has control, joint control or significant influence over the fund by reference to the Standards of GRAP on *Consolidated and Separate Financial* Statements, *Investments in Associates,* and the Interpretation of the Standards of GRAP on *Consolidation – Special Purpose Entities*. If it does, the contributor shall account for its interest in the fund in accordance with those Standards of GRAP and Interpretation of the Standards of GRAP.

.09 If a contributor does not have control, joint control or significance influence over the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19). This reimbursement shall be measured at the lower of:

(a) the amount of the decommissioning obligation recognised; and

(b) 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 shall be recognised in surplus or deficit in the period in which these changes occur.

Accounting for obligations to make additional contributions

.10 When a contributor has an obligation to make potential additional contributions, for example, in the event of the liquidation 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 GRAP 19. The contributor shall recognise a liability only if it is probable that additional contributions will be made.

Disclosure

.11 A contributor shall disclose the nature of its interest in a fund and any restrictions on access to the assets in the fund.

.12 When a contributor has an obligation to make potential additional contributions that is not recognised as a liability (see paragraph .10), it shall make the disclosures required by paragraph .101 of GRAP 19.

.13 When a contributor accounts for its interest in the fund in accordance with paragraph .09, it shall make the disclosures required by paragraph .101(c) of GRAP 19.

Transitional provisions

.14 ***All changes resulting from the application of this Interpretation shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.***

Effective date

Initial adoption of the Standards of GRAP

.15 ***This Interpretation becomes effective with reference to the effective date of the applicable Standards of GRAP as determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

Entities already applying Standards of GRAP

.16 ***An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2011.***

Comparison with the IFRIC Interpretation on *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (December 2004)

This Interpretation is drawn primarily from the IFRIC Interpretation on *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (IFRIC 5). The main difference between this Interpretation and IFRIC 5 is as follows:

- This Interpretation uses different terminology, in certain instances, from IFRIC 5. The most significant examples are the use of the term “surplus or deficit”. The equivalent term in IFRIC 5 is “profit or loss”.