



IGRAP 4

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)

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Acknowledgement

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

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

Introduction

Interpretations of the Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial);
- (b) public entities;
- (c) constitutional institutions;
- (d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (e) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), codified by the Accounting Practices Board (APB) and issued by the South African Institute of Chartered Accountants (SAICA) to be GRAP for:

- (a) government business enterprises (GBEs)(as defined in the PFMA);
- (b) trading entities (as defined in the PFMA);
- (c) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly traded on the capital markets; and
- (d) entities under the ownership control of any of these entities.

The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities including those under their ownership control.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.



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Any limitation of the applicability of specific Standards or Interpretations of the Standards of GRAP is made clear in those Standards or Interpretations of the Standards of GRAP.

The Interpretation of the Standard of GRAP on *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* is set out in paragraphs .01 to .16. All paragraphs in this Interpretation of the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Interpretation of the Standards of GRAP should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of 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 of GRAP, published in the Government Gazette.

Reference may be made to a Standard of GRAP that has not been issued at the time of issue of this Interpretation of the Standards of GRAP. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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* (as revised in 2010)
- 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* (as revised in 2010)
- 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 of the Standards of GRAP 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 of the Standards of GRAP.

Issues

- .06 The issues addressed in this Interpretation of the Standards of GRAP 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, Interests in Joint Ventures* and IGRAP 11 *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* (as revised in 2010). 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 the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (as revised in 2010). 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 .95 of the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (as revised in 2010).
- .13 When a contributor accounts for its interest in the fund in accordance with paragraph .09, it shall make the disclosures required by paragraph .94(c) of the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (as revised in 2010).

Transitional provisions

- .14 *All changes resulting from the application of this Interpretation of the Standards of GRAP shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).***

Effective date

Initial adoption of the Standards of GRAP

- .15 *This Interpretation of the Standards of GRAP 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 of the Standards of GRAP for annual financial statements covering periods beginning on or after 1 April 2011.***



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Comparison with the Interpretation of IFRS on *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (IFRIC 5) (December 2004)

This Interpretation of the Standards of GRAP on *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (IGRAP 4) is drawn primarily from the Interpretation of IFRS on *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (IFRIC 5). The main differences between this Interpretation and IFRIC 5 are 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”.