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(Acts whose publication is obligatory)

COMMISSION REGULATION (EC) No 2237/2004

of 29 December 2004

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards IAS No 32 and IFRIC 1

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards [1], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1725/2003 [2] certain international standards and interpretations that were extant at 1 September were adopted.

(2) On 17 December 2003 the International Accounting Standard Board (IASB) published revised International Accounting Standard (IAS) 32 *Financial instruments: disclosure and presentation* as part of the IASB's initiative to improve 15 standards in time for them to be used by companies adopting IAS for the first time in 2005. In revising IAS 32, the IASB did not reconsider the fundamental approaches contained in it. IAS 32 establishes basic principles for the classification of instruments as liabilities or equity. In determining whether the instruments should be classified as liabilities or equity, the entity must consider all of the terms and conditions of the respective contract.

(3) Following bilateral discussions with representatives of the cooperative world and due to a request by the Commission, the IASB invited its International Financial Reporting Interpretation Committee (IFRIC), to develop an interpretation to facilitate the application of the revised IAS 32. A final interpretation, IFRIC 2 *Members' shares in cooperative entities and similar instrument* was published in final form on 25 November 2004. The effective date of application of this interpretation is the same as that for IAS 32. IFRIC 2 will be considered for endorsement by the European Commission as soon as possible in 2005.

(4) On 27 May 2004, the IASB released IFRIC Interpretation 1 *Changes in existing decommissioning, restoration and similar liabilities*. The Interpretation addresses the way to account for changes in existing decommissioning, restoration and similar liabilities that fall within the scope of IAS 16 *Property, plant and equipment* and are recognised as a provision under IAS 37 *Provisions, contingent liabilities and contingent assets*.

(5) The consultation with technical experts in the field confirms that the revised IAS 32 *Financial instruments: disclosure and presentation* and IFRIC Interpretation 1 *Changes in existing decommissioning, restoration and similar liabilities* meet the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002 and in particular the requirement of being conducive to the European public good.

(6) Regulation (EC) No 1725/2003 should therefore be amended accordingly.

(7) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

Annex to regulation (EC) No 1725/2003 is amended as follows:

(1) the text of International Accounting Standard (IAS) 32 *Financial instruments: disclosure and presentation* set out in the Annex to this Regulation, is inserted.

(1) OJ L 243, 11.9.2002, p. 1

(2) OJ L 261, 13.10.2003, p. 1. Regulation as last amended by Regulation (EC) No 2236/2004 (OJ L 392, 31.12.2004, p. 1).

(2) the text of the Interpretation IFRIC 1 *Changes in existing decommissioning, restoration and similar liabilities* set out in the Annex to this Regulation, is inserted.

Article 2

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

It shall apply from 1 January 2005 at the latest.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 29 December 2004.

For the Commission
Charlie McCREEVY
Member of the Commission

ANNEX

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 32	*Financial instruments: disclosure and presentation*
IFRIC 1	*Changes in existing decommissioning, restoration and similar liabilities*

IFRIC INTERPRETATION 1

Changes in Existing Decommissioning, Restoration and Similar Liabilities

REFERENCES

IAS 1	*Presentation of Financial Statements* (as revised in 2003)
IAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*
IAS 16	*Property, Plant and Equipment* (as revised in 2003)
IAS 23	*Borrowing Costs*
IAS 36	*Impairment of Assets*(as revised in 2004)
IAS 37	*Provisions, Contingent Liabilities and Contingent Assets*

BACKGROUND

1. Many entities have obligations to dismantle, remove and restore items of property, plant and equipment. In this Interpretation such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under IAS 16, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IAS 37 contains requirements on how to measure decommissioning, restoration and similar liabilities. This Interpretation provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

SCOPE

2. This Interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

   (a) recognised as part of the cost of an item of property, plant and equipment in accordance with IAS 16;

   and

   (b) recognised as a liability in accordance with IAS 37.

   For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

ISSUE

3. This Interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

   (a) a change in the estimated outflow of resources embodying economic benefits (eg cash flows) required to settle the obligation;

(b) a change in the current market-based discount rate as defined in paragraph 47 of IAS 37 (this includes changes in the time value of money and the risks specific to the liability);

and

(c) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

CONSENSUS

4. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs 5-7 below.

5. If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

(c) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with IAS 36.

6. If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:

(i) a decrease in the liability shall (subject to (b)) be credited directly to revaluation surplus in equity, except that it shall be recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss;

(ii) an increase in the liability shall be recognised in profit or loss, except that it shall be debited directly to revaluation surplus in equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in profit or loss.

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any such revaluation shall be taken into account in determining the amounts to be taken to profit or loss and equity under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) IAS 1 requires disclosure on the face of the statement of changes in equity of each item of income or expense that is recognised directly in equity. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

IFRIC 1

7. The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognised in profit or loss as they occur. This applies under both the cost model and the revaluation model.

8. The periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. The allowed alternative treatment of capitalisation under IAS 23 is not permitted.

EFFECTIVE DATE

9. An entity shall apply this Interpretation for annual periods beginning on or after 1 September 2004. Earlier application is encouraged. If an entity applies the Interpretation for a period beginning before 1 September 2004, it shall disclose that fact.

TRANSITION

10. Changes in accounting policies shall be accounted for according to the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. (*)

(*) If an entity applies this Interpretation for a period beginning before 1 January 2005, the entity shall follow the requirements of the previous version of IAS 8, which was entitled *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*, unless the entity is applying the revised version of that Standard for that earlier period.

APPENDIX

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

The amendments in this appendix shall be applied for annual periods beginning on or after 1 September 2004. If an entity applies this Interpretation for an earlier period, these amendments shall be applied for that earlier period.

A1 IFRS 1 *First-time Adoption of International Financial Reporting Standards* and its accompanying documents are amended as described below.

In paragraph 12 of the IFRS, the reference to paragraphs 13-25D is changed to 13-25E.

Subparagraphs 13(h) and (i) of the IFRS are amended, and subparagraph (j) is inserted, to read as follows:

(h) share-based payment transactions (paragraphs 25B and 25C);

(i) insurance contracts (paragraph 25D);

and

(j) decommissioning liabilities included in the cost of property, plant and equipment (paragraph 25E).

In the IFRS, a new heading and paragraph 25E are inserted, as follows:

Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment

25E IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs. If a first-time adopter uses this exemption, it shall:

(a) measure the liability as at the date of transition to IFRSs in accordance with IAS 37;

(b) to the extent that the liability is within the scope of IFRIC 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period;

and

(c) calculate the accumulated depreciation on that amount, as at the date of transition to IFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under IFRSs.