COMMISSION REGULATION (EC) No 1910/2005

of 8 November 2005

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 International Financial Reporting Standard 1 and 6, IASs 1, 16, 19, 24, 38, and 39, International Financial Reporting Interpretations Committee's Interpretations 4 and 5

(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 14 September 2002 were adopted, including International Accounting Standard (IAS) 19 *Employee benefits*.

(2) On 9 December 2004, the International Accounting Standards Board (IASB) published *International Financial Reporting Standard (IFRS) 6 Exploration for and evaluation of mineral resources*, hereinafter 'IFRS 6', as an interim solution to enable entities within this sector to comply with IFRSs without the need for major changes to accounting practice. IFRS 6 permits entities that incur exploration and evaluation expenditure exemptions from some of the requirements of other IFRSs. In specified circumstances, such entities are allowed to continue with their existing accounting treatment for exploration and evaluation expenditure. IFRS 6 includes further guidance on the impairment indicators for exploration and evaluation assets and the impairment testing of such assets.

(3) On 16 December 2004 the IASB issued an amendment to IAS 19 *Employee benefits*. It introduces a further option regarding the recognition of actuarial gains and losses for defined benefit pension plans. It now allows actuarial gains and losses to be recognised, in full, in a statement of recognised income and expense outside the income statement, that is, actuarial gains and losses can be recognised directly in equity. The amendment also specifies how group entities should account for defined benefit group plans in their separate financial statements and requires additional disclosures.

(4) On 2 December 2004 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC Interpretation 4 *Determining whether an arrangement contains a lease*, hereinafter 'IFRIC 4'. IFRIC 4 sets out criteria for determining whether an arrangement is, or contains, a lease, for example some take-or-pay contracts. IFRIC 4 clarifies under which circumstances these arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 *Leases*.

(5) On 16 December 2004 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC Interpretation 5 *Rights to interests arising from decommissioning, restoration and environmental funds*, hereinafter 'IFRIC 5'. IFRIC 5 sets out how a contributor should account for its interest in a fund and how a contributor should account for additional contributions.

(6) The consultation with technical experts in the field confirm that IFRS 6, IAS 19, and IFRIC 4 and 5 meet the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(7) The adoption of IFRS 6, IAS 19, IFRIC 4 and 5 implies, by way of consequence, amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IAS 1 *Presentation of Financial Statements*, IAS 16 *Property, Plant and Equipment*, IAS 24 *Related Party Disclosures*, IAS 38 *Intangible Assets* and IAS 39 *Financial Instruments: Recognition and Measurement* in order to ensure consistency between international accounting standards.

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

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

[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 1751/2005 (OJ L 282, 25.10.2005, p. 3).

HAS ADOPTED THIS REGULATION:

Article 1

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

1. International Financial Reporting Standard (IFRS) 6 *Exploration for and evaluation of mineral resources* is inserted as set out in the Annex to this Regulation;

2. IAS 19 *Employee benefits* is amended in accordance with Amendment to IAS as set out in the Annex to this Regulation;

3. International Financial Reporting Interpretations Committee's Interpretation (IFRIC Interpretation) 4 *Determining whether an arrangement contains a lease* is inserted as set out in the Annex to this Regulation;

4. IFRIC Interpretation 5 *Rights to interests arising from decommissioning, restoration and environmental funds* is inserted as set out in the Annex to this Regulation;

5. International Financial Reporting Standard (IFRS) 1, IAS 16 and IAS 38 are amended in accordance with Appendix B of IFRS 6 as set out in the Annex to this Regulation;

6. IFRS 1, IAS 1 and IAS 24 are amended in accordance with Appendix F of Amendment to IAS 19 as set out in the Annex to this Regulation;

7. IFRS 1 is amended in accordance with the Appendix of IFRIC 4 as set out in the Annex to this Regulation;

8. IAS 39 is amended in accordance with the Appendix of IFRIC 5 as set out in the Annex to this Regulation.

Article 2

Each company shall apply the standards and interpretations set out in the Annex as from the commencement date of its 2006 financial year, at the latest.

Article 3

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

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

Done at Brussels, 8 November 2005.

For the Commission

Charlie McCREEVY

Member of the Commission

ANNEX

INTERNATIONAL FINANCIAL REPORTING STATNDARDS

IFRS 6	International Financial Reporting Standard (IFRS) 6 *Exploration for and evaluation of mineral resources*
IAS 19	Amendment to IAS 19 *Employee benefits*
IFRIC 4	IFRIC Interpretation 4 *Determining whether an arrangement contains a lease*
IFRIC 5	IFRIC Interpretation 5 *Rights to interests arising from decommissioning, restoration and environmental funds*

INTERNATIONAL FINANCIAL REPORTING STANDARD 6

Exploration for and evaluation of mineral resources

OBJECTIVE

1. The objective of this IFRS is to specify the financial reporting for the *exploration for and evaluation of mineral resources*.

2. In particular, the IFRS requires:

   (a) limited improvements to existing accounting practices for *exploration and evaluation expenditures*.

   (b) entities that recognise *exploration and evaluation* assets to assess such assets for impairment in accordance with this IFRS and measure any impairment in accordance with IAS 36 *Impairment of Assets*.

   (c) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

SCOPE

3. An entity shall apply the IFRS to exploration and evaluation expenditures that it incurs.

4. The IFRS does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

5. An entity shall not apply the IFRS to expenditures incurred:

   (a) before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

   (b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

RECOGNITION OF EXPLORATION AND EVALUATION ASSETS

Temporary exemption from IAS 8 paragraphs 11 and 12

6. When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

7. Paragraphs 11 and 12 of IAS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no IFRS applies specifically to that item. Subject to paragraphs 9 and 10 below, this IFRS exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS

Measurement at recognition

8. Exploration and evaluation assets shall be measured at cost.

Elements of cost of exploration and evaluation assets

9. An entity shall determine a policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

   (a) acquisition of rights to explore;

   (b) topographical, geological, geochemical and geophysical studies;

   (c) exploratory drilling;

   (d) trenching;

   (e) sampling; and

   (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

10. Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Framework* and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development.

11. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

Measurement after recognition

12. After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in IAS 16 *Property, Plant and Equipment* or the model in IAS 38) it shall be consistent with the classification of the assets (see paragraph 15).

Changes in accounting policies

13. **An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in IAS 8.**

14. To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in IAS 8, but the change need not achieve full compliance with those criteria.

PRESENTATION

Classification of exploration and evaluation assets

15. An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

16. Some exploration and evaluation assets are treated as intangible (e.g. drilling rights), whereas others are tangible (e.g. vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification of exploration and evaluation assets

17. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

IMPAIRMENT

Recognition and measurement

18. **Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with IAS 36, except as provided by paragraph 21 below.**

19. For the purposes of exploration and evaluation assets only, paragraph 20 of this IFRS shall be applied rather than paragraphs 8 to 17 of IAS 36 when identifying an exploration and evaluation asset that may be impaired. Paragraph 20 uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit.

20. One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

(a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

(d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test in accordance with IAS 36. Any impairment loss is recognised as an expense in accordance with IAS 36.

Specifying the level at which exploration and evaluation assets are assessed for impairment

21. **An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than a segment based on either the entity's primary or secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.**

22. The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

DISCLOSURE

23. **An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.**

24. To comply with paragraph 23, an entity shall disclose:

(a) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets;

(b) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

25. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how the assets are classified.

EFFECTIVE DATE

26. **An entity shall apply this IFRS for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies the IFRS for a period beginning before 1 January 2006, it shall disclose that fact.**

TRANSITIONAL PROVISIONS

27. If it is impracticable to apply a particular requirement of paragraph 18 to comparative information that relates to annual periods beginning before 1 January 2006, an entity shall disclose that fact. IAS 8 explains the term 'impracticable'.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

exploration and evaluation assets	**Exploration and evaluation expenditures** recognised as assets in accordance with the entity's accounting policy.
exploration and evaluation expenditures	Expenditures incurred by an entity in connection with the **exploration for and evaluation of mineral resources** before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
exploration for and evaluation of mineral resources	The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Appendix B

Amendments to other IFRSs

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies this IFRS for an earlier period, these amendments shall be applied for that earlier period.

B1. In IFRS 1 *First-time Adoption of International Financial Reporting Standards*, a heading and paragraph 36B are added as follows:

Exemption from the requirement to provide comparative disclosures for IFRS 6

36B An entity that adopts IFRSs before 1 January 2006 and chooses to adopt IFRS 6 *Exploration for and Evaluation of Mineral Resources* before 1 January 2006 need not present the disclosures required by IFRS 6 for comparative periods in its first IFRS financial statements.

B2. In IAS 16 *Property, Plant and Equipment* (as revised in 2003 and amended by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*), paragraph 3 is amended to read as follows:

3. This Standard does not apply to:

(a) property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(b) biological assets related to agricultural activity (see IAS 41 *Agriculture*);

(c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*); or

(d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b) to (d).

B3. In IAS 38 *Intangible Assets* (as revised in 2004), paragraph 2 is amended to read as follows:

2. ***This Standard shall be applied in accounting for intangible assets, except:***

(a) intangible assets that are within the scope of another Standard;

(b) financial assets, as defined in IAS 39 Financial Instruments: Recognition and Measurement;

(c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 Exploration for and Evaluation of Mineral Resources); and

(d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Amendment to IAS 19 *Employee benefits*

Multi-employer plans

Paragraph 32A and the illustrative example are added and paragraph 35 is moved and renumbered 32B, as follows.

32A. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 30 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

Example illustrating paragraph 32A

An entity participates in a multi-employer defined benefit plan that does not prepare plan valuations on an IAS 19 basis. It therefore accounts for the plan as if it were a defined contribution plan. A non-IAS 19 funding valuation shows a deficit of 100 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. The entity's total contributions under the contract are 8 million.

The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

32B. IAS 37 *Provisions, contingent liabilities and contingent assets* requires an entity to recognise, or disclose information about, certain contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

(a) actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or

(b) any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

35. [Deleted]

Defined benefit plans that share risks between various entities under common control

Paragraph 34 is amended and paragraphs 34A and 34B are added, as follows.

34. Defined benefit plans that share risks between various entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.

34A. An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with IAS 19 on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual group entities, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

34B. Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) the policy for determining the contribution to be paid by the entity.

(c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole in accordance with paragraphs 120-121.

(d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required in accordance with paragraphs 120A(b) to (e), (j), (n), (o), (q) and 121. The other disclosures required by paragraph 120A do not apply.

Recognition of the components of the defined benefit cost in profit or loss

The heading above paragraph 61 is amended and paragraph 61 is amended as follows.

Profit or loss

61. ***An entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:***

(a) current service cost (see paragraphs 63 to 91);

(b) interest cost (see paragraph 82);

(c) the expected return on any plan assets (see paragraphs 105 to 107) and on any reimbursement rights (see paragraph 104A);

(d) actuarial gains and losses, as required in accordance with the entity's accounting policy (see paragraphs 92 to 93D);

(e) past service cost (see paragraph 96);

(f) the effect of any curtailments or settlements (see paragraphs 109 and 110); and

(g) the effect of the limit in paragraph 58(b), unless it is recognised outside profit or loss in accordance with paragraph 93C.

Actuarial gains and losses

Paragraphs 92, 93 and 95 are amended and paragraph 93A to D are added, as follows.

92. ***In measuring its defined benefit liability in accordance with paragraph 54, an entity shall, subject to paragraph 58A, recognise a portion (as specified in paragraph 93) of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:***

(a) 10 % of the present value of the defined benefit obligation at that date (before deducting plan assets); and

(b) 10 % of the fair value of any plan assets at that date.

These limits shall be calculated and applied separately for each defined benefit plan.

93. The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined in accordance with paragraph 92, divided by the expected average remaining working lives of the employees participating in that plan. However, an entity may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. An entity may apply such systematic methods to actuarial gains and losses even if they are within the limits specified in paragraph 92.

93A. If, as permitted by paragraph 93, an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them outside profit or loss, in accordance with paragraphs 93B-93D, providing it does so for:

(a) all of its defined benefit plans; and

(b) all of its actuarial gains and losses.

93B. Actuarial gains and losses recognised outside profit or loss as permitted by paragraph 93A shall be presented in a statement of changes in equity titled 'statement of recognised income and expense' that comprises only the items specified in paragraph 96 of IAS 1 (as revised in 2003). The entity shall not present the actuarial gains and losses in a statement of changes in equity in the columnar format referred to in paragraph 101 of IAS 1 or any other format that includes the items specified in paragraph 97 of IAS 1.

93C. An entity that recognises actuarial gains and losses in accordance with paragraph 93A shall also recognise any adjustments arising from the limit in paragraph 58(b) outside profit or loss in the statement of recognised income and expense.

93D. Actuarial gains and losses and adjustments arising from the limit in paragraph 58(b) that have been recognised directly in the statement of recognised income and expense shall be recognised immediately in retained earnings. They shall not be recognised in profit or loss in a subsequent period.

95. In the long term, actuarial gains and losses may offset one another. Therefore, estimates of post-employment benefit obligations may be viewed as a range (or corridor) around the best estimate. An entity is permitted, but not required, to recognise actuarial gains and losses that fall within that range. …

Disclosure

A new paragraph 120 is inserted, and paragraph 120 is renumbered 120A and, with paragraph 121, amended as follows.

120. An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

120A. An entity shall disclose the following information about defined benefit plans:

(a) the entity's accounting policy for recognising actuarial gains and losses;

(b) a general description of the type of plan;

(c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:

(i) current service cost,

(ii) interest cost,

(iii) contributions by plan participants,

(iv) actuarial gains and losses,

(v) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,

(vi) benefits paid,

(vii) past service cost,

(viii) business combinations,

(ix) curtailments and

(x) settlements.

(d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded;

(e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each of the following:

(i) expected return on plan assets,

(ii) actuarial gains and losses,

(iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,

(iv) contributions by the employer,

(v) contributions by plan participants,

(vi) benefits paid,

(vii) business combinations and

(viii) settlements.

(f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the balance sheet, showing at least:

(i) the net actuarial gains or losses not recognised in the balance sheet (see paragraph 92),

(ii) the past service cost not recognised in the balance sheet (see paragraph 96),

(iii) any amount not recognised as an asset, because of the limit in paragraph 58(b),

(iv) the fair value at the balance sheet date of any reimbursement right recognised as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation), and

(v) the other amounts recognised in the balance sheet.

(g) the total expense recognised in profit or loss for each of the following, and the line item(s) in which they are included:

(i) current service cost,

(ii) interest cost,

(iii) expected return on plan assets,

(iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 104A,

(v) actuarial gains and losses,

(vi) past service cost,

(vii) the effect of any curtailment or settlement, and

(viii) the effect of the limit in paragraph 58(b).

(h) the total amount recognised in the statement of recognised income and expense for each of the following:

(i) actuarial gains and losses, and

(ii) the effect of the limit in paragraph 58(b).

(i) for entities that recognise actuarial gains and losses in the statement of recognised income and expense in accordance with paragraph 93A, the cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense;

(j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets;

(k) the amounts included in the fair value of plan assets for:

(i) each category of the entity's own financial instruments, and

(ii) any property occupied by, or other assets used by, the entity.

(l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets;

(m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A;

(n) the principal actuarial assumptions used as at the balance sheet date, including, when applicable:

(i) the discount rates,

(ii) the expected rates of return on any plan assets for the periods presented in the financial statements,

(iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A,

(iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases),

(v) medical cost trend rates, and

(vi) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables;

(o) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs, and

(ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

(p) the amounts for the current annual period and previous four annual periods of:

(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan, and

(ii) the experience adjustments arising on:

A. the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the balance sheet date and

B. the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the balance sheet date;

(q) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date.

121. Paragraph 120A(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph 52. Further detail is not required.

Effective date

Paragraphs 159B and 159C are added and paragraph 160 is amended, as follows.

159B. An entity shall apply the amendments in paragraphs 32A, 34-34B, 61 and 120-121 for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 January 2006, it shall disclose that fact.

159C. The option in paragraphs 93A to D may be used for annual periods ending on or after 16 December 2004. An entity using the option for annual periods beginning before 1 January 2006 shall also apply the amendments in paragraphs 32A, 34-34B, 61 and 120-121.

160. IAS 8 applies when an entity changes its accounting policies to reflect the changes specified in paragraphs 159-159C. In applying those changes retrospectively, as required by IAS 8, the entity treats those changes as if they had been applied at the same time as the rest of this Standard, except that an entity may disclose the amounts required by paragraph 120A(p) as the amounts are determined for each annual period prospectively from the first annual period presented in the financial statements in which the entity first applies the amendments in paragraph 120A.

Other amendments to the Standard

As a consequence of the amendments above, the following cross-references are amended.

In paragraph 29(b), '***paragraph 120***' is amended to '***paragraph 120A***'.

In paragraph 60, 'Paragraph 120(c)(vi)' is amended to 'Paragraph 120A(f)(iii)'.

In the example illustrating paragraph 60, '*paragraph 120(c)(vi)*' is amended to '*paragraph 120A(f)(iii)*'.

In paragraph 104C, 'paragraph 120(c)(vii)' is amended to 'paragraph 120A(f)(iv)'.

In paragraph 159(b),

'***paragraphs 120(c)(vii), 120(f)(iv), 120(g) and 120(h)(iii)***'

is amended to

'***paragraphs 120A(f)(iv), 120A(g)(iv), 120A(m) and 120A(n)(iii)***'.

Appendix F is inserted as follows.

'*APPENDIX F*

Amendments to other Standards

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies the amendments to IAS 19 for an earlier period, these amendments shall be applied for that earlier period.

A1. IAS 1 *Presentation of financial statements* (as revised in 2003) is amended as described below.

Paragraph 96 is amended to read as follows:

96. An entity shall present a statement of changes in equity showing on the face of the statement:

(a) …

(d) …

A statement of changes in equity that comprises only these items shall be titled a statement of recognised income and expense.

A2. In IAS 24 *Related party disclosures* (as revised in 2003), paragraph 20 is amended to read as follows:

20. The following are examples of transactions that are disclosed if they are with a related party:

(a) …

(i) …

Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of IAS 19).

A3. In IFRS 1 *First-time adoption of International Financial Reporting Standards*, paragraph 20A is added as follows:

20A. An entity may disclose the amounts required by paragraph 120A(p) as the amounts are determined for each accounting period prospectively from the transition date.'

IFRIC INTERPRETATION 4

Determining whether an arrangement contains a lease

REFERENCES

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

IAS 16 *Property, Plant and Equipment* (as revised in 2003)

IAS 17 *Leases* (as revised in 2003)

IAS 38 *Intangible assets* (as revised in 2004)

BACKGROUND

1. An entity may enter into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset (e.g. an item of property, plant or equipment) in return for a payment or series of payments. Examples of arrangements in which one entity (the supplier) may convey such a right to use an asset to another entity (the purchaser), often together with related services, include:

   — outsourcing arrangements (e.g. the outsourcing of the data processing functions of an entity).

   — arrangements in the telecommunications industry, in which suppliers of network capacity enter into contracts to provide purchasers with rights to capacity.

   — take-or-pay and similar contracts, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services (e.g. a take-or-pay contract to acquire substantially all of the output of a supplier's power generator).

2. This Interpretation provides guidance for determining whether such arrangements are, or contain, leases that should be accounted for in accordance with IAS 17. It does not provide guidance for determining how such a lease should be classified under that Standard.

3. In some arrangements, the underlying asset that is the subject of the lease is a portion of a larger asset. This Interpretation does not address how to determine when a portion of a larger asset is itself the underlying asset for the purposes of applying IAS 17. Nevertheless, arrangements in which the underlying asset would represent a unit of account in either IAS 16 or IAS 38 are within the scope of this Interpretation.

SCOPE

4. This Interpretation does not apply to arrangements that are, or contain, leases excluded from the scope of IAS 17.

ISSUES

5. The issues addressed in this Interpretation are:

   (a) how to determine whether an arrangement is, or contains, a lease as defined in IAS 17;

   (b) when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and

   (c) if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

CONSENSUS

Determining whether an arrangement is, or contains, a lease

6. Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:

   (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and

   (b) the arrangement conveys a right to use the asset.

Fulfilment of the arrangement is dependent on the use of a specific asset

7. Although a specific asset may be explicitly identified in an arrangement, it is not the subject of a lease if fulfilment of the arrangement is not dependent on the use of the specified asset. For example, if the supplier is obliged to deliver a specified quantity of goods or services and has the right and ability to provide those goods or services using other assets not specified in the arrangement, then fulfilment of the arrangement is not dependent on the specified asset and the arrangement does not contain a lease. A warranty obligation that permits or requires the substitution of the same or similar assets when the specified asset is not operating properly does not preclude lease treatment. In addition, a contractual provision (contingent or otherwise) permitting or requiring the supplier to substitute other assets for any reason on or after a specified date does not preclude lease treatment before the date of substitution.

8. An asset has been implicitly specified if, for example, the supplier owns or leases only one asset with which to fulfil the obligation and it is not economically feasible or practicable for the supplier to perform its obligation through the use of alternative assets.

Arrangement conveys a right to use the asset

9. An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

   (a) The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.

   (b) The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.

   (c) Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

Assessing or reassessing whether an arrangement is, or contains, a lease

10. The assessment of whether an arrangement contains a lease shall be made at the inception of the arrangement, being the earlier of the date of the arrangement and the date of commitment by the parties to the principal terms of the arrangement, on the basis of all of the facts and circumstances. A reassessment of whether the arrangement contains a lease after the inception of the arrangement shall be made only if any one of the following conditions is met:

    (a) there is a change in the contractual terms, unless the change only renews or extends the arrangement;

    (b) a renewal option is exercised or an extension is agreed to by the parties to the arrangement, unless the term of the renewal or extension had initially been included in the lease term in accordance with paragraph 4 of IAS 17. A renewal or extension of the arrangement that does not include modification of any of the terms in the original arrangement before the end of the term of the original arrangement shall be evaluated under paragraphs 6-9 only with respect to the renewal or extension period;

(c) there is a change in the determination of whether fulfilment is dependent on a specified asset;

(d) there is a substantial change to the asset, for example a substantial physical change to property, plant or equipment.

11. A reassessment of an arrangement shall be based on the facts and circumstances as of the date of reassessment, including the remaining term of the arrangement. Changes in estimate (for example, the estimated amount of output to be delivered to the purchaser or other potential purchasers) would not trigger a reassessment. If an arrangement is reassessed and is determined to contain a lease (or not to contain a lease), lease accounting shall be applied (or cease to apply) from:

(a) in the case of (a), (c) or (d) in paragraph 10, when the change in circumstances giving rise to the reassessment occurs;

(b) in the case of (b) in paragraph 10, the inception of the renewal or extension period.

Separating payments for the lease from other payments

12. If an arrangement contains a lease, the parties to the arrangement shall apply the requirements of IAS 17 to the lease element of the arrangement, unless exempted from those requirements in accordance with paragraph 2 of IAS 17. Accordingly, if an arrangement contains a lease, that lease shall be classified as a finance lease or an operating lease in accordance with paragraphs 6 to 19 of IAS 17. Other elements of the arrangement not within the scope of IAS 17 shall be accounted for in accordance with other Standards.

13. For the purpose of applying the requirements of IAS 17, payments and other consideration required by the arrangement shall be separated at the inception of the arrangement or upon a reassessment of the arrangement into those for the lease and those for other elements on the basis of their relative fair values. The minimum lease payments as defined in paragraph 4 of IAS 17 include only payments for the lease (i.e. the right to use the asset) and exclude payments for other elements in the arrangement (e.g. for services and the cost of inputs).

14. In some cases, separating the payments for the lease from payments for other elements in the arrangement will require the purchaser to use an estimation technique. For example, a purchaser may estimate the lease payments by reference to a lease agreement for a comparable asset that contains no other elements, or by estimating the payments for the other elements in the arrangement by reference to comparable agreements and then deducting these payments from the total payments under the arrangement.

15. If a purchaser concludes that it is impracticable to separate the payments reliably, it shall:

(a) in the case of a finance lease, recognise an asset and a liability at an amount equal to the fair value of the underlying asset that was identified in paragraphs 7 and 8 as the subject of the lease. Subsequently the liability shall be reduced as payments are made and an imputed finance charge on the liability recognised using the purchaser's incremental borrowing rate of interest (*);

(b) in the case of an operating lease, treat all payments under the arrangement as lease payments for the purposes of complying with the disclosure requirements of IAS 17, but:

(i) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements, and

(ii) state that the disclosed payments also include payments for non-lease elements in the arrangement.

(*) I.e. the lessee's incremental borrowing rate of interest as defined in paragraph 4 of IAS 17.

EFFECTIVE DATE

16. An entity shall apply this interpretation for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies this interpretation for a period beginning before 1 January 2006, it shall disclose that fact.

TRANSITION

17. IAS 8 specifies how an entity applies a change in accounting policy resulting from the initial application of an interpretation. An entity is not required to comply with those requirements when first applying this interpretation. If an entity uses this exemption, it shall apply paragraphs 6 to 9 of the interpretation to arrangements existing at the start of the earliest period for which comparative information under IFRSs is presented on the basis of facts and circumstances existing at the start of that 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 January 2006. 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, the reference to paragraphs 13 to 25E is changed to 13 to 25F.

In paragraph 13, subparagraphs (i) and (j) are amended, and subparagraph (k) inserted, to read as follows:

(i) insurance contracts (paragraph 25D);

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

(k) leases (paragraph 25F).

After paragraph 25E a new heading and paragraph 25F are inserted as follows:

LEASES

IFRIC 4 *Determining whether an arrangement contains a lease*

25F A first-time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an arrangement contains a lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date.

IFRIC INTERPRETATION 5 (incorporating an Amendment to IAS 39)

Rights to Interests arising from decommissioning, restoration and environmental rehabilitation funds

REFERENCES

IAS 8	*Accounting policies, changes in accounting estimates and errors*
IAS 27	*Consolidated and separate financial statements*
IAS 28	*Investments in associates*
IAS 31	*Interests in joint ventures*
IAS 37	*Provisions, contingent liabilities and contingent assets*
IAS 39	*Financial instruments: recognition and measurement* (as revised in 2003)
SIC-12	*Consolidation — Special purpose entities* (as revised in 2004)

BACKGROUND

1. 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 cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'.

2. 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 bankruptcy 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).

3. 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

4. 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.

5. A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual 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 IAS 39 and is not within the scope of this Interpretation.

ISSUES

6. The issues addressed in this interpretation are:

(a) how should a contributor account for its interest in a fund, and

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

CONSENSUS

Accounting for an interest in a fund

7. The contributor shall recognise its obligation to pay decommissioning costs as a 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.

8. The contributor shall determine whether it has control, joint control or significant influence over the fund by reference to IAS 27, IAS 28, IAS 31 and SIC-12. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

9. If a contributor does not have control, joint control or significant influence over the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with IAS 37. 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 profit or loss 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 bankruptcy 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 IAS 37. 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 86 of IAS 37.

13. When a contributor accounts for its interest in the fund in accordance with paragraph 9, it shall make the disclosures required by paragraph 85(c) of IAS 37.

EFFECTIVE DATE

14. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies this Interpretation to a period beginning before 1 January 2006, it shall disclose that fact.

TRANSITION

15. Changes in accounting policies shall be accounted for in accordance with the requirements of IAS 8.

Appendix

Amendment to IAS 39 *Financial instruments: recognition and measurement*

The amendment in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies this Interpretation for an earlier period, the amendment shall be applied for that earlier period.

A1. In paragraph 2 of IAS 39 *Financial instruments: Recognition and measurement* subparagraph 2(j) shall be added as follows:

2. This Standard shall be applied by all entities to all types of financial instruments except:

…

(j) rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognises as a provision in accordance with IAS 37 **Provisions, Contingent Liabilities and Contingent Assets*****, or for which, in an earlier period, it recognised a provision in accordance with IAS 37.***