New Zealand Equivalent to IFRIC Interpretation 1

Changes in Existing Decommissioning, Restoration and Similar Liabilities (NZ IFRIC 1)

Issued November 2004 and incorporates amendments to 28 February 2018

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

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New Zealand Equivalent to IFRIC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* (NZ IFRIC 1) is set out in paragraphs 1–10.

NZ IFRIC 1 should be read in the context of the IFRIC's Basis for Conclusions on IFRIC 1 and the Illustrative Examples for IFRIC 1.

Any New Zealand additional material is shown with either "NZ" or "RDR" preceding the paragraph number.

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in NZ IFRIC 1.

New Zealand Equivalent to IFRIC Interpretation 1

Changes in Existing Decommissioning, Restoration and Similar Liabilities
(NZ IFRIC 1)

References

- NZ IFRS 16 *Leases*
- NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)
- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 16 *Property, Plant and Equipment*
- NZ IAS 23 *Borrowing Costs*
- NZ IAS 36 *Impairment of Assets*
- NZ 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 NZ 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. NZ 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

NZ 1.1 This Interpretation applies to Tier 1 and Tier 2 for-profit entities.

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 NZ IAS 16 or as part of the cost of a right-of-use asset in accordance with NZ IFRS 16; and

(b) recognised as a liability in accordance with NZ 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 NZ 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 NZ 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 recognised in other comprehensive income and increase the revaluation surplus within 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 recognised in other comprehensive income and reduce the revaluation surplus within 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 end of the reporting period. Any such revaluation shall be taken into account in determining the amounts to be recognised in profit or loss or in other comprehensive income under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) NZ IAS 1 requires disclosure in the statement of comprehensive income of each component of other comprehensive income or expense. 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.

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. Capitalisation under NZ IAS 23 is not permitted.

Effective date

9 This Interpretation becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Interpretation is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

9A NZ IAS 1 (as revised in 2007) amended the terminology used throughout New Zealand equivalents to IFRSs. In addition it amended paragraph 6. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

NZ 9A.1 *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

9B NZ IFRS 16, issued in February 2016, amended paragraph 2. An entity shall apply that amendment when it applies NZ IFRS 16.

Transition

10 [Paragraph 10 is not reproduced as the transitional provision of IFRIC 1 is not relevant to this Interpretation.]

IFRIC Illustrative Examples

[These illustrative examples do not form part of NZ IFRIC 1.]

IFRIC Basis for Conclusions

BC1–BC33 [Paragraphs BC1–BC33 do not form part of NZ IFRIC 1.]

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

This table lists the pronouncements establishing and substantially amending NZ IFRIC 1. The table is based on amendments approved as at 28 February 2018.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or**
NZ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Nov 2004	1 Jan 2005	1 Jan 2007
NZ IAS 23 *Borrowing Costs* (revised 2007)	Jul 2007	Early application permitted	1 Jan 2009
NZ IAS 1 *Presentation of Financial Statements* (revised 2007)	Nov 2007	Early application permitted	1 Jan 2009
Framework: Tier 1 and Tier 2 For-profit Entities[1]	Nov 2012	Early application permitted	1 Dec 2012
NZ IFRS 16 *Leases*	Feb 2016	Early application permitted	1 Jan 2019

Table of Amended Paragraphs in NZ IFRIC 1		
Paragraph affected	**How affected**	**By … [date]**
References	Amended	NZ IFRS 16 [Feb 2016]
Paragraph 2	Amended	NZ IFRS 16 [Feb 2016]
Paragraph 6	Amended	NZ IAS 1 [Nov 2007]
Paragraph 8	Amended	NZ IAS 23 [Jul 2007]
Paragraph 9A	Added	NZ IAS 1 [Nov 2007]
Paragraph NZ 9A.1	Added	*Framework: Tier 1 and Tier 2 For-profit Entities* [Nov 2012]
Paragraph 9B	Added	NZ IFRS 16 [Feb 2016]

1 This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.