

IFRIC Interpretation 6

Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment

References

- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Background

- 1 Paragraph 17 of IAS 37 specifies that an obligating event is a past event that leads to a present obligation that an entity has no realistic alternative to settling.
- 2 Paragraph 19 of IAS 37 states that provisions are recognised only for ‘obligations arising from past events existing independently of an entity’s future actions’.
- 3 The European Union’s Directive on Waste Electrical and Electronic Equipment (WE&EE), which regulates the collection, treatment, recovery and environmentally sound disposal of waste equipment, has given rise to questions about when the liability for the decommissioning of WE&EE should be recognised. The Directive distinguishes between ‘new’ and ‘historical’ waste and between waste from private households and waste from sources other than private households. New waste relates to products sold after 13 August 2005. All household equipment sold before that date is deemed to give rise to historical waste for the purposes of the Directive.
- 4 The Directive states that the cost of waste management for historical household equipment should be borne by producers of that type of equipment that are in the market during a period to be specified in the applicable legislation of each Member State (the measurement period). The Directive states that each Member State shall establish a mechanism to have producers contribute to costs proportionately ‘e.g. in proportion to their respective share of the market by type of equipment.’
- 5 Several terms used in the Interpretation such as ‘market share’ and ‘measurement period’ may be defined very differently in the applicable legislation of individual Member States. For example, the length of the measurement period might be a year or only one month. Similarly, the measurement of market share and the formulae for computing the obligation may differ in the various national legislations. However, all of these examples affect only the measurement of the liability, which is not within the scope of the Interpretation.

Scope

- 6 This Interpretation provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the EU Directive on WE&EE in respect of sales of historical household equipment.
- 7 The Interpretation addresses neither new waste nor historical waste from sources other than private households. The liability for such waste management is adequately covered in IAS 37. However, if, in national legislation, new waste from private households is treated in a similar manner to historical waste from private households, the principles of the Interpretation apply by reference to the hierarchy in paragraphs 10–12 of IAS 8. The IAS 8 hierarchy is also relevant for other regulations that impose obligations in a way that is similar to the cost attribution model specified in the EU Directive.

Issue

- 8 The IFRIC was asked to determine in the context of the decommissioning of WE&EE what constitutes the obligating event in accordance with paragraph 14(a) of IAS 37 for the recognition of a provision for waste management costs:
 - the manufacture or sale of the historical household equipment?
 - participation in the market during the measurement period?

- the incurrence of costs in the performance of waste management activities?

Consensus

- 9 Participation in the market during the measurement period is the obligating event in accordance with paragraph 14(a) of IAS 37. As a consequence, a liability for waste management costs for historical household equipment does not arise as the products are manufactured or sold. Because the obligation for historical household equipment is linked to participation in the market during the measurement period, rather than to production or sale of the items to be disposed of, there is no obligation unless and until a market share exists during the measurement period. The timing of the obligating event may also be independent of the particular period in which the activities to perform the waste management are undertaken and the related costs incurred.

Effective date

- 10 An entity shall apply this Interpretation for annual periods beginning on or after 1 December 2005. Earlier application is encouraged. If an entity applies the Interpretation for a period beginning before 1 December 2005, it shall disclose that fact.

Transition

- 11 Changes in accounting policies shall be accounted for in accordance with IAS 8.

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