

# IFRS Briefing Sheet

Publication of IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

October 2005, **Issue 35**

This Briefing Sheet discusses the International Financial Reporting Interpretations Committee's (IFRIC's) publication of IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, which was issued on 1 September 2005.

IFRIC 6 provides guidance on when a liability for the waste management costs of historical household equipment should be recognised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation identifies sales of new equipment during a designated measurement period as the past event that creates a present obligation to fund disposal costs of historical household electrical and electronic waste.

## Background

The European Union's (E.U.'s) Directive on Waste Electrical and Electronic Equipment (WE&EE) came into effect on 13 February 2003. Member States were required to transform the E.U. Directive into national law by 13 August 2004. Under this Directive, costs of disposing of electrical and electronic equipment used by households in an environmentally acceptable manner are borne by producers.

Under the Directive the cost of waste management for equipment that was

sold to private households before 13 August 2005 ("historical household equipment") is to be paid by producers of that type of equipment who are in the market in a period specified in the applicable national legislation (the "measurement period"). Those producers have to contribute to waste management costs proportionately, for example, in proportion to their respective share of the market by type of equipment.

The issue addressed in IFRIC 6 is when a liability for the waste management costs of historical household equipment should be recognised.

## Recognition Requirements for Historical Household WE&EE

Under IFRIC 6 the participation by a producer in the market in the measurement period is the past event that triggers the recognition of the obligation to meet the waste management costs. The measurement period is dictated by the national law and may vary from country to country. Entities must recognise a provision, and an expense, as they recognise sales for the particular type of historical household WE&EE during the measurement period. The timing of the past event may be independent of the period in which activities to perform the waste management are undertaken and the related costs paid.

**A supplement to KPMG's  
publication IFRS in Brief**

For example, prior to 13 August 2005 the entity produced and sold refrigerators to households; these refrigerators are “historical household equipment”. The national implementation of the Directive defines the measurement period as the 2007 year for historical household waste collected in 2006. The entity achieves a 10 percent market share in 2006 and a 12 percent market share in 2007. The entity recognises a liability for costs associated with the disposal of the historical refrigerators collected in 2006 as it makes sales in the measurement period (2007), because the past event that gives rise to the obligation is the making of sales during the measurement period. The liability should be recognised as sales are made during 2007, based on the entity’s best estimate of what 12 percent of costs will be for the number of historical refrigerators collected in 2006. The timeline below illustrates the key events in this example.

**Recognition for Other WE&EE not Covered by this IFRIC 6**

The guidance in IFRIC 6 applies only to obligations in respect of *historical household* WE&EE. The costs for disposal of other WE&EE, such as new waste (i.e., products sold after 13 August 2005) and historical waste from sources other than private households (commercial WE&EE), are allocated in different ways and are considered by the IFRIC to be addressed adequately by the recognition criteria in IAS 37.

**Recognition of Historical Commercial WE&EE**

For example, a commercial user owns historical (pre 13 August 2005) commercial WE&EE; under the E.U. Directive users are responsible for the disposal of the WE&EE. Under national legislation, if the user buys a replacement for the equipment then the seller of the new equipment assumes responsibility for disposing of the old equipment. In our view, the commercial user should recognise a provision and capitalise the cost of disposal as part of the cost of the equipment under IAS 16 *Property, Plant and Equipment*. Changes in the estimate of the amount of the liability then should be accounted for under IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

When the WE&EE is replaced, the waste disposal obligation for the equipment that is replaced is transferred to the producer of the replacement equipment. The entity buying replacement equipment should allocate the purchase price between the cost of the new equipment and the amount paid to transfer its obligation to dispose of the historical commercial WE&EE. Therefore,

- the producer would recognise a provision for the disposal costs it assumed based on its best estimates of that amount
- the commercial user would derecognise the obligation, which

then may result in a gain or loss, depending on the amount paid to the producer for taking on the costs of disposal of the equipment, and the amount allocated as the cost of the new equipment.

**Possible Application of IFRIC 6 to “New” Waste**

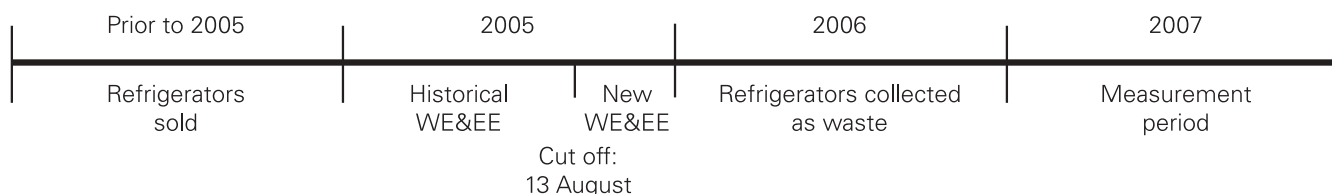
IFRIC 6 notes that under the hierarchy in IFRSs for selection of accounting policies, the guidance in IFRIC 6 may be applicable to new waste from private households. It is not clear however whether, for example, any cooperative collection schemes would satisfy the criteria for liability derecognition in IFRSs.

**Effective Date and Transition**

IFRIC 6 is effective for annual periods beginning on or after 1 December 2005. Earlier application is encouraged.

Changes in accounting policies should be accounted for in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Therefore, retrospective application will be required for both existing IFRS users and first-time adopters of IFRSs.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms’ offices.



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Publication name: *IFRS Briefing Sheet*

Publication number: Issue 35

Publication date: October 2005