
**INTERPRETATION OF
FINANCIAL
REPORTING STANDARD**

INT FRS 106

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

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Interpretation of FRS 106 *Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment* (INT FRS 106) is set out in paragraphs 1–11. INT FRS 106 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface* to the Interpretations of Financial Reporting Standards.

INTERPRETATION OF FINANCIAL REPORTING STANDARD INT FRS 106

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

References

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

Background

- 1 Paragraph 17 of FRS 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 FRS 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 FRS 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 FRS 8. The FRS 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 This Interpretation determines in the context of the decommissioning of WE&EE what constitutes the obligating event in accordance with paragraph 14(a) of FRS 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 FRS 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 FRS 8.

Basis for Conclusions on INT FRS 106

This Basis for Conclusions accompanies, but is not part of, INT FRS 106.

- BC1 This Basis for Conclusions summarises the considerations in reaching the consensus. Greater weight was given to some factors than to others.
- BC2 The European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE) had given rise to questions about when a liability for the decommissioning of WE&EE for certain goods should be recognised. INT FRS 106 provides guidance regarding what constitutes an obligating event in the circumstances created by the Directive.
- BC3 The proposals were set out in Draft Interpretation *Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment*, which was published in December 2004.
- BC4 The Directive indicates that it is participation in the market during the measurement period that triggers the obligation to meet the costs of waste management.
- BC5 For example, an entity selling electrical equipment in 20X4 has a market share of 4 per cent for that calendar year. It subsequently discontinues operations and is thus no longer in the market when the waste management costs for its products are allocated to those entities with market share in 20X7. With a market share of 0 per cent in 20X7, the entity's obligation is zero. However, if another entity enters the market for electronic products in 20X7 and achieves a market share of 3 per cent in that period, then that entity's obligation for the costs of waste management from earlier periods will be 3 per cent of the total costs of waste management allocated to 20X7, even though the entity was not in the market in those earlier periods and has not produced any of the products for which waste management costs are allocated to 20X7.
- BC6 It was concluded that the effect of the cost attribution model specified in the Directive is that the making of sales during the measurement period is the 'past event' that requires recognition of a provision under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets* over the measurement period. Aggregate sales for the period determine the entity's obligation for a proportion of the costs of waste management allocated to that period. The measurement period is independent of the period when the cost allocation is notified to market participants. 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. Incurring costs in the performance of the waste management activities is a separate matter from incurring the obligation to share in the ultimate cost of those activities.
- BC7 The effect of the following was considered: the waste management costs for which a producer is responsible because of its participation in the market during a specified period (for example 20X6) are not based on the market share of the producer during that period but on the producer's participation in the market during a previous period (for example 20X5). It was noted that this affects only the measurement of the liability and that the obligating event is still participation in the market during 20X6.
- BC8 This Interpretation considered whether the entity will continue to operate as a going concern. If the entity will continue to operate in the future, it treats the costs of doing so as future costs. For these future costs, paragraph 18 of FRS 37 emphasises that 'Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future.'

- BC9 This Interpretation considered an argument that manufacturing or selling products for use in private households constitutes a past event that gives rise to a constructive obligation. Allocating waste management costs on the basis of market share would then be a matter of measurement rather than recognition. Supporters of this argument emphasise the definition of a constructive obligation in paragraph 10 of FRS 37 and point out that in determining whether past actions of an entity give rise to an obligation it is necessary to consider whether a change in practice is a realistic alternative. These respondents believed that when it would be necessary for an entity to take some unrealistic action in order to avoid the obligation then a constructive obligation exists and should be accounted for.
- BC10 The above argument was rejected, concluding that a stated intention to participate in a market during a future measurement period does not create a constructive obligation for future waste management costs. In accordance with paragraph 19 of FRS 37, a provision can be recognised only in respect of an obligation that arises independently of the entity's future actions. For historical household equipment the obligation is created only by the future actions of the entity. If an entity has no market share in a measurement period, it has no obligation for the waste management costs relating to the products of that type which it had previously manufactured or sold and which otherwise would have created an obligation in that measurement period. This differentiates waste management costs, for example, from warranties (see Example 1 in Appendix C to FRS 37), which represent a legal obligation even if the entity exits the market. Consequently, no obligation exists for the future waste management costs until the entity participates in the market during the measurement period.