STAFF PAPER

March 2014

IFRS Interpretations Committee Meeting

Project	New items for initial consideration
Paper topic	IAS 16 *Property, Plant and Equipment*/IAS 2 *Inventories* 'Core inventories'

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Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether 'core inventories' held in an entity's own facilities are accounted for as inventories or as property, plant and equipment (PP&E).

2. The submitter defined core inventories as a minimum amount of material that:

   (a) is necessary to permit a production facility to start operating and to maintain subsequent production;

   (b) cannot be physically separated from other inventories; and

   (c) can be removed only when the production facility is finally decommissioned or only at considerable financial charge.

3. We performed outreach with the International Forum of Accounting Standard-Setters (IFASS) and securities regulators on this topic in order to find out whether the issue raised by the submitter is widespread and whether significant diversity in practice exists. The results of this outreach are included as part of our analysis of this issue.

4. The submission is reproduced in full in Appendix B to this paper.

Purpose of this paper

5. The purpose of this Agenda Paper is to:

   (a) provide a summary of the outreach conducted;

   (b) provide an analysis of the issue raised in the submission;

   (c) present an assessment of the issue against the Interpretations Committee's agenda criteria;

   (d) make a recommendation not to add this issue to the Interpretations Committee's agenda and provide a draft of a tentative agenda decision (refer to Appendix A) for the consideration of the Interpretations Committee members; and

   (e) ask the Interpretations Committee whether it agrees with the staff recommendation.

Summary of the submission received

Definition of core inventories

6. The submitter defined core inventories as a minimum amount of material required for the production process at all stages with the following common characteristics:

   (a) use: are necessary to permit a production facility to start operating and to maintain subsequent production;

   (b) physical form: not physically separable from other inventories and interchangeable with them;

   (c) removal: can be removed only when production facilities are abandoned or at a considerable financial charge or cannot be removed at all.

7. The submitter provided the following specific examples of core inventories: cushion gas in cavern storage facilities, crude oil used as line fill, and minimum levels of some materials in non-ferrous metal refining.

The issue raised

8. The submitter asked the Interpretations Committee to clarify whether core inventories should be classified as inventories (View 1 below) or property, plant and equipment (View 2 below). The submitter also asks the Interpretations Committee to clarify how core inventories should be measured under IAS 2.

9. The submitter is aware of the following views on core inventories classification:

   (a) **View 1**: classification under IAS 2 *Inventories*, based on the fact that core inventories are ordinarily interchangeable with other inventories. Because of this, they are consumed in the production process and used in less than one period.

   (b) The submitter also asks for clarification on whether core inventories classified under IAS 2 would be measured:

      (i) collectively with other inventories using FIFO or a weighted average cost formula (**View 1A** in the submission); or

      (ii) separately from other inventories, and consequently their value would not be stepped up (**View 1B** in the submission).

   (c) **View 2**: classification under IAS 16 *Property, Plant and Equipment*, based on the fact that core inventories are needed to bring the item of PP&E to its required operating condition. They are therefore not held for sale or consumption.

10. The arguments given for each view are presented in the section 'Staff analyses' below.

11. The submitter also asks what unit of account should be used as a basis of the core inventories classification.

Summary of the outreach conducted

12. We have performed outreach with the International Forum of Accounting Standard-Setters (IFASS) and securities regulators. Specifically, we asked:

    (a) whether the respondents were aware of any difficulties or challenges in their jurisdiction in accounting for core inventories stored in facilities owned by an entity itself;

    (b) what the prevalent interpretation or recommended treatment of 'core inventories' would be (we also asked them to describe the rationale for that prevalent interpretation or treatment); and

    (c) to what extent the respondents observed diversity in practice in respect of the issue.

Responses from national standard-setters and securities regulators

13. We received 14 responses from national standard-setters. The geographical breakdown of the responses received is as follows:

Geographical region:	Number of respondents
Europe	5
Americas	3
Asia	3
Australia and Oceania	2
Africa	1
Total respondents	14

14. The issue is common in 9 jurisdictions, even if not widespread. In one of them difficulties and challenges in accounting for core inventories were noted.

15. The vast majority of the respondents noted that there is no recommended approach in their jurisdiction. Most of the respondents based their analysis and conclusions on particular types of core inventories.

16. Diversity in practice was noted in four of the jurisdictions in which the issue is common. However, we noted diverse views in different jurisdictions:

    (a) Four respondents noted that classification as inventories is the prevalent approach.

    (b) Two respondents supported classification as PP&E.

    (c) One respondent pointed that classification would depend on the particular circumstances, production process and characteristics of inventories.

    (d) One respondent noted that the views are mixed.

17. One respondent also noted that the possibility of recovering assets from the production facility would also be considered.

18. One of the respondents was also concerned that introducing detailed rules for specific industries or cases could result in a rule-based approach.

19. We present the arguments given for each view in the section 'Staff analysis' below.

Responses from global accounting firms

20. We received comments from four global accounting firms.

21. Three of them noted that classification as PP&E is the prevalent approach.

22. One of them observed that the views are mixed, with classification as inventories being the prevalent approach. The respondent also acknowledged that in the pipeline industry core inventories are normally accounted for as PP&E.

23. Two of the respondents also noted that the value of core inventories is not material for most entities.

Staff analysis

Structure of our analysis

24. We have split our analysis into the following sections:

    (a) View 1: Accounting under IAS 2;

    (b) View 2: Accounting under IAS 16;

    (c) Staff view, including:

        (i) Basis for classification;

        (ii) Background for classification;

        (iii) Assets recoverability as an additional classification criterion; and

        (iv) Measurement under IAS 16.

View 1: Accounting under IAS 2

25. **The rationale** for classification as inventories is that core inventories are ordinarily interchangeable with other inventories, and thus core inventories held at a particular reporting date will be either consumed or sold in the next period.

26. Core inventories are classified as inventories on the following **basis**:

    (a) Core inventories meet the definition of inventories in paragraph 6 of IAS 2 below:

    > Inventories are assets:
    >
    > (a) held for sale in the ordinary course of business;
    >
    > (b) in the process of production for such sale; or
    >
    > (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

    (b) Core inventories do not meet the definition of PP&E in paragraph 6 of IAS 16 because they are not "expected to be used during more than one period".

(c) Some proponents of View 1 also noted that the scope of IAS 2 takes precedence over the scope of IAS 16, based on paragraph 2 of IAS 16 below:

> This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

(d) Thus they argue that assets that meet the definition of inventories are accounted for under IAS 2 rather than under IAS 16.

27. The submitter described the two different views on core inventories **measurement**:

(a) View 1A: core inventories are measured collectively with other inventories using FIFO or a weighted-average cost formula.

(b) View 1B: core inventories are measured separately from other inventories. The rationale for this accounting treatment is that the accounting transaction does not take place at the time of each inventory's swap and therefore their value is not stepped up.

View 2: Accounting under IAS 16

28. **The rationale** for classification as an element of a PP&E cost is that core inventories are not held for sale or consumption; instead their intended use is to ensure that a production facility is operating. Even though core inventories are commingled with ordinary inventories, the characteristics and intended use of a particular part of the inventories remain the same at each individual reporting date. Thus these core inventories need to be accounted for separately.

29. Core inventories should be classified as an element of a PP&E cost because they are necessary to bring a PP&E asset to its required operating condition. Paragraph 35 of IAS 2 and paragraph 16(b) of IAS 16 provide the **basis** for this treatment:

(a) Paragraph 35 of IAS 2 states that:

> Some inventories may be allocated to other asset accounts, for example, inventory used as a component of

> self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

(b) Paragraph 16(b) of IAS 16 states that the cost of an item of property, plant and equipment comprises:

> (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

30. Proponents of View 2 argue that if core inventories are carried as inventories, a one-time impairment loss would be recognised in most cases, because they cannot be sold or consumed in the production process. They think that it would not properly reflect the fact that core inventories are necessary to operate another asset over more than one operating cycle.

31. Some proponents of View 2 also noted that only core inventories that could not be substantially recovered from the production facility form an element of a PP&E cost. Otherwise, they are carried as inventories.

32. The submitter raised a concern on **measurement** of core inventories under View 2. Specifically, the submitter noted that even core inventories are physically substituted by ordinary inventories, their accounting value could remain unchanged in the case of a price increase. The submitter pointed that it could lead to 'significant hidden reserves'.

Staff view

33. We think that core inventories' classification should be based on their primary intended use for an entity, rather than on their physical form. Core inventories as described in the submission are primarily held for making a production facility operational. Thus, we support **View 2** (classification under IAS 16). We also think that assets' recoverability should not change their classification.

Basis for classification

34. We think that classification should be based on the intended primary use of core inventories because:

    (a) A part of inventories of the same quantity, characteristics and use for an entity is always in the production facility, whether this part is comingled with other inventories or not. We think these assets need to be accounted for separately from ordinary inventories.

    (b) We think that classification based on the intended primary use, rather than on their physical form, would provide more relevant information for the users of financial statements.

35. The classification as described in the submission is based on the unit of account consideration[1]. We think that core inventories should be classified based on their intended primary use for an entity. Thus, we do not think that a unit of account should be the focus of this agenda paper.

36. We also think that the distinction described in the submission is based more on the physical separability of core inventories from other assets, than on the unit of account notion. As described in the paragraphs above, we do not think that classification should be primarily based on the physical form of assets.

37. Having said that, we note that neither IAS 16, nor IAS 2 prescribes the unit of account. Instead IAS 16 states that judgement is required in defining the unit of measure for recognition, ie what constitutes an item of property, plant and equipment (paragraph 9 of IAS 16).

[1] On the assumption that the unit of account is the smallest unit of the material concerned (ultimately individual atoms), core inventories are classified as inventories because they represent materials that are consumed in the production process (View 1).

On the assumption that the unit of account is the minimum amount of material as a whole, core inventories are classified as PP&E because they are neither held for sale nor consumed in the production process (View 2).

Background for classification

38. We think that core inventories should be accounted for as an element of a PP&E cost because:

    (a) Core inventories are necessary to bring a PP&E asset to its required operating condition and thus constitute an element of a PP&E cost in accordance with paragraph 16 (b) of IAS 16.

    (b) The primary use of core inventories is to be held for use in the production or supply of goods or services (refer to the definition of PP&E in paragraph 6 of IAS 16), rather than to be sold or consumed in the production process or in the rendering of services (refer to the definition of inventories in paragraph 6 of IAS 2).

39. We also support concerns raised by the submitter in respect of the measurement implication of View 1. The submitter noted that if core inventories are accounted for under IAS 2, an entity would in most cases need to recognise an immediate loss on writing off to net realisable value.

40. We think this loss should instead be recognised as an expense over the useful life of a PP&E asset, based on the following:

    (a) Economic benefits associated with core inventories are consumed over the entire useful life of the PP&E asset in accordance with paragraph 4.51 of the *Conceptual Framework for Financial Reporting*.

    (b) In the case of a systematic allocation, the costs would match with associated revenues in accordance with paragraph 4.50 and 4.51 of the *Conceptual Framework for Financial Reporting*.

41. We think that assets with characteristics different from the ones described in the submission (eg held primarily for trading or consumption in production) would be accounted for differently.

42. We also think that paragraph 16 (b) of IAS 16 and paragraph 35 of IAS 2 provide sufficient guidance for this accounting treatment.

Assets recoverability as an additional classification criterion

43. We do not think that classification of core inventories should be based on their recoverability, because this guidance is not explicitly stated in IFRS. Instead, the depreciation mechanism described in IAS 16 addresses accounting in such cases: core inventories that can be recovered would be depreciated to the extent of their residual value according to paragraphs 52 and 53 of IAS 16.

Measurement under IAS 16

44. The submitter is concerned that even though core inventories are continually substituted, their carrying value remains unchanged in the case of a price increase.

45. We think that historical cost measurement is a common approach for non-current assets. However, if an entity believes that the current cost of core inventories would provide more relevant financial information to the users, a revaluation model in IAS 16 could be applied.

Assessment against agenda criteria

46. Our assessment against the Interpretations Committee agenda criteria[2] is as follows:

Agenda criteria	
We should address issues:	
that have widespread effect and have, or are expected to have, a material effect on those affected.	Yes, the issue is widespread and there are divergent views on core inventories classification. However, some respondents to our outreach request indicate that the issue is not expected to have a material effect.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	No, we think that IAS 2 and IAS 16 provide sufficient guidance.
that can be resolved efficiently within the confines of existing IFRS and the *Conceptual Framework for Financial Reporting*.	Not applicable.

[2] As presented in paragraphs 5.16, 5.17 and 5.21 of the *IFRS Foundation Due Process Handbook.*

Agenda criteria	
In addition:	
Is the issue sufficiently narrow in scope so that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRS?	Not applicable.
Will the solution that was developed by the Interpretations Committee be effective for a reasonable time period? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified.)	Not applicable.

Staff recommendation

47. We think the appropriate accounting can be derived from IAS 2 and IAS 16 without the need for further guidance. Consequently we do not think that any changes to, or formal interpretation of, IAS 2 or IAS 16 are required.

48. Consequently, we think that the Interpretations Committee's agenda criteria are not met and we recommend that the Interpretations Committee should not take this issue onto its agenda.

49. The proposed wording for a tentative agenda decision is shown in Appendix A.

Questions for the Committee
1. Does the Interpretations Committee agree with the staff's analysis and with the conclusion? 2. Does the Interpretations Committee agree with the staff's recommendation that the issue should not be added to its agenda?

Appendix A
Proposed wording for tentative agenda decision

A1 The proposed wording for the tentative agenda decision is presented below.

IAS 16 *Property, Plant and Equipment*/IAS 2 *Inventories*—'Core inventories'

The IFRS Interpretations Committee (the Interpretations Committee) received a request for clarification on whether 'core inventories' held in an entity's own facilities are accounted for as inventories or as property, plant and equipment.

The submitter defined core inventories as a minimum amount of material that:

- is necessary to permit a production facility to start operating and to maintain subsequent production;
- cannot be physically separated from other inventories; and
- can be removed only when the production facility is finally decommissioned or at considerable financial charge.

The Interpretations Committee considered that core inventories would be classified taking into account their intended use for an entity. It noted that core inventories, which are necessary to bring a property, plant and equipment asset to its required operating conditions, are recognised as an element of property, plant and equipment cost based on paragraph 16(b) of IAS 16 *Property, Plant and Equipment* and paragraph 35 of IAS 2 *Inventories*.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements an interpretation was not necessary and consequently [decided] not to add the issue to its agenda.

Appendix B—Submission received

esma European Securities and Markets Authority

The Chair

2 December 2013
ESMA/2013/1774

Wayne Upton
Chairman of IFRS IC
Cannon Street 30
London EC4M 6XH
United Kingdom

Agenda item request: Classification and measurement of 'core inventories'

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

As a result of the review of financial statements carried out by national competent authorities and ESMA's co-ordination activities, we have identified an issue related to the application of IAS 2 – *Inventories* and IAS 16 – *Property, Plant and Equipment*, which we would like to bring to the attention of the IFRS Interpretations Committee for further consideration.

A detailed description of the case is set out in the appendix to this letter.

We would be happy to further discuss this issue with you.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority

APPENDIX – DETAILED DESCRIPTION OF THE ISSUE

1. As part of their monitoring and supervisory activities, ESMA and national enforcers have identified divergent application of IFRS requirements regarding classification and measurement of a specific category of material owned by an entity and stored in its own facilities. Henceforth in this letter this category of material is referred to as '*core inventories*'. Divergence exists whether in IFRS financial statements '*core inventories*' are considered inventories in accordance with IAS 2 or property, plant and equipment (PPE) in accordance with IAS 16.

Description of the issue

2. '*Core inventories'* can be found in a number of sectors such as the non-ferrous metals industry, petrochemicals and gas extraction, with the following common characteristics as mentioned in the accounting literature:

   a) *Amount*: A minimum amount of material must be present at all times during the production process in order to permit
      i. plants to start operating for the first time, and/or
      ii. subsequent production to be maintained.

   b) *Physical separation*: The minimum amount of material
      i. is physically commingled with ordinary inventories on an ongoing basis (e.g., oil, water, or gas that is transported in pipelines, or primary materials contained in a chemical plant's piping system), and/or
      ii. cannot physically be separated from other inventories (e.g., gas in a cavern required to maintain a certain pressure).

   c) *Time of removal*: The required minimum amount of material can only be removed
      i. when the production facilities are finally decommissioned,
      ii. when the production facility is overhauled, or
      iii. during the production process at considerable financial expense.

3. The following examples of '*core inventories*' are frequently given in the literature or can be found in practice:

   a) *Cushion gas in a cavern*: The volume of gas contained in cavern storage facilities can be broken down into working gas and cushion gas. Cushion gas is needed to maintain the minimum storage pressure required for optimum additions to and withdrawals from storage. Within the cavern, the cushion gas also serves to ensure stability and maintain the minimum pressure in the storage facility; it remains in the caverns over the long term to guarantee their stability.

b) *Oil pipeline*: A pipeline must be filled with oil before being used for the first time. This minimum quantity of oil can only be removed if the use of the pipeline is interrupted.

c) *Non-ferrous metal refinery*: The production-process in this industry is characterized by a production chain consisting of numerous different stages and facilities where different qualities and quantities of materials in different physical conditions and different purity grades permanently flow through the facilities. The production facility functions permanently and effectively cannot be interrupted. In order for the factory to function (at least function efficiently), a minimum level of certain materials has to be maintained at all times in the different stages of the production process.

4. The classification of '*core inventories*' seems to be unambiguous in case materials are stored in PPE owned by a third party. In this case they are classified as inventories in accordance with IAS 2[1]. However, ESMA observed divergent views in respect to the classification and measurement of '*core inventories*' that are stored in facilities owned by an entity itself. In that case '*core inventories*' are considered either as PPE in accordance with IAS 16 or as inventories in accordance with IAS 2 as presented below:

View 1 – Classification as inventories according to IAS 2

5. Proponents of view 1 argue that although a certain minimum quantity of material is always required to ensure the proper functioning of the production process, '*core inventories*' should be treated as ordinary inventories which are ordinarily interchangeable with other items. This viewpoint is based on the fact that, despite the continued existence of a minimum amount, the '*core inventories*' become physically commingled with the remaining raw materials, consumables and supplies (cushion gas) or are even interchangeable with them on an on-going basis (pipeline fill). Therefore, the unit of account used in classification is not the minimum amount of material as a whole but rather merely the smallest unit of the material concerned (ultimately individual atoms). If this viewpoint is followed, '*core inventories*' must be classified as inventories since they represent materials that are consumed in the production process (paragraph 6(c) of IAS 2) and hence are used for less than one period (paragraph 6(b) of IAS 16).

View 1A - Use of FIFO or a weighted average cost formula

6. Consequently, '*core inventories*' would have to be measured together with the other inventories using the first-in, first-out (FIFO) or weighted average cost formula in accordance with IAS 2, paragraph 25 and 27.

[1] See PwC, Financial reporting in the power and utilities industry, 2nd edition, 2011, p. 21 (and PwC, Financial reporting in the oil and gas industry, 2nd edition, p. 36): "[...] product owned by an entity that is stored in PPE owned by a third party continues to be classified as inventory. This includes, for example, all gas in a rented storage facility. It does not represent a component of the third party's PPE or a component of PPE owned by the entity. Such product should therefore be measured at first-in, first-out (FIFO) or weighted-average cost."

View 1B - No step-up in value in the absence of an accounting transaction[2]

7. Proponents of view 1B believe that irrespective of the fact that '*core inventories*' are interchangeable with other items (ordinary inventories), these exchanges do not represent accounting transactions. Accordingly, '*core inventories*' would have to be measured at the lower of cost and net realisable value for the entire term of the underlying tangible asset to which they belong[3].

8. However, it could be argued that this view leads to results similar to those that would be obtained if the LIFO method or the "base stock method" were to be applied – methods that were both prohibited in the past[4] because they bear little relationship to recent cost levels (paragraph BC 13 of IAS 2) and because of their lack of representational faithfulness of inventory flows (paragraph BC 19 of IAS 2). Conversely, it could be argued that paragraph BC 19 of IAS 2 makes it also clear that IAS 2 does not rule out specific inventory cost methods that reflect inventory flows that are similar to LIFO.

***View 2* – Classification as PPE according to IAS 16**[5]

9. The predominant view in accounting literature and the most commonly used accounting policy seems to be to classify '*core inventories*' stored in PPE owned by an entity as PPE in accordance with IAS 16.

10. Proponents of this view argue that '*core inventories*' do not meet the definition of inventories because these items are neither held for sale nor consumed in the production process (paragraph 6 of IAS 2) based on the assumption that the unit of account for '*core inventories*' is the minimum amount of material as a whole. For them it is irrelevant that no physical distinction can be made between the materials belonging to the '*core inventories*' and those belonging to the remaining inventories.

11. If '*core inventories*' were to be reported as inventories and not as PPE, some argue that impairment losses would have to be recognised for them as these materials cannot be sold or consumed in the production process. Hence proponents of view 2 argue that such accounting treatment would ignore the fact that the relevant materials are absolutely necessary to ensure the operational availability of the associated PPE.

12. Instead, these items meet the definition of paragraph 16(b) of IAS 16, since they are needed to bring another item of PPE to the condition necessary for it to be capable of operating in the manner intended by management to the operation of a facility during more than one operating cycle. In addi-

[2] See Deloitte, iGAAP 2013, 6th edition, volume A, part 1, p. 755, example 2A: "Because an accounting transaction does not take place at the time of each swap of crude oil, no step-up in the value of inventories is recognized. The pipeline fill is measured at the lower of cost and net realizable value throughout the term of the pipeline's operations in accordance with IAS 2:9."

[3] It has to be noted that in the accounting literature this view is outlined in an example of a pipeline operator that does not produce or distribute oil itself, but rather provides the use of its pipeline to buyers and sellers of oil.

[4] The "base stock method" was eliminated from IAS 2 in the 1990s and the LIFO method is not allowed in IFRS since 2003.

[5] See E&Y, International GAAP 2013, p. 1379, 1607; PwC, Financial reporting in the power and utilities industry, 2nd edition, 2011, p. 21, 22 (and PwC, Financial reporting in the oil and gas industry, 2nd edition, p. 36, 37).

tion, '*core inventories*' will not be recovered through sale, as this would lead to significant economic losses.

13. If '*core inventories*' are classified as PPE, these items will in most cases be an integral part of a facility and will have to be depreciated either as part of the PPE to which associated or separately if they are significant (paragraphs 43-46 of IAS 16). In accordance with paragraph 51 of IAS 16, the residual value of a component is reviewed at least at each financial year-end. Consequently, if the price of the materials increases (as was the case with non-ferrous metals from 2009 to 2011), no depreciation is charged and significant hidden reserves may arise. Even though such materials are then continually physically substituted in the course of the working process, or at least exchanged with ordinary inventories, their accounting value could remain unchanged. Therefore, it could be argued that this view (like View 1B) could lead to significant hidden reserves, which might obscure the financial position of the entity.

Request

14. ESMA seeks clarification whether '*core inventories*' stored in facilities owned by an entity itself are included in the scope of IAS 2 and/or IAS 16 based on the current IFRS requirements and what is the unit of account to be used as the basis for their classification (i.e., entire minimum amount of the materials which must be present in order for production and remains constant over time, or the smallest unit of the materials concerned, which are constantly turned over during the production process).

15. ESMA found that enforcers in several European jurisdictions have encountered divergent classification and accounting treatment of '*core inventories*'. Accordingly, ESMA kindly suggests that the IFRS Interpretations Committee considers clarifying the accounting requirements in this respect.