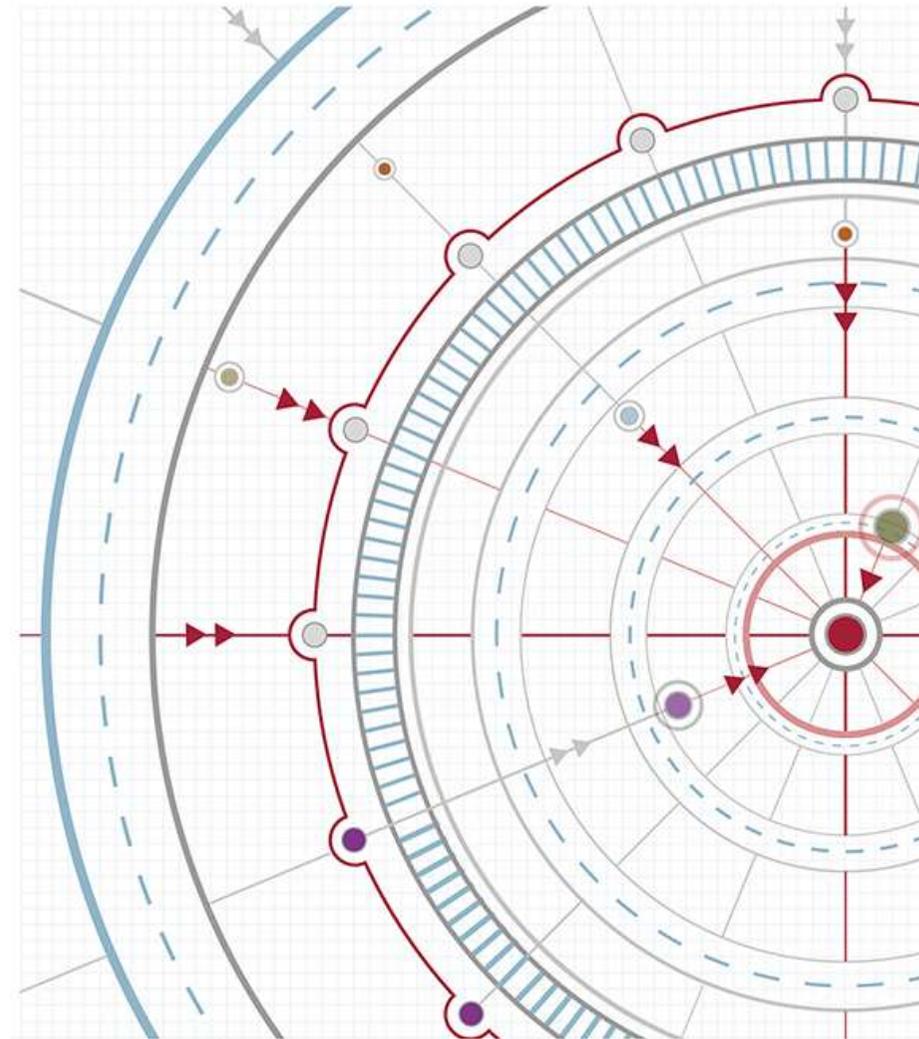


IASB Meeting—June 2019

Rate-regulated Activities US GAAP Comparison



The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Purpose of this document

- Many entities that currently recognise regulatory balances in their general purpose financial statements prepared using IFRS Standards do so by applying US GAAP or GAAP based on US GAAP.
- The proposed IFRS accounting model for rate-regulated activities is similar in many ways to US GAAP, but differs in some key respects.
- The purpose of this slide deck is to provide a high-level summary of these key differences.

- Overall model
- Scope
- Recognition
- Measurement
- Other items
- Presentation and disclosure

Proposed IFRS model

- Focus on rights and obligations incremental to those reported using IFRS 15
- Supplementary approach—other standards apply without modification

US GAAP

- Overrides some other standards to align financial accounting with regulatory accounting
- Primarily a cost deferral approach

- Both attempt to reflect the economic effects on financial reporting of timing differences caused by rate regulation

Proposed IFRS model

- Focus on the total allowed compensation an entity becomes entitled to for goods or services supplied in the period as a result of a binding regulatory agreement

US GAAP

- Rates must be designed to recover costs of service
- Focus on *ability* to recover costs in order to apply the model (the proposed IFRS model considers this in its recognition and measurement criteria)

- Uncertainty regarding recovery can call into question whether an entity should apply either model
- Both require the presence of a binding regulatory agreement

Proposed IFRS model

- Recognise if right or obligation exists
 - When existence is uncertain, recognise if 'more likely than not' that right or obligation exists

US GAAP

- Capitalise incurred costs as a regulatory asset if they are 'probable' of recovery through rates
- Generally only considers 'incurred costs' (those paid or payable in cash) with some specific exceptions as noted on the following slide
- Goodwill allowable in rates accounted for as a regulatory asset and amortised

- In both models, regulatory assets are consumed as the amounts are recovered through the rates; if recovery is no longer probable the amount is written-off

US GAAP (exceptions to incurred costs criteria)

- Specific exceptions provided by US GAAP to only recognising 'incurred costs' include:
 - Capitalisation of allowance for funds used during construction (AFUDC) during the construction period*
 - Alternate revenue (eg incentive) programs recognised only in restrictive circumstances
 - Recognises intragroup profits on sales from unregulated to regulated entities

** AFUDC includes an equity component, equity costs do not meet the definition of an incurred cost.*

Proposed IFRS model

- Measure at discounted estimate of future cash flows (including any regulatory interest or return provided)
- Update at each reporting date
- No need for separate requirements on impairment—covered by cash flow estimation and update process

US GAAP

- Measure at amount of incurred costs
 - with, in most scenarios, no resulting regulatory interest and no discounting
- Specific guidance for discounting in limited circumstances (eg abandoned plants)
- Delayed recovery as a result of phase-in plans generally not recognised as a regulatory asset

- In both models, explicit and implicit disallowances are recognised immediately

Proposed IFRS model

- Recognises incentive (bonus or penalty) amounts when earned or incurred

US GAAP

- Specific guidance around discontinuation and reapplication of regulatory accounting
- Regulatory offset for pension liabilities if certain conditions are met

- Similar outcomes for decommissioning and environmental liabilities if Board accept staff recommendation for measurement exception in Agenda Paper 9C
- Advance billings presented as a liability

Proposed IFRS model

- Presentation as a separate line item below revenue (regulatory income / expense)*
- Does not adjust revenue or expenses
- Specified disclosure requirements

** June 2019 Agenda Paper 9F discusses two potential presentations for items impacting OCI*

US GAAP

- Net presentation in profit or loss (ie allowable expenses entitled to be included in future rates are netted off respective line item)
- Adjustments can be made to revenue (eg revenue subject to refund, advance billings)
- Presentation of items in OCI also follows the netting approach
- Limited disclosure requirements

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