

IAS 38 *Intangible Assets* (August 2005)

Regulatory asset

The IFRIC considered a request for guidance for operations subject to price regulation. The request concerned situations in which a regulatory agreement allowed the entity to increase its prices in future years to recover outflows of economic resources during the current or previous years. The IFRIC was asked whether US SFAS 71 *Accounting for the Effects of Certain Types of Regulation* could be applied under the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for selection of an accounting policy in the absence of specific guidance in IFRSs.

The IFRIC observed that it had previously discussed whether a regulatory asset should be recognised in the context of service concession arrangements, either as deferred costs or as an intangible asset to reflect an expectation that the entity will recover these costs as part of the price charged in future periods. It had concluded that entities applying IFRSs should recognise only assets that qualified for recognition in accordance with the IASB's *Framework for the Preparation and Presentation of Financial Statements* and relevant accounting standards, such as IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

The IFRIC had noted that SFAS 71 required entities to recognise regulatory assets when certain conditions were met. However, the IFRIC had concluded that the recognition criteria in SFAS 71 were not fully consistent with recognition criteria in IFRSs, and would require the recognition of assets under certain circumstances which would not meet the recognition criteria of relevant IFRSs. Thus the requirements of SFAS 71 were not indicative of the requirements of IFRSs.

Since it already had concluded that the special regulatory asset model of SFAS 71 could not be used without modification, the IFRIC noted that expenses incurred in performing price-regulated activities should be recognised in accordance with applicable IFRSs and decided not to add a project on regulatory assets to its agenda.