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Project	<b><i>Rate-regulated Activities</i></b>
Topic	<b>Future plans for the RRA project</b>

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## Purpose of this agenda paper

1. This paper provides recommendations the future plans of the *Rate-regulated Activities* (RRA) project.

## Project plans

### **Background**

2. For decades, US GAAP has had authoritative guidance (FAS 71) specifying that entities that meet certain criteria (ie cost-of-service regulatory requirements) are required to defer costs incurred or cash receipts received in excess of the amounts included in the budget for the corresponding rate period. Likewise, Canada has introduced very similar guidance in CGAAP as have a few other jurisdictions around that world that do or have in the past looked heavily to US GAAP for guidance.
3. Generally accepted accounting principles from many other jurisdictions in the world have not had similar guidance. The diversity that exists between jurisdictions that do vs do not recognise regulatory assets and liabilities has been deeply instilled in the views held by individuals on both groups. This diversity of views has resulted in the question of whether regulatory assets and liabilities exist and whether they should be recognised in an entity's financial statements.

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This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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4. This issue was first asked of the Interpretations Committee in 2005. The issue was discussed at the National Standard Setters meeting in 2007 as a result of the continuing diversity of views amongst the various national standard setters. The issue was asked for a second time of the Interpretations Committee in 2008. After the November 2008 Interpretations Committee meeting resulted in a Tentative Agenda Decision not to add this issue to its agenda, the staff proceeded to bring this issue to the Board for consideration.
5. This project was added to the Board's agenda in December 2008 in an effort to see if a quick project could be undertaken to research the issue of how best to account for the impact of regulations on entities that are subject to rate-regulation. An exposure draft *Rate-regulated Activities* (RRA ED) was published in July 2009 that largely proposed guidance similar to FAS 71 (with the most notable modifications to the recognition and measurement requirements).
6. A large number of comment letters were received on the exposure draft with a comment period ending in late November 2009. A notable distinction was evident between the two views on the primary issue of whether regulatory assets and liabilities exist and should be recognised.
7. The staff has provided the Board with a summary analysis of the comments received on the RRA ED at the February 2010 Board meeting. At the July 2010 Board meeting, the staff provided a comprehensive analysis of the key issue of whether regulatory assets and liabilities exist and should be recognised.
8. Additionally of note, since the initial deliberation of this issue by the Board in December 2008, the overall accounting environment has intensified as evidenced by direct requests from the G20 to accelerate the pace of progress on the MoU projects and the comprehensive review of standards addressing financial instruments.

***Future project plan***

9. At the July 2010 Board meeting [excerpt from the [July 2010 IASB Update](#)]:

The Board discussed how to continue with this project. The Board is divided on whether to amend IFRSs to require the recognition of regulatory assets and liabilities and, if so, how to measure those regulatory assets and liabilities. The issues raised by this project relate to broader concerns on the accounting for

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intangible assets, and decisions reached on this project may have broader implications than originally anticipated.

The Board discussed whether an interim IFRS should be developed to assist countries moving to IFRSs in the near future. The Board decided that it should not develop an interim standard, but should instead continue to progress the work on the current project. Accordingly, the Board directed the staff to continue its research and analysis on this project to permit future deliberations by the Board as time and resources permit, acknowledging the existing guidance and current practice that has developed in the 110+ countries that apply IFRSs.

10. At this September 2010 Board meeting, the staff has provided additional analyses focusing on accounting for RRA intangible assets (and RRA liabilities). Consistent with several Board member comments at the July 2010 meeting, the issue of accounting for intangible assets is a broad area and should be addressed through a comprehensive project.
11. However, the staff believes that the Board should consider whether improvements in general purpose financial statement reporting related to the impact of regulated on entities with activities subject to rate-regulation that can be achieved in the short-term. In the staff's opinion, the Board should provide guidance specifying the nature and format of disclosures to improve the clarity and consistency of information on the impact of regulations on entities with activities subject to rate-regulation. The September 2010 Board Paper 12C provides an analysis of RRA disclosure requirements and potential paths for consideration by the Board.

**Staff recommendations**

12. The staff recommends that the Board:
  - (a) finalise the current *Rate-regulated Activities* project through the issue of a final standard that requires specific disclosures on the impact of regulations on entities with activities subject to rate-regulation, and
  - (b) incorporate the issue of whether regulatory assets (and liabilities) exist and whether they should be recognised into a comprehensive project to review the accounting for intangible assets.
13. In the staff's opinion, the comprehensive project on intangible assets should be reconsidered in H2 2011 for addition to the Board's Work Plan.