Project	***Rate-regulated Activities***
Topic	**Cover note, summary and questions for the Board**

Purpose of this agenda paper

1. This paper lists the analyses prepared on the Board's *Rate-regulated Activities* (RRA) project and the related agenda paper references for the September 2010 Board meeting, summarises the staff analyses and asks questions of the Board.

Analyses prepared for this meeting

2. The staff analysis and proposed plans are based on the results of the July 2010 Board deliberations as summarised in the July 2010 IASB Update:

> **Rate-regulated activities**
>
> (This session was held on 20 and 22 July.)
>
> The IASB continued its discussions on the responses received on its exposure draft *Rate-regulated Activities* published in July 2009. At this meeting, the Board focused on the key issue of whether regulatory assets and regulatory liabilities exist, whether they should be recognised in accordance with the current *Framework for the Preparation and Presentation of Financial Statements* and whether they are consistent with other current IFRSs. The Board reviewed analyses of several aspects of the key issue prepared by the staff including an analysis of the regulatory environment, comparison to current IFRSs, comparison to other current Board projects, analysis of the unit of account to apply to this project, a summary of outreach efforts, a summary of the potential application of this project to non-utility entities and a summary of requests for an interim standard.
>
> 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

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.

3. Based on the information included in the July 2010 IASB Update and the staff's informal notes taken during the July 2010 Board deliberations, the staff have prepared the following agenda papers for discussion at this meeting:

   (a) Paper 12 (this paper) – Cover note and summary

   (b) Paper 12A – Accounting for intangible assets:

      (i) Intangible assets in accordance with IAS 38 *Intangible Assets*;

      (ii) Intangible assets in the context of IFRS 3 *Business Combinations* (as revised in 2008); and

      (iii) Intangible assets in the context of IFRIC 12 *Service Concession Arrangements*.

   (c) Paper 12B – Additional analysis of regulatory liabilities.

   (d) Paper 12C – Analysis of RRA disclosure requirements.

   (e) Paper 12D – Future plans for the project.

Summary of the staff analyses

Accounting for regulatory (intangible) assets

4. In the staff's opinion, the impact of regulators may have an economic impact on entities subject to rate-regulation. In the context of the RRA project, this impact will frequently be an increase (or decrease) in the value of an existing (recognised or unrecognised) intangible asset.

5. In the staff's opinion, regulatory assets represent increases in the value of the underlying right/ license/ concession (whether or not recognised in the statement of financial position) that the entity has to operate in a particular jurisdiction. As

such, the staff does not think that regulatory assets meet the requirements for separate recognition in accordance with IFRSs. Regulatory assets do not meet definition of a financial asset. Additionally, in the staff's opinion, regulatory assets do not meet the definition of an intangible asset as specified in IAS 38.

Additional analysis of regulatory liabilities

6. In the staff's opinion, regulatory liabilities represent decreases in the value of the underlying right/ license/ concession (whether or not recognised in the statement of financial position) that the entity has to operate in a particular jurisdiction. As such, the staff does not think that regulatory liabilities meet the requirements for separate recognition in accordance with IFRSs. Regulatory liabilities do not meet definition of a financial liability. Additionally, in the staff's opinion, regulatory liabilities also do not meet the definition of a provision as specified in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

7. The characteristic that this represents is a reduction in a future inflow of economic benefits. A reduction in a future inflow of economic benefits is not a liability in accordance with paragraph 49 of the *Framework*. Only an outflow of resources embodying economic benefits is a liability.

Analysis of disclosure requirements proposed in RRA ED

8. The staff believes that the Board should consider whether improvements in general purpose financial statement reporting related to the impact of rate-regulations can be achieved in the short-term.

9. The staff recommends that the Board 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

10. In the staff's opinion, the finalisation of the required disclosures could be accomplished by an amendment to add application guidance in IAS 38.

Summary of staff recommendations

11. The staff believes that an attempt to examine intangible assets and provisions that exist in different industries through differing industry specific vantage points may result in inconsistent accounting treatments for intangible assets and provisions. Some constituents may consider the different accounting treatments for the same type of asset to be industry specific guidance that the Board has long stated its desire to avoid.

12. Therefore, the staff recommends that the Board:

    (a) finalise the current *Rate-regulated Activities* project through the issue of a final standard that:

        (i) re-confirms that existing IFRSs do not permit the recognition of regulatory assets and liabilities, and

        (ii) requires specific disclosures of the impact of regulations on entities with activities subject to rate-regulation; and

    (b) incorporate into future comprehensive projects the issue of how the effects of rate-regulation should be presented in general purpose financial statements prepared in accordance with IFRSs. This may include:

        (i) the Board's *Phase B: Elements and Recognition* of its *Conceptual Framework* project, and

        (ii) a comprehensive project to review the accounting for intangible assets.

13. In the staff's opinion, the finalisation of the required disclosures could be accomplished by either the issue of a stand-alone IFRS or an amendment to add application guidance in IAS 38.

14. 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.

Questions for the Board

15. The staff requests the Board answer the following questions and provide the staff with guidance on how to proceed with this project.

Question 1 – IAS 38 is the relevant standard

1. Does the Board agree with the staff that the impact of regulations should be considered in the context of intangible assets (ie IAS 38) (and not IAS 39/ IFRS 9)?

Question 2 – Recognition of RRA intangible assets

2. Does the Board agree with the staff that regulatory assets do not satisfy the definition of an intangible asset based on the current guidance in IAS 38?

Question 3 – Recognition of RRA liabilities

3.1 Does the Board agree with the staff that the impact of regulations should be considered in the context of IAS 37 (and not IAS 39/ IFRS 9)?

3.2 Does the Board agree with the staff that regulatory liabilities do not satisfy the definition of a provision based on the current guidance in IAS 37?

Question 4 –Disclosures

4. Does the Board agree with the staff recommendation that the incorporation of specific disclosure requirements into IFRSs will enhance the consistency and comparability of disclosures related to impact of activities subject to rate-regulation?

Question 5 – Finalisation of the RRA project

5. Does the Board agree with the staff recommendation that the *Rate-regulated Activities* project should be finalised with the issue of a standard to amend IFRSs that:

(a) confirms that existing IFRSs do not permit the recognition of regulatory assets and liabilities, and

(b) requires specific disclosures on the impact of regulations on entities with activities subject to rate-regulation?

Question 6 – Project timeline

6.1 does the Board agree with the staff that *Rate-regulated Activities* project should be finalised as timely as possible (incorporating the guidance noted above in question 5)?

6.2 Does the Board agree with the staff recommendation that a comprehensive project on intangible assets be considered in H2 2011 by the Board for addition to its agenda?