

STAFF PAPER

10 July – 11 July 2012

IFRS Interpretations Committee Meeting

Project	IAS 18 Revenue, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and IAS 39 Financial Instruments: Recognition and Measurement		
Paper topic	Regulatory assets and liabilities		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. 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. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction and background

1. The IFRS Interpretations Committee (the Committee) received a request to address issues related to rate-regulated activities. In the submission, the submitter describes a situation in which the operation of the local law or regulation specifically permits the costs to be recovered, or requires overbillings to be refunded, **irrespective of whether services are delivered in future periods**, although for administrative convenience recovery and refund will usually take place through future billings.
2. On the basis of the assumption above, the submitter asks the following two specific questions:
 - Question 1: **Unit of account**—can the population of customers be regarded as a single unit of account?
 - Question 2: **Recognition of regulated assets and liabilities**—if the population is a single unit of account, is it acceptable to recognise an asset or liability for over- or underbilling in a particular period when these items will, as a matter of convenience, be recovered or refunded through adjustments to invoices for future services or another mechanism?

3. The Committee deliberated this issue at the May 2012 meeting. In that meeting, the Committee did not discuss any technical aspects of this issue specific to the situation described in the submission, including the approaches proposed and the two technical questions raised by the submitter.
4. However, regarding the question of the recognition of regulatory assets and liabilities generally, the Committee confirmed its past decisions in 2005 on the subject of whether or not it would be appropriate to recognise a regulatory asset. At that time the Committee concluded that an entity should recognise only assets that qualify for recognition in accordance with the IASB's conceptual framework and with relevant IFRSs such as IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The Committee noted that its past conclusions are still valid, because there have been no major changes made to these IFRSs since the Committee reached that conclusion that warrant revisiting this issue.
5. The Committee also noted that in the Board's project on rate-regulated activities, the Board had concluded that the issue could not be resolved quickly, and had therefore included requests for views on future plans for this project in its Agenda Consultation published in July 2011. Given the status reached by the Board, the Committee observed that this issue is too broad for the Committee to address within the confines of existing IFRSs and the conceptual framework.
6. On the basis of the analysis above, a majority of Committee members agreed with the staff recommendation that the Committee should not add this issue to its agenda.
7. However, the Committee noted that the Board would discuss in the May 2012 Board meeting whether the Board should add a project related to rate-regulated activities to its agenda. Consequently, the Committee decided to wait for the results of the Board's discussions before the Committee issued a tentative agenda decision on this issue. In addition, at the same time, the Committee asked the staff to inform the Committee of the results of the Board's discussions in the next Committee meeting.

8. Our full analysis, together with excerpts from the submission that was presented at the Committee meeting in May 2012, were set out in Agenda Paper 15¹, which can be found on the public website.

Updates on the discussions at the Board meeting

9. In the May meeting, the Board deliberated the recommendations by the staff on projects-level priorities. The Board unanimously supported giving priority to developing a standards-level proposal for rate-regulated activities as a short-term Board project, along with potential amendments to IAS 41 *Agriculture* and the equity method in separate financial statements.

Assessment against agenda criteria and staff recommendation

10. We assess this submission against the agenda criteria of the Committee as follows:
- (a) The issue is widespread and has practical relevance.*
 - (b) The issue indicates that there are significant divergent interpretations (either emerging or existing in practice).*
 - (c) Financial reporting would be improved through the elimination of the diverse reporting methods.*
 - (d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.*
 - (e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.*
 - (f) If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?*
11. We think that the Board will provide more certainty about the rate-regulated activities project, by either developing an IFRS or stating that an IFRS is not necessary. We also think that even though the detailed schedule for this project has not been set, the

¹ <http://www.ifrs.org/NR/rdonlyres/483AA8C0-D73E-478A-9D4F-B0CF1BA483E0/0/151205AP15Regulatoryassetsandliabilites.pdf>

Board will decide on whether or not the Board should add a project to its agenda for this topic in a relatively short period of time.

12. We understand that in the previous meeting, the Committee recognised that this is an important area but agreed that this issue should be dealt with as part of a more comprehensive project of the Board because it is too broad for the Committee to deal with.

Staff recommendation

13. On the basis of the analysis above, we think that the Committee should not add this issue to its agenda for the reasons described above. However, we think that the Committee should bring this issue to the Board’s attention for their deliberation on potential projects in future meetings.

Question to the Committee

Question for the Committee
<p>1. Does the Committee agree with the staff recommendation that the Committee should not add this issue to its agenda, but that it should recommend the Board to address this issue in a future project?</p> <p>2. If the Committee agrees with the staff recommendation, does the Committee agree with the proposed rejection wording in Appendix A?</p>

Appendix A—Proposed wording for tentative agenda decision

A1. The staff propose the following wording for the tentative agenda decision:

IAS 18 Revenue, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 39 Financial Instruments: Recognition and Measurement—Regulatory assets and liabilities

The Committee received a request seeking clarification on whether a regulatory asset or regulatory liability should be recognised in a particular situation in which a regulated entity is permitted to recover costs, or required to refund some amounts, independently of the delivery of future services. Specifically, the submitter asked two questions for the accounting under this situation:

- Can the population of customers be regarded as a single unit of account?
- If the population is a single unit of account, is it acceptable to recognise an asset or liability?

In this meeting, the Committee did not address the two specific questions in the submission. However, regarding the question of the recognition of regulatory assets and liabilities generally, the Committee noted that it reached a conclusion in 2005 on the subject of whether or not it would be appropriate to recognise a regulatory asset. At that time the Committee concluded that an entity should recognise only assets that qualify for recognition in accordance with the IASB's conceptual framework and with relevant IFRSs such as IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The Committee noted that its past conclusions are still valid because there have been no major changes made to these IFRSs that warrant revisiting this issue since the Committee reached that conclusion.

The Committee also noted that in the Board's project on rate-regulated activities, the Board had concluded that the issue could not be resolved quickly, and had therefore included requests for views on future plans for this project in its Agenda Consultation published in July 2011. In addition, the Committee noted that even though there is no active Board project on rate-regulated activities, in the Board's May 2012 meeting, the Board unanimously supported giving priority to developing a standards-level proposal for rate-regulated activities in its deliberation related to short-term standards-level projects.

Given the status reached by the Board in its last project on this subject, the Committee observed that this issue is too broad for the Committee to address within the confines of existing IFRSs and the conceptual framework. Consequently, for this reason, and the fact that the Board has recently expressed support for developing a standards-level project for rate-regulated activities in the short-term, the Committee [decided] not to add this issue to its agenda.