

STAFF PAPER

13 – 14 March 2012

IFRS Interpretations Committee Meeting

Project IFRS Interpretations Committee Work In Progress			
CONTACT(S)	Michael Stewart	mstewart@ifrs.org	+44 (0)20 7246 6922
<p>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 <i>IFRIC Update</i>. The approval of a final Interpretation by the Board is reported in <i>IASB Update</i>.</p>			

Objective of this paper

1. The objective of this paper is to update the IFRS Interpretations Committee (the Committee) on the current status of issues that are in progress but not to be discussed by the Committee in the March 2012 meeting.
2. We have split the analysis of the work in progress into three broad categories
 - (a) **Ongoing issues:** submissions that the Committee is actively working on but the issue was not presented in this meeting;
 - (b) **New issues:** submissions that have been received but have not yet been presented to the Committee. Where this is the case, the submission has been attached as an appendix to this paper for information purposes only; and
 - (c) **Issues on hold:** submissions that the Committee will discuss again at a future meeting but for some reason has decided to temporarily suspend work on the issue, for example, because there is a Board project that might have a knock-on impact to the Committee's discussions.
3. The following table summarises the work in progress that will be discussed at a future meeting:

Ongoing Issues			
Ref.	Topic	Brief description	Progress
IFRS 3-10	<i>Business Combinations:</i> Definition of a business	Request for clarification on whether an asset with relatively simple associated processes meets the definition of a business in accordance with IFRS 3. More specifically, the question was whether the acquisition of a single investment property, with lease agreements with multiple tenants over varying periods and associated processes, such as cleaning, maintenance and administrative services such as rent collection, constitutes a business as defined in IFRS 3.	<p>The Committee decided in its September 2011 meeting not to address the issue but to contribute to the Board's implementation review its experience and the results from its discussions on this issue.</p> <p>Consequently, the Committee directed the staff to continue their discussions with the staff of the US accounting standard setter, the Financial Accounting Standards Board, and to continue their outreach to interested parties from other industry sectors with the aim of providing the Board with relevant information for its post-implementation review.</p> <p>We plan to present the results from our activities and our proposals at the July 2012 meeting.</p>
IAS 12-11	<i>Income Taxes:</i> Recognition of deferred tax for a single asset in a corporate wrapper	Request for clarification of the calculation of deferred tax in circumstances where the entity holds a subsidiary which has a single asset within it. Specifically, the question asked was whether the tax base described in paragraph 11 of IAS 12 and used to calculate the deferred tax should be the tax base of the (single) asset within the entity which holds it, or the tax base of the shares of the entity holding the asset.	<p>The Committee observed in its November 2011 meeting that there is diversity in practice with respect to the recognition of the deferred tax for temporary differences relating to the asset within the entity.</p> <p>Consequently, the Committee directed the staff to do further analysis on this issue, with the aim of assessing whether the issue could be clarified through an annual improvement.</p> <p>We plan to present our proposals at the May 2012 meeting.</p>

IAS 27-11	<i>Consolidated and Separate financial statements:</i> Written put options on non-controlling interests	Request for clarification on how to present the subsequent measurement of gross settled put options written over the equity of a subsidiary (NCI puts). The issue is whether, after initially recognising the put option liability, the subsequent changes in the value of the put option liability are presented in net profit in accordance with IAS 39 or in the statement of changes in equity in accordance with IAS 27.	The staff presented the Committee's recommendation to the Board in February Board meeting. The Board has asked the Committee to develop an interpretation on the issue. The staff will bring the draft interpretation to the Committee at the May 2012 Committee meeting.
IFRIC 15-2	<i>Revenue Recognition:</i> Meaning of continuous transfer	Request for clarification of the meaning of 'continuous transfer' in IFRIC 15. The submission described the sale of multi-unit residential apartments off plan.	Following the November 2011 Committee meeting, the Committee agreed to liaise with the staff to identify which characteristics would be persuasive in determining continuous transfer in an arrangement for the construction of real estate. The staff received this input and the issue was subsequently referred to the Board for direction in the February Board meeting. The results of this process will be reported to the Committee in the May 2012 Committee meeting.

New Issues			
Ref.	Topic	Brief description	Progress
IFRS 3-13	<i>Business Combinations:</i> Employee benefits that are linked to continuing employment	Request for clarification on whether IFRS 3 is conclusive in determining that an arrangement in which payments to an employee that are forfeited upon termination is remuneration for post-combination services and not part of the consideration for an acquisition, or whether this is an indicator but does not, on its own, automatically mean that the payment is compensation.	The staff will bring this issue to the May 2012 Committee meeting. The submission is included in Appendix A to this paper.
IAS 38-10	<i>Rate Regulated Activities:</i> unit of account and recognition of assets and liabilities	Request for clarification on whether the customer base within a single regulatory regime could be considered as a single unit of account and whether, as a result, this could lead to the recognition of regulatory assets and liabilities.	The staff will bring this issue to the May 2012 Committee meeting. The submission is included in Appendix B to this paper.

Issues on hold			
Ref.	Topic	Brief description	Progress
IAS 16-5	<i>Property, Plant and Equipment:</i> Contingent pricing of PPE and intangible assets	Request for clarification on how to account for contingent pricing for the outright purchase of a single item of property, plant and equipment (PPE) or an intangible asset. The issue includes: (i) when to record the liability for such contingent prices; and (ii) whether subsequent changes to the contingent price, when recognised, should be recognised in profit or loss or as an adjustment to the cost of the asset purchased.	The Committee decided in its May 2011 meeting to defer further work on this project until the Board concludes its discussions on the accounting for the liability for variable payments as part of the leases project.

4. This paper does not include requests on issues that are still at a preliminary research stage, including where further information is being sought from the submitter, or other parties, to define more clearly the issue.

Question

Does the Committee have any questions or comments on the Committee Outstanding Issues List?

Appendix A – *Business Combinations*: Employee benefits that are linked to continuing employment

Interpretations Committee potential agenda item request

This letter describes an issue that we believe should be added to the Interpretations Committee's agenda. We have included a summary of the issue, the possible views and an assessment of the issue against the Interpretations Committee's agenda criteria.

The issue

Is IFRS 3.B55(a) conclusive in determining that an arrangement in which payments to an employee that are forfeited upon termination is remuneration for post-combination services and not part of the consideration for an acquisition?

B55 introduces (a) to (h) with the following words: *“If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the business combination, the acquirer should consider the following indicators.”*

This wording might be read by some to suggest that no item in the list that follows is necessarily conclusive. However, B55(a) states, *“... A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services”* (emphasis added). Unlike B55(b)-(h), which use inconclusive language such as ‘indicate’, ‘suggest’, ‘might’ and ‘may’, B55(a) uses the conclusive language, ‘is’. The issue is whether that provision of B55(a) is, on its own, conclusive that a payment that it describes is remuneration for post-combination services or, like B55(b)-(h), is not necessarily conclusive.

There are two possible views to consider.

View 1: B55(a) is conclusive

From a plain reading of B55(a) it is hard to see it as anything other than conclusive. While it is included in a list of indicators, the words used express a conclusive principle: if this indicator is met, then the payment ‘is’ a post-acquisition expense. It is still an indicator, but an individually conclusive one.

In addition, this view is consistent with IFRIC's approach to a question it discussed in July 2009 related to the meaning of significant and prolonged in IAS 39:

“Paragraph 67 of IAS 39 requires an entity to recognise an impairment loss on available-for-sale equity instruments if there is objective evidence of impairment. Paragraph 61 of IAS 39 states: ‘A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.’ [emphasis added] Consequently, the IFRIC concluded that when such a decline exists, recognition of an impairment loss is required.”

View 2: B55(a) is not conclusive

B55(a) gives a strong direction that payments contingent on post-acquisition employee service should be treated separately from acquisition consideration. However, the introduction to B55 describes (a)-(h) as indicators, thereby making clear that this is one of a number of indicators and, accordingly, is not, on its own, conclusive.

Had the IASB wished to make B55(a) conclusive, then it could have separated this paragraph and then followed it with a set of indicators to be applied if B55(a) was not met. The fact that the words are included in a list of indicators implies that it is intended to be given a similar prominence to the other indicators and applied together with them. On the other hand, if the IASB had wanted it not to be determinative, then the IASB could have written it differently, using ‘may indicate’ or perhaps ‘a strong presumption’ instead of ‘is’.

Furthermore, B55(a) is the only place in the standard that this conclusive statement appears. If it were intended to be determinative, then it could be referred to elsewhere; the fact that it isn’t might suggest that the use of the word ‘is’ is an anomaly.

Current practice

Current practice under IFRS is mixed (see, for example, the four largest networks’ guidance in the Appendix). This difference in views implies diversity in practice that is significant if the amounts involved are material: are the amounts in question part of the consideration for the business combination (thus becoming goodwill in the statement of financial position) or compensation expense?

IFRS 3 was one of the convergence projects undertaken jointly with the US Financial Accounting Standards Board and ASC 80510-55-25 (originally FAS 141R.A87) contains the same language. It is our understanding that under US GAAP View 1 is applied consistently. We understand that the FASB staff was consulted on this question in the early days of applying FAS 141R and that the FASB staff was in agreement with View 1.

Reasons for the IFRIC to address the issue

(a) Is the issue widespread and practical?

This is a commonly encountered type of arrangement in business combinations and thus is widespread. It is also practical as the question asked is neither obscure nor conceptually difficult and addressing the existing divergence in practice should result in an improvement to comparability.

(b) Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?

As indicated above, there is diversity in practice. This is significant because although the question is narrow, the related effect is significant because it affects whether the amount in question becomes part of goodwill in the business combination or is recognised in profit or loss.

(c) Would financial reporting be improved through elimination of the diversity?

Elimination of the diversity in practice would improve financial reporting for business combinations. There is a significant difference between the results from recording these amounts as part of goodwill or as an expense which harms comparability with no related benefit.

(d) Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretation process?

Yes, the scope is appropriately narrow for the Interpretations Committee to consider and resolve in a timely manner for the benefits clear guidance would provide. It is also practical as it is an interpretation of one section of IFRS 3 without ramifications on other areas of literature and discrete with an affirmative or negative answer (rather than a range of possible outcomes).

(e) 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? (The Interpretations Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Interpretations Committee would require to complete its due process.)

The issue does not relate to a current IASB project. It could be considered under the post-implementation review of IFRS 3, scheduled to begin at some point in 2012, with as yet no forecast of the implementation date of any eventual resulting changes. However, we believe that the matter could be addressed, and needs to be addressed, sooner.

Appendix 1

Diversity evidenced by the published guidance of the four largest networks:

Deloitte iGAAP 2011 A guide to IFRS reporting (page 2503-2504)

“IFRS 3(2008):B55(a) establishes a rebuttable presumption that a contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. However, the final determination as to whether arrangements for contingent payments to employees are contingent consideration in the business combination or are separate transactions requires a full assessment of the facts and careful judgement.”

EY International GAAP 2011 Volume 1 (page 567)

“Although the guidance says that the acquirer should consider the above factors [*the factors in IFRS 3.B55*] in determining whether the arrangement is part of the business combination or not, in the first bullet point dealing with ‘continuing employment’ it is categorically stated that ‘a contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services.’ However, apart from that, no other single indicator is likely to be enough to be conclusive on the accounting treatment. Therefore, judgement will be required in making this assessment.”

KPMG Insights into IFRS 8th edition 2011/2012 (page 177, paragraph 2.6.400.50)

“An arrangement under which contingent payments automatically are forfeited if employment terminates is compensation for post-combination services. Although this requirement is included within a group of indicators to assist in identifying amounts that are part of consideration transferred, the language in the standard is plain and rules out an alternative interpretation. Therefore, this is the case even if an evaluation of some, or even all, of the other indicators suggests that the payments otherwise would be considered to be additional consideration transferred in exchange for the acquiree; and even if the relevant employee is entitled to remuneration at rates comparable with those earned by people in similar roles.”

PwC Manual of accounting IFRS 2011 (page 25111, paragraph 25.291)

“All of the above indicators [*the indicators in IFRS 3.B55*] should be considered when analysing payments to employees or selling shareholders. However, if the contingent payments are automatically forfeited if employment terminates, the standard requires that the payment is treated as remuneration for post-combination services.”

Appendix B – Rate regulated accounting: Cost based regulation

Michael

I have attached for consideration by the Interpretations Committee a paper addressing the accounting by entities subject to rate regulation.

The issue

Accounting by entities subject to rate regulation continues to be a source of diversity in practice in the application of IFRS. There is different legislation in each territory and many different regulatory regimes. There are likely to be a number of additional issues and complexities arising from the detailed features of each arrangement. This submission does not therefore describe the specific features and accounting implications of each regime, but explores a possible solution and asks the Committee to consider two specific questions.

The legislation in some jurisdictions might permit or require a regulated entity to recover specific costs or to refund collections irrespective of whether services are delivered in future periods. For example, a regulated entity might be specifically entitled to recover costs or refund amounts to customers independently of future services or to recover costs from an incoming operator or the regulator if circumstances change and cause it to cease providing service in the market. These amounts are often recovered or refunded through future invoices to the customer as a matter of administrative convenience, but this does not change the rights or obligations that exist separately from the delivery of services to the customer in future periods. It might be difficult to determine whether the rights and obligations exist separately particularly when there is no history of recovery or refund other than through invoices for future service. Judgment is therefore necessary based on the specific laws, regulations and practice in each territory.

The questions

Consider a situation in which an entity has a licence from a regulator to be the sole supplier of an essential service, such as electricity or water, to users in a specified area. The users have no realistic choice but to use the service, are not involved in setting the price or service standards, and there is no alternative supplier. The services to be delivered and the price charged to users are agreed between the entity and the regulator for a fixed period of time. The regulator fixes the total amount to be charged to users in the specified area in the relevant period. The price for each period usually includes the recovery of under and over billing from previous years and/or the recovery of certain specified costs incurred by the entity. Local law, regulation and practice give the entity an enforceable right and obligation to recover or refund amounts from or to customers, which is usually effected through adjustments to future billings.

We request that the Committee consider:

Question 1 – Unit of account

Is the substance of the licence and the requirement to agree with the regulator the price charged to users each period a single arrangement between the entity and its customers? Does the requirement for customers to delegate negotiation of conditions of service, including price, to a regulator mean that the population of users might be a single unit of account?

Question 2 – Recognition of assets and liabilities

If the population is a single unit of account, is it acceptable to recognise an asset or liability for over or under billing in a particular period or for costs that can be recovered in future periods when these items will, as a matter of convenience be recovered or refunded through adjustments to invoices for future services or another mechanism?

Many thanks and kind regards.

[submitter]

Rate regulated accounting – cost based regulation

Background

The IASB initiated a project on rate regulated activities in 2009 with the objective of clarifying in what circumstances entities should recognise assets or liabilities arising from rate regulation. The project has been postponed indefinitely due to the time required to complete other agenda items. It will next be considered in the context of the IASB's agenda consultation. Accounting for rate regulated activities continues to be a significant difference between IFRS and US GAAP and presents significant challenges for some entities in transitioning territories that previously applied the specific US GAAP guidance for rate regulated accounting.

This paper explains a framework for the recognition of assets and liabilities arising from rate regulation in accordance with existing guidance in IFRS. The paper does not examine individual situations in which assets or liabilities might arise. The application of this framework in specific situations and under the legislation in individual jurisdictions is a judgment for management.

Right and obligations under the relevant legislation

The legislation in some jurisdictions might permit or require a regulated entity to recover specific costs or to refund collections irrespective of whether services are delivered in future periods. For example, a regulated entity might be specifically entitled to recover costs or refund amounts to customers independently of future services or to recover costs from an incoming operator or the regulator if circumstances change and cause it to cease providing service in the market. These amounts are often recovered or refunded through future invoices to the customer as a matter of administrative convenience, but this does not change the rights or obligations that exist separately from the delivery of services to the customer in future periods.

It is appropriate to recognise an asset for the recovery of actual costs incurred or a liability for the refund of amounts over billed whenever the right or obligation exists independently of the delivery of future services. It might be difficult to determine whether the rights and obligations exist separately, particularly when there is no history of recovery or refund other than through invoices for future service. Judgment is therefore necessary based on the specific laws, regulations and practice in each jurisdiction.

It is assumed throughout the rest of this paper that the operation of the local law specifically permits or requires the costs or over billings covered by this paper to be recovered or refunded irrespective of the provision of service, although recovery and refund will usually take place through future billings for administrative convenience.

Revenue recognition and IAS 18

IAS 18 requires that revenue is either accrued or deferred to reflect differences between the amount billed and the revenue earned in any given period. IAS 18 might be applied to support the recognition of regulatory assets or liabilities because it requires a utility that over or under bills its customers to recognise an obligation to pay a customer rebate (liability – deferred income) or an entitlement to collect additional consideration for services already performed (asset – unbilled income). This logic might be applied to an over or under billing to a single customer (for example, a time and material contract might be billed based on a schedule of estimated costs but the seller would record revenue based on actual costs incurred to date). It might also be applied to a portfolio of customers when the circumstances support the portfolio being the unit of account.

The application of IAS 18 to a portfolio of customers in the context of rate regulated activities might be appropriate if:

- There are separate portfolios of customers that can be viewed as a single unit of account in each rate making jurisdiction; and
- the right or obligation to adjust future billing is legally enforceable.

Single unit of account

The unit of account used to determine the ‘buyer’ is often a key consideration in determining the timing and measurement of revenue recognition. IAS 18 requires that transactions are combined when they are linked in such a way that the commercial effect cannot be understood without the combination.

The following characteristics might suggest it is appropriate to combine specific groups of customers in a rate making jurisdiction into a single unit of account:

- Monopoly – the utility is a monopoly or a near monopoly for basic needs. The customers cannot switch suppliers and are unlikely to opt out of receiving the good or service.
- Revenue formula – the utility’s rates are determined based on total revenue for the entire population of customers in each rate making jurisdiction. The revenue to which the utility is entitled is therefore based on regulating its total income, which is then invoiced as a rate per unit.
- Customer management – customers are managed as a single portfolio.

Right or obligations to adjust future billings is legally enforceable

The conceptual framework provides guidance on the definition of an asset or liability; it requires the existence of a right to future economic benefits that is controlled by an entity (asset) or a present obligation (liability). The following characteristics might support recognition of an asset or liability arising from rate regulation:

- the utility has the existing authority or obligation to recover or refund over and under billings through the adjustment of future rates to all customers receiving service in the future regardless of whether the individual customer was receiving service when the over or under billing arose;
- the utility is expected to recover or refund the over and under billings; and
- the utility can estimate reliably the over or under billing for the customers as a whole (the ‘unit of account’).

Provisions, reimbursement assets and IAS 37

A regulated utility might incur expenses that were not contemplated in current billing rates but are expected to be recovered through a future rate setting process or it might be required to refund

customers as a result of the recovery of costs in excess of those required to provide the service. The most common recovery or repayment mechanism is a future billing adjustment. Some future billing adjustments can be addressed by reference to IAS 18 as discussed above but in other circumstances it might not be appropriate to recognise unbilled or deferred income under IAS 18 because the refund or reimbursement was not a known component of the current revenue arrangement. In these circumstances, entities might consider the guidance in IAS 37 to determine whether to recognise a reimbursement asset or a provision.

Reimbursement assets

The reimbursement guidance in IAS 37 applies where some of the expenditure required to settle a provision is to be reimbursed by another party. There is similar guidance when an entity is entitled to compensation for the impairment of an asset. The reimbursement right is recognised only when it is virtually certain that it will be received. An analogy to IAS 37 might be made to allow recognition of a reimbursement asset for costs for which an expense has been recognised when it is virtually certain that the expenses will be recovered. Facts that might indicate the virtually certain threshold has been met include:

- there is a legal opinion confirming the utility has a legal right to recover the costs;
- there is a monopoly or near monopoly, which means future sales are virtually certain;
- the utility holds a regulatory order confirming the charges that can be recovered;
- the billing adjustment will be made via a rate rider; and
- the utility (and others in the same regulatory environment) have an established history of recovering / refunding these cost variances in future periods.

Whether or not there is sufficient evidence to conclude the virtually certain threshold has met is a matter of judgment for management based on the facts. It might, however, be difficult to conclude that the reimbursement right is virtually certain in the absence of legally enforceable right to recover the costs and a monopoly or near monopoly position and a history of recovery is unlikely to support a virtually certain conclusion in the absence of a legal right to recover the costs.

Provisions

It is difficult under IAS 18 to recognise a liability for deferred revenue when the utility has not billed more than the amount it is permitted to bill. There might be circumstances where a utility is required to refund customers or reduce future bills without over billing, for example, following an asset disposal.

IAS 37 requires that a provision is recognised only when there is a probable outflow of resources. Lower future billing is not necessarily an outflow of resources, although there might be circumstances in which the refund obligation exists independently of future billing as explained above. The guidance in IAS 37 should be applied in these circumstances to determine whether a legal or constructive obligation exists to refund the costs independently of the future supply of services.

IAS 32 and IAS 39 - financial assets and liabilities

A utility's rights and obligations to recover or refund amounts to or from customer are usually established by legislation or regulation rather than by contract. IAS 32 and IAS 39 do not apply in this situation. There might, however, be circumstances in which an entity has a contractual right or obligation to recover or refund amounts from or to its customers and in these situations the guidance in IAS 32 and IAS 39 should be applied.

Measurement of assets and liabilities

The assets and liabilities that arise from rate regulation are frequently recovered or refunded over a long period. The initial recognition of such assets and liabilities should reflect the time value of money in these circumstances.

Application to recognised expenses

The guidance in this paper should be applied to the right or obligation to recover or refund amounts related to expenses actually charged in the income statement. It should not be applied to items that are not charged to the income statement under IFRS, for example, the allowance for funds used during construction.

Summary of application of guidance to common regulatory asset and liabilities

Each transaction or type of transaction should be evaluated individually to determine if an asset or liability can be recognised applying the guidance in this paper. The following table provides some examples of how the guidance might be applied.

Relevant guidance	Revenue recognition (IAS 18)	Provisions and reimbursement assets (IAS 37)
Basis for application	Arise from an over or under billing which results in an obligation to pay a rebate (deferred income) or an entitlement to additional consideration for services already performed (unbilled income).	Arise from unplanned costs that are expected to be reimbursed by customers through future rate increases or amounts that will be refunded to customers independent of delivering future services.
Examples	<ul style="list-style-type: none"> • Volume driven timing differences • Commodity cost passed through to customers 	<ul style="list-style-type: none"> • Unplanned storm costs • Environmental obligations • Gain/loss on sale of assets • Removal costs • Pension expenses • Overbilling that would be refunded independently of future service

Appendix A – Common regulatory balance arising from application of FAS 71

This appendix describes regulatory assets and liabilities that commonly arise upon the application of the rate regulation guidance in US GAAP (FAS 71). Inclusion on the list does not confirm that an asset or liability can be recognised. The guidance in this paper should be applied to determine whether it is appropriate to recognise an asset or a liability. The list is also not exhaustive.

Volume driven timing differences - The utility allocates revenue per unit based on the expected total units delivered. Actual units delivered will vary from expected.

Commodity costs passed through to customers - If the utility procures the commodity (gas/power), the cost is generally directly passed on to the customers. The utility is required to minimise cost (ie. through forward contracts / hedging), but the actual cost might differ from the amount forecast.

Unplanned storm costs – The utility incurs unexpected costs as a result of a storm and has the ability to recover those costs.

Environmental provisions – The utility has an obligation to restore or remediate contaminated land. It recovers costs from customer in accordance with rate order or when cash is paid.

Gain/loss on sale of assets – A regulated asset is sold at a gain or loss. The gain or loss is returned to or recovered from customers through future rate adjustments.

Pension expenses – Pension costs are often recovered based on actual/estimated cash payments. A regulatory asset/liability is recorded as an equal offset to the pension asset/liability.

Removal costs – Rates are set to recover depreciation which includes the recovery of removal costs (negative salvage value). The asset arises from the amount collected for removal where no ARO has been recorded. It is likely that the guidance in IAS 37 would be applied to asset decommissioning obligations.

Deferred tax expense – Tax expense is recovered by the utility from customers on a cash basis. Deferred tax assets and liabilities are offset by regulatory liabilities and assets, respectively. Deferred tax liability is normally a reduction to the rate base.

AFUDC - A credit to income representing capitalised cost of debt and equity as required by US GAAP (FAS 71). The guidance in this paper is unlikely to apply to AFUDC.