STAFF PAPER

January 2013

IASB Meeting

Project	**Rate-regulated Activities**		
Paper topic	Interim Standard: Cover note		
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1. In July 2009, the IASB issued an Exposure Draft *Rate-regulated Activities* (the 2009 ED). This proposed requirements for the accounting for regulatory deferral and variance account balances established in accordance with a cost-of-service[1] rate-setting mechanism. These balances are often referred to as regulatory assets or regulatory liabilities. Responses the 2009 ED were mixed and raised complex and fundamental issues at a conceptual level. The IASB did not reach a consensus on the issues before other priorities forced the IASB to suspend work on the project following the September 2010 meeting.

2. In September 2012, the IASB decided to restart the project at a research phase, with the aim of developing a Discussion Paper for publication in Q4 of 2013. In December 2012, the IASB tentatively decided to develop an Exposure Draft for an interim Standard that will permit the continuation ('grandfathering') of existing practice for many entities that currently recognise regulatory deferral account balances in their financial statements, in accordance with their jurisdictionally accepted accounting principles (local GAAP). The interim Standard would avoid these entities having to make a major change to their accounting policies that might be followed by another major change once the comprehensive project is completed.

[1] Cost-of-service regulation was defined in the 2009 ED as "A form of regulation for setting an entity's prices (rates) in which there is a cause-and-effect relationship between the specific costs the entity incurs in providing the regulated goods or services and its related revenues, as specified by the regulator."

3. The IASB made it clear that this interim Standard must not delay the completion of the main project and does not in any way prejudge the outcome of that project. However, some IASB members expressed some concern about reducing comparability in IFRS reporting by rate-regulated entities. Consequently, some restrictions to wholesale grandfathering are considered necessary for the preparation of IFRS financial statements. The IASB asked the staff to develop a [draft] interim Standard that:

   (a) permits ‘grandfathering’ of existing recognition and measurement policies for those entities that currently recognise regulatory deferral account balances in financial statements in accordance with their local GAAP;

   (b) requires that such regulatory account balances are identified and presented as separate line items in the financial statements, with additional disclosure requirements; and

   (c) contains some impairment test requirements (as is currently required in IFRS 6 *Exploration for and Evaluation of Mineral Resources*).

4. Our recommendations for the content of the [draft] interim Standard are addressed in the following papers. In order to make our work more efficient, and to address comments from the IASB, the IFRS Advisory Council and others to use the work done during the previous Rate-regulated Activities project and to minimise the risk of diverting resources away from the new main project, we have used the 2009 ED as our starting point. Consequently, these recommendations take into account the responses to the 2009 ED proposals and the restrictions summarised in paragraph 3 above.

Agenda paper 5A: Interim Standard: Scope

5. Agenda paper 5A *Interim Standard: Scope* recommends that the scope of the [draft] interim Standard should be wider than that of the 2009 ED, so that it appropriately captures a wider variety of regulatory regimes. Entities that are captured within the scope but do not currently recognise regulatory deferral account balances will not be significantly affected, because of the proposed

restrictions on changes to current practice addressed in the remaining agenda papers.

Agenda paper 5B Interim Standard: Recognition and Measurement

6. Agenda paper 5B *Interim Standard: Recognition and Measurement* recommends that the [draft] interim Standard:

   (a) does not contain specific recognition or measurement criteria but instead requires the entity to determine recognition, initial measurement and subsequent measurement accounting policies. These policies should conform to the entity's existing accounting policies, which should be generally accepted in accordance with existing jurisdictionally accepted accounting principles (local GAAP);

   (b) requires an entity to assess the recoverability of any regulatory deferral account balance and to recognise the impairment of that balance for any amounts that may not be recoverable; and

   (c) requires an entity to derecognise the entire carrying amount of any regulatory deferral account balance when the related underlying activities cease to meet the scope criteria.

Agenda paper 5C Interim Standard: Presentation

7. Agenda paper 5C *Interim Standard: Presentation* recommends that the [draft] interim Standard proposes that:

   (a) all regulatory deferral account debit balances and all regulatory deferral account credit balances should be presented as separate line items immediately below a subtotal for "Total assets (or liabilities) before regulatory amounts";

   (b) the impact of rate regulation should be isolated such that all other items in the financial statements, including property, plant and equipment and intangible assets, should be presented in accordance with IFRS in the same way as for a non-rate-regulated entity.

   (c) any regulatory deferral account debit balances and credit balances should be offset if they arise with the same regulator and are taken into account by the regulator in setting the rate for the same rate-regulated activities;

(d) the current and non-current amounts of any net regulatory deferral account debit balance and net regulatory deferral account credit balance should be presented separately only in the notes; and

(e) that the net movement between the opening and closing balance of all regulatory deferral accounts should be presented in profit or loss as a separate line item immediately below a subtotal for "Profit (or loss) before taxation and regulatory amounts".

Agenda paper 5D Interim Standard: Disclosure

8. Agenda paper 5C *Interim Standard: Disclosure* sets out a recommendation that overall, the disclosures proposed in the 2009 ED are largely retained, but with the following substantive modifications:

(a) all entities that have activities subject to rate regulation should disclose that fact and provide a qualitative description of the nature and extent of the effect of rate regulation on those activities, either in the financial statements or in the accompanying management commentary (with a cross-reference from the financial statements);

(b) rate-regulated entities that do not recognise regulatory account balances need only disclose the qualitative information in paragraphs 8(a) above and 1(d) below, but more detailed qualitative and quantitative information should be disclosed when regulatory deferral account balances are recognised in the financial statements in accordance with the [draft] interim Standard;

(c) these more detailed disclosures may be aggregated for similar activities that are subject to similar regulation imposed by different regulators instead of being presented for each individual regulator;

(d) for each set of rate-regulated activities that are material to the financial performance or position of the entity, the identity of the rate regulator should be disclosed;

(e) a statement that the regulator does not permit a return on investment for a regulatory deferral account balance should be disclosed, together with the amount of the restricted balance recognised and the remaining recovery period applicable to that amount;

(f) the rate of return or discount rate that an entity is required or permitted to adjust a regulatory deferral account for the time value of money should be disclosed, together with the amount of the related account balance and the remaining recovery period applicable to that amount;

(g) the amount of, and reason for, any reduction in a deferral account balance resulting from an assessment that the amount is no longer recoverable should be disclosed; and

(h) the impact of rate regulation on the amounts of current and deferred tax recognised and the related net regulatory deferral account debit and credit balances should be disclosed.

Agenda paper 5E Interim Standard: Transition and consequential amendments

9. Agenda paper 5E *Interim Standard: Transition and consequential amendments* recommends that the [draft] interim Standard:

(a) proposes retrospective transition of the [draft] requirements;

(b) does not propose any additional relief from retrospective application to that already in paragraph D5B of IFRS 1 *First-time Adoption of International Financial Reporting Standards*; and

(c) proposes a consequential amendment to paragraph D5B of IFRS 1 to amend the scope of the existing exemption in paragraph D8B to match the revised scope of the [draft] interim Standard.

Agenda paper 5F Interim Standard: Due process

10. Agenda paper 5E *Interim Standard: Due process* asks if:

(a) the IASB is satisfied that the due process steps performed are sufficient for the staff to begin the balloting process;

(b) any IASB members intend to dissent to the proposal and, if they do, their reason for doing so; and

(c) the IASB agree with the staff recommendation that the comment period for the Exposure Draft should be 120 days