STAFF PAPER

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IASB Meeting

Project	**Rate-regulated Activities**		
Paper topic	Interim Standard: Transition and consequential amendments		
CONTACT(S)	Jane Pike	jpike@ifrs.org	+44 (0)20 7426 6925
	Michael Stewart	mstewart@ifrs.org	+44 (0)20 7426 6922

Introduction

1. This paper considers the transition requirements of the interim Standard. It also identifies the consequential amendments that may be needed to other Standards if the IASB agree to the staff recommendations in Agenda Papers 5A-5D.

Transition

Background

2. The 2009 Exposure Draft (ED) proposed a modified retrospective approach to transition. This approach proposed that the resulting Standard should be applied only to those regulatory deferral account balances that existed at the beginning of the earliest comparative period that is presented with the financial statements for the first period in which the Standard is applied. Adjustments to earlier comparatives were not required for those regulatory deferral account balances that had been recovered or eliminated in earlier periods.

3. This modified retrospective approach was proposed because the 2009 ED proposed that regulatory deferral account balances should be recognised for all rate-regulated activities within its proposed scope. Consequently, many rate-regulated entities that did not previously recognise such amounts in accordance with IFRS would have recognised them for the first time on

application of the resulting Standard. In addition, the 2009 ED proposed that, these regulatory deferral account balances should be measured using a probability-weighted estimate of the present value of expected future cash flows. This would have represented a change in measurement basis for most entities that recognised regulatory deferral account balances in accordance with local GAAP. In general, these entities use an accumulated historical cost basis (see paragraph 24 of Agenda Paper 5B). Paragraph BC62 of the Basis for Conclusions noted that the information needed to apply this measurement basis might not have been available retrospectively without the use of hindsight.

4. This present value measurement basis is not recommended for the [draft] interim Standard. Agenda Paper 5B sets out the staff's recommendations for the recognition and measurement proposals. These proposals, if accepted by the IASB, would permit entities to retain ('grandfather') their existing recognition and measurement policies. Consequently, the barrier to retrospective application related to the 2009 ED proposals is no longer relevant.

Staff recommendation

5. We recommend that the [draft] interim Standard should propose retrospective transition. We expect that entities will have sufficient detail in their regulatory accounts to permit them to determine the amounts the regulator permitted/required to be included in rates. The [draft] interim Standard is intended to permit entities that currently recognise regulatory deferral account balances in their financial statements to continue to do so, using their existing recognition and measurement policies. Consequently, these amounts will have already been recognised in the financial statements and we see no reason why retrospective application would not be appropriate.

6. We appreciate that the [draft] interim Standard may result in some changes to the existing presentation policies of those entities that do recognise regulatory deferral account balances (see Agenda Paper 5C). The main impact of those proposals is to isolate the impact of recognising such balances so that all other line items are presented in accordance with IFRS.

7. We expect this to have an impact for many first-time adopters of IFRS, because Topic 980 *Regulated Operations*[1] in the *FASB Accounting Standards Codification*® and similar local GAAP requirements in other jurisdictions permit regulatory adjustments to be recognised in the reported amounts for other line items, particularly property, plant and equipment and intangible assets. We discuss the application of these proposals on first-time adoption of IFRS in a later section of this agenda paper.

8. We do not expect the presentation proposals of the [draft] interim Standard to have a major impact for existing IFRS preparers. We have not seen examples of the recognition of regulatory deferral account balances in the financial statements of rate-regulated entities that report in accordance with IFRS.

9. If any such balances are currently recognised, we expect that other line items, including property, plant and equipment and intangible assets, will already be presented in accordance with the relevant Standard. Consequently, we do not propose to replicate the IFRS 1 exemption discussed in paragraph 11 below for ongoing IFRS preparers. We recommend that the Exposure Draft of the interim Standard should contain a specific question to ask whether this approach is suitable.

10. In summary, we think that retrospective application of the [draft] interim Standard proposals (as recommended in Agenda Papers 5-5D) is achievable and reasonable.

Provisions for first-time adoption

11. As noted in paragraph 7 above, we expect the changes to the presentation of items such as property, plant and equipment to have an impact for many first-time adopters of IFRS. However, IFRS 1 *First-time Adoption of International Financial Reporting Standards* already contains an exemption that allows first-time adopters to use their previous GAAP carrying amount of such items at the date of transition to IFRS as deemed cost.

[1] Topic 980 brings together the requirements formerly contained in SFAS 71 *Accounting for the Effects of Certain Types of Regulation* and subsequent related guidance and amendments.

12. We think that the existing IFRS 1 exemption[2] provides sufficient relief for first-time adopters and so we do not recommend any further relief from retrospective application of the [draft] interim Standard proposals. We suggest that the [draft] Basis for Conclusions should highlight the relief available in IFRS 1.

Questions for the IASB

Question: transition requirements
Do you agree with the staff's recommendation that the proposed accounting requirements of the [draft] interim Standard should be applied retrospectively? If not, what alternative do you suggest?

Consequential amendments

Background

13. Paragraph D8B of IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides an exemption to first-time IFRS adopters that hold items of property, plant and equipment or intangible assets that are, or were previously, used in operations subject to rate-regulation. It allows first-time adopters to use their previous GAAP carrying amount of such an item, at the date of transition to IFRS, as deemed cost.

14. However, paragraph D8B notes that, for the purposes of this exemption,

> "operations are subject to rate regulation if they provide goods or services to customers at prices (ie rates) established by an authorised body empowered to establish rates that bind the customers and that are designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return.

[2] The scope of the existing exemption reflects the intended scope of the 2009 ED. Consequently, this scope will need amending if the IASB agrees to change the scope proposed in the [draft] interim Standard (see paragraphs 13-16 of this agenda paper.

> The specified return could be a minimum or range and need not be a fixed or guaranteed return".

This wording is the same as that used for the scope of the 2009 ED.

15. In Agenda Paper 5A, we recommend that the IASB should amend the scope of the [draft] interim Standard to widen the scope from narrowly-defined cost-of-service rate regulation to the more common types of regulation, which set rates based on "allowable costs".

Staff recommendation

16. If the IASB agrees with the staff recommendation in Agenda Paper 5A to remove the reference to cost-of-service rate regulation in the scope of the [draft] interim Standard, we recommend that the [draft] interim Standard should provide an equivalent consequential amendment to the scope of paragraph D8B of IFRS 1.

Questions for the IASB

Question: consequential scope amendment to the IFRS 1 exemption
Do you agree with the staff's recommendation to amend the scope of the existing exemption in paragraph D8B to match the scope of the [draft] interim Standard? If not, what alternative do you suggest?