

STAFF PAPER

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IASB Meeting

Project	Rate-regulated Activities		
Paper topic	Interim Standard: Due process		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. This paper considers whether the IASB has complied with its due process requirements and should proceed to publish an Exposure Draft (ED) for *Rate-regulated Activities*. This ED proposes to allow the continuation (grandfathering) of existing accounting policies for the recognition and measurement of regulatory deferral account balances. The ED also proposes some constraints on the policies that can be adopted and some specified presentation and disclosure requirements. These proposals are discussed in Agenda Papers 5-5E for this meeting.
2. This paper also sets out a request for permission to begin the balloting process for the ED and recommends a comment period of 120 days.

Background

3. In July 2009, the IASB issued an Exposure Draft *Rate-regulated Activities* (the 2009 ED). This 2009 ED proposed requirements for the accounting for regulatory deferral and variance account balances established in accordance with a cost-of-service¹ rate-setting mechanism. These balances are often referred to as

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.”

regulatory assets or regulatory liabilities. Responses to 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.

4. In response to the views received in the Agenda Consultation, the IASB, in its May 2012 meeting, supported giving priority to developing a proposal for a standards-level project for Rate-regulated Activities. In addition to taking into account the views received in the Agenda Consultation, the IASB considered an analysis of the research and views received in the previous project. In September 2012, the IASB decided that the Rate-regulated Activities project should restart with a research phase, with the aim of developing a Discussion Paper (DP) for publication in Q4 of 2013.
5. At the same time, the IASB began considering requests, which had been highlighted in the Agenda Consultation responses and related round-table meetings, for an interim Standard to be published for use until a more comprehensive solution is developed. These requests came primarily from interested parties in jurisdictions that currently recognise regulatory deferral account balances in accordance with their existing jurisdictionally accepted accounting principles (local GAAP).
6. These interested parties consider that the high levels of uncertainty about the outcome of the complex issues related to the economic effects of rate regulation and its impact on financial reporting, together with the lack of any guidance within IFRS, is a major barrier to adoption of IFRS.

Views received from the IFRS Advisory Council and others

7. In October 2012, the IFRS Advisory Council considered the factors that the IASB should be aware of when deciding whether or not to develop an interim Standard and if such an interim Standard is developed, in deciding what form it should take. We also consulted the Capital Markets Advisory Committee (CMAC) and others, albeit in a less detailed way.
8. Although a majority of Advisory Council members did not support an interim solution, there were some members who strongly supported an interim Standard. The main messages we took from the outreach are:

- (a) there is a lot of uncertainty and lack of understanding about the economic effects and financial reporting impacts of rate regulation, and so the IASB should give high priority to the project on Rate-regulated Activities; and
 - (b) the timetable for the comprehensive solution should not be jeopardised. If any interim solution is to be developed, this should be done quickly and not delay the outcome of the comprehensive project.
9. In December 2012, the IASB considered the views received from this outreach, together with the staff recommendation for the type of interim Standard that could be produced within the constraints recommended by the Advisory Council (see December 2012 Agenda Paper 6B). The IASB tentatively decided to develop an Exposure Draft for an interim Standard that will permit grandfathering of existing practice for many entities that currently recognise regulatory deferral account balances in their financial statements, in accordance with their local GAAP. The interim Standard should lower a significant barrier to adoption of IFRS for these entities. It should allow them to adopt IFRS without having to make a major change to their accounting policies for rate-regulated activities that might be followed by another major change once the comprehensive project is completed.

Main proposals for the [draft] interim Standard

10. The IASB made it clear, in the December 2012 meeting, 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, these members consider that some restrictions to wholesale grandfathering are necessary. The IASB asked the staff to develop proposals for 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 for the regulatory deferral account balances recognised.
11. Our recommendations for the content of the [draft] interim Standard are addressed in Agenda Papers 5-5E. These recommendations take into account the responses to the 2009 ED proposals and the restrictions summarised in paragraph 10 above.

Due process

12. The IASB's Due Process requirements set out the mandatory and optional steps that need to be undertaken or considered before the publication of an ED. The IASB is required to explain why it has determined that it was not necessary to undertake any of the optional steps (ie the 'comply or explain' approach). As a general rule, because interested parties will have the opportunity to comment on the proposals before they are redeliberated and finalised, and because additional work will be undertaken during redeliberations, the due process steps that are needed in order to publish an Exposure Draft are less comprehensive than those for issuing final requirements.

Required steps

IASB meetings held in public, with papers available for observers. All decisions are made in public session.

13. The IASB has held public meetings on this project between September 2012 and this meeting. Before the meetings, the staff papers have been posted on the website for observers. All of the tentative decisions have been made in those public meetings, and summaries of the tentative decisions reached were posted on the website after each meeting.

Formal consultation with the Trustees and the Advisory Council

14. As noted in paragraph 7, the Advisory Council discussed this project in their October 2012 meeting, with a summary of the discussion included in the Advisory Council Chairman's Report to the Trustees.

Publication of effect analysis

15. The staff have analysed the likely effects of the proposals, which will be included in the Basis for Conclusions on the ED.

Exposure Draft published with an appropriate comment period

16. In paragraphs 25-26 of this paper, the staff will ask the IASB for permission to prepare for balloting an ED for an interim Standard on the accounting for rate-regulated activities, and also provide an analysis of the appropriate comment period for these proposals.

Optional steps

17. The Appendix to this agenda paper summarises the optional due process steps that have been taken so far. The paragraphs below explain which steps have not been done and why we consider do not consider it necessary to undertake them.

Consultative groups used, if formed

18. The current phase of the Rate-regulated Activities project is not intended to deal with the complex technical issues that will be analysed within the comprehensive project (see paragraph 4 above). We therefore do not think that a consultative group is necessary for this phase. The IASB, at its December 2012 meeting, decided that a formal consultative group should be formed for the comprehensive project because of the specialist nature of the subject and the need for industry expertise. This group, when formed, will be consulted in the analysis of the comments received and in the redeliberation of the ED proposals as well as in the development of the DP.

Fieldwork undertaken in analysis proposals

19. We do not think that it is necessary for separate fieldwork to be performed on the proposed requirements. The ED will propose limited amendments to existing

accounting policies for rate-regulated activities, and interested parties will have an opportunity to comment on these proposals.

Webcasts and podcasts

20. The IFRS website (www.ifrs.org) contains both historical and up-to-date information on the Rate-regulated Activities project pages, including staff papers discussed in public meetings and high-level summaries of those discussions and the resulting decisions. We do not think that it is necessary to provide webcasts or podcasts for this phase of the project.

Online survey, discussion forums and round-tables

21. We do not think that an online survey, discussion forums or round tables are necessary to develop these proposals. The ED will propose limited amendments to existing accounting policies for rate-regulated activities. These proposals have been developed in response to interested parties' requests and comments submitted in response to both the previous project on Rate-regulated Activities and the 2011 Agenda Consultation. Interested parties will have an opportunity to comment on these proposals through additional consultative steps to be performed during redeliberations on the ED.

Additional consultative steps during redeliberations on the ED

22. The views of interested parties have been considered during the development of these proposals and do not negate the IASB's reasons for making its proposals. Some constituents might agree with, and others might disagree with, aspects of the proposals. Interested parties will have the opportunity to comment on the ED and their views will be further considered during the comment period and during the redeliberations on the ED.
23. In addition to considering the comments received, the IASB will perform more extensive outreach to consider the views of various groups of interested parties and individual jurisdictions.
24. As the IASB gathers more information, it will be able to consider what other consultative steps should be performed before finalising an interim Standard for the grandfathering of accounting policies for rate-regulated activities, with amendments to presentation requirements.

Summary

25. The staff assessment is that the IASB has met all of the mandatory due process steps and performed sufficient additional steps to ensure that the IASB has sufficient information to support its decisions in this project.

Question 1: due process

Is the IASB satisfied that the IASB has:

- (a) performed all mandatory due process steps?
- (b) performed sufficient additional due process steps?

Permission to begin the balloting process

26. If the IASB is satisfied that the due process steps performed are sufficient for it to proceed to an ED proposing grandfathering of existing recognition and measurement policies for rate-regulated activities, with amendments to presentation requirements, the staff will begin the balloting process. At this time, the staff are also asking whether any IASB members intend to dissent from the proposal and, if they do, their reason for doing so.

Question 2: permission to ballot

Does the IASB grant the staff permission to begin the balloting process for the Exposure Draft proposing limited amendments?

Question 3: intention to dissent

Do any IASB members intend to dissent from the proposal?

Comment period

27. The normal comment period for an IASB Exposure Draft is 120 days. Because of the limited scope of the proposals, we do not think that additional time is necessary beyond the normal 120 day period set out in the IASB's *Due Process Handbook*. Accordingly, the staff recommend a comment period of 120 days for the ED.

Question 4: comment period

Does the IASB agree with the staff recommendation that the comment period for the Exposure Draft should be 120 days?

Appendix: Required and optional due process steps for developing an Exposure Draft (ED) for an IFRS

A1. The following table summarises the actions that have been taken to comply with the required and optional due process steps for developing an ED for an IFRS. Further mandatory and optional steps for the future drafting and publication phases of the process will be completed and reported to the IASB in due course.

Step	Required/ optional	Metrics or evidence	Evidence provided to DPOC	Actions
IASB meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held to discuss topic. Project website contains a full description with up-to-date information on the project. Meeting papers posted in a timely fashion.	Members of the IASB discuss with DPOC progress on major projects, in relation to the due process being conducted. DPOC reviews comments from interested parties on IASB due process as appropriate.	The IASB meetings discussing the development of the ED were held in public between September 2012 and this meeting. All decisions were made during those sessions. The project website contains relevant historical information and was updated in a timely fashion for meeting papers and up-to-date summaries of the decisions reached at the meetings.
Consultation with the Trustees and the IFRS Advisory Council	Required	Discussions with the IFRS Advisory Council on topic.	DPOC meets with the Advisory Council to understand perspectives of stakeholders on due process of IASB. IFRS Advisory Council Chairman invited to Trustees' meetings and meetings of DPOC	At the October 2012 Advisory Council meeting, this project was discussed (see paragraph 7 of the accompanying agenda paper)

Step	Required/ optional	Metrics or evidence	Evidence provided to DPOC	Actions
Consultative groups used, if formed	Optional	Extent of consultative group meetings, and evidence of substantive involvement in issues Consultative group review of draft Exposure Draft	DPOC receives report of consultative group activity from IASB.	The use of a consultative group was not considered necessary in developing these proposals (see paragraph 18).
Fieldwork undertaken in analysing proposals	Optional	IASB describes approach taken on fieldwork IASB explains why it does not believe fieldwork is warranted, if that is the preferred path Extent of field tests	DPOC to review the IASB's explanation if fieldwork is deemed by IASB as not required and have the opportunity to discuss the explanation with IASB DPOC receives a report on fieldwork activities and how findings have been taken into consideration by IASB	We do not consider it necessary for separate fieldwork to be performed on the proposed requirements. The ED will propose limited amendments to existing accounting policies for rate-regulated activities, and interested parties will have an opportunity to comment on these proposals (see paragraph 19).
Outreach meetings with a broad range of stakeholders, with special effort for investors	Optional	Extent of meetings held and location Evidence of specific targeted efforts for investors	DPOC receives a report on outreach activities and IASB reviews with DPOC outreach plan for the ED and its approach to the optional steps to ensure extensive outreach and public consultation	The IASB conducted limited focused outreach to gather information needed to develop the proposed amendments. The IASB will undertake more extensive outreach during the comment period and redeliberations on the ED to consider the views of various groups of interested parties and individual jurisdictions.

Step	Required/ optional	Metrics or evidence	Evidence provided to DPOC	Actions
Webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.	Optional	Extent of and participation in webcasts	DPOC receives a report on outreach activities	The IFRS website contains up-to-date information on the Rate-regulated Activities project pages. We do not think that it is necessary to provide webcasts or podcasts for this phase of the project (see paragraph 20)
Public discussions with representative groups.	Optional	Extent of discussions held	DPOC receives a report on outreach activities	This project was discussed with the Capital Markets Advisory Committee and others (see paragraph 7). The IASB will undertake more extensive outreach during the comment period and redeliberations on the ED to consider the views of various groups of interested parties and individual jurisdictions.
Online survey to generate evidence in support of or against a particular approach.	Optional	Extent and results of surveys	DPOC receives a report on outreach activities	An online survey was not considered necessary in order to develop these proposals.
IASB hosts regional discussion forums, where possible, with national standard-setters.	Optional	Schedule of meetings held in these forums	DPOC receives a report on outreach activities DPOC receives a report on outreach activities	Regional discussion forums were not considered necessary in order to develop these proposals.

<i>Step</i>	<i>Required/ optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
Round tables between external participants and members of the IASB.	Optional	Extent of meetings held	DPOC receives a report on outreach activities	Round-table meetings were not considered necessary in order to develop these proposals.
Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or ongoing associated costs.	Required	Publication of effect analysis as part of basis for conclusions.	IASB reviews with DPOC results of effect analysis and how it has considered such findings in proposed IFRS. IASB provides a copy of the effect analysis to the DPOC at the point of Standard's publication.	The staff have analysed the likely effects of the proposals and will include the analysis in the Basis for Conclusions on the ED.
Finalisation				
Due process steps reviewed by IASB	Required	Summary of all due process steps discussed by the IASB before an IFRS is issued	DPOC receives summary report on due process steps followed before an exposure draft is issued.	This paper provides an analysis for an IASB discussion on the due process steps undertaken in this project.
Exposure Draft has appropriate comment period.	Required	IASB sets comment period for response. Any period outside the normal comment period requires explanation from IASB to DPOC, and subsequent approval.	DPOC receives notice of any change in comment period length and approval if required.	In paragraph 27 of the accompanying agenda paper, the staff recommend a standard comment period of 120 days.