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STAFF PAPER

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Rate-regulated Activities Consultative Group

Project	Rate Regulation		
Paper topic	Background to the project		
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Introduction

1. The IASB, and the IFRS Interpretations Committee (the Interpretations Committee), has in the past received several requests for guidance on whether rate-regulated entities can or should recognise, in their IFRS financial statements, a regulatory deferral or variance account debit balance or credit balance that arises as a result of price or rate regulation by regulatory bodies or governments. Some national accounting standard-setting bodies permit or require such balances to be recognised as assets and liabilities under some circumstances, depending on the type of rate-regulation in force (this is usually when a form of 'cost-of-service'[1] regulation applies). In such cases, these regulatory deferral account balances are often referred to as 'regulatory assets' and 'regulatory liabilities'.

2. IFRS does not contain any specific guidance on the accounting treatment of such balances, but the established practice in IFRS has been that almost all rate-regulated entities eliminate regulatory deferral account balances from the statement of financial position when they adopt IFRS and do not recognise such balances in IFRS financial statements. However, many of these rate-regulated entities argue that recognising such balances as assets and liabilities would

[1] Cost-of-service regulation is a type of rate regulation where the price established by the rate regulation is designed to recover an entity's approved or allowable costs of providing the regulated goods or services, such that there is a cause-and-effect relationship between the entity's specific costs and its revenues.

provide more relevant information and would be a more representationally faithful way of reporting their rate-regulated activities.

3. Previous attempts have been made to resolve this issue, including, in July 2009, the publication of an Exposure Draft (the 2009 ED) *Rate-regulated Activities* (see paragraph 18). No consensus could be reached and the project was subsequently suspended, pending the outcome of the Agenda Consultation, published in July 2011 (the 2011 Agenda Consultation).

4. In response to the 2011 Agenda Consultation feedback, the Rate-regulated Activities project was restarted as a research project. In September 2012, the IASB agreed that the project should develop a Discussion Paper to try to identify a broader range of issues, from which some wider principles might be found.

5. The purpose of this paper is to set out some background to the projects to assist Consultative Group members. The Appendix lists the previous IASB, IFRS Interpretations Committee and Advisory Council meetings at which this issue has previously been debated, together with a high-level overview of the discussions. Copies of the agenda papers and Update summaries of the discussions, together with further information, can be found on the Rate-regulated Activities project pages on the IFRS website (see http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Pages/Rate-regulated-activities-landing.aspx).

Main focus of the previous project

6. The key issue considered, which was not resolved in the previous project, is whether cost-of service regulation does create ‘regulatory assets’ and ‘regulatory liabilities’, which should be recognised in accordance with the *Conceptual Framework*[2] and whether they are consistent with other current IFRSs.

[2] The previous project discussions focused on the *Framework for the Preparation and Presentation of Financial Instruments*, part of which has now been superseded by the revised (and renamed) *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*). However, the definitions of “elements”, including assets and liabilities, are unchanged in the current version of the *Conceptual Framework*. (Subsequently, the IASB has restarted, in 2012, a project to update and revise the current version of the *Conceptual Framework*. A Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* was published on 18 July 2013.

Background

7. Rate regulation is a restriction in the setting of prices that can be charged to customers for goods or services. These are usually ‘essential’ or ‘public’ goods and services, such as the supply of energy (electricity and gas), water, public transport, postal services, medical care, insurance, and others. The goals of rate regulation are usually:

   (a) to protect the availability and stability of supply; and

   (b) to set "just and reasonable rates", that is, rates that charge the customer a reasonable price and that allow the entity to earn a fair rate of return. This is designed to ensure the entity’s financial viability and its ability to continue to supply the essential goods and services.

8. Generally, rate regulation is imposed when an entity has a monopoly or a dominant market position that gives it excessive market power.

9. There are a number of basic regulatory methodologies and, for each, there can be applications that vary with the regulator, the entity being regulated and the circumstances faced. In the past, the primary regulatory methodology for the majority of utilities was **cost-of-service regulation**, also referred to as return-on-rate-base regulation. Under this approach, rates are set to give the entity the opportunity to recover its costs of providing the public service plus a fair return on its investment (the ‘rate-base’). In such a scheme it is important to note that the rates are set by a process of working backwards from the desired return on the rate-base, to derive a revenue requirement and using a volume estimate to set the rate.

10. In recent years, however, there has been a trend to performance- or incentive-based regulatory methodologies, such as price-cap regulation. With price-cap regulation, initial rates often reflect the cost-of-service, but are allowed to increase, or are required to decrease, in accordance with a formula over time. In practice, a hybrid-methodology seems to apply, which uses a combination of the incentive-based and cost-of-service methodologies.

11. The US Financial Accounting Standards Board (FASB) issued, in 1982, Statement of Financial Accounting Standards No. 71 (FAS 71) *Accounting for the Effects of*

Certain Types of Regulation. The Standard was approved by four of the seven members of FASB, with the remaining three members dissenting. The guidance in FAS 71, together with subsequent amendments and related guidance, has now been incorporated into Topic 980 *Regulated Operations* (Topic 980) in the FASB *Accounting Standards Codification®*.

12. In general, the type of regulation covered by Topic 980 permits rates (prices) to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital (a type of cost-of-service regulation). For a number of reasons, a regulator will adjust the timing of recovery of specified 'allowable' costs. If regulation provides assurance that incurred costs will be recovered in the future, Topic 980 requires companies to capitalise those costs. If current rates over-recover past costs or are intended to recover expected future costs, Topic 980 requires companies to recognise those current receipts as liabilities.

13. In December 2004, the IFRS Interpretations Committee (the Interpretations Committee) commenced their deliberations as to whether an entity subject to rate-regulation could carry forward to future periods previously incurred costs that the regulator permits to be recovered by adjusting future prices.

14. The Interpretations Committee decided not to add the issue to their agenda because they had already considered it within the context of the IFRIC 12 *Service Concession Arrangements* project. The Interpretations Committee concluded that:

    (a) an entity can only recognise assets that qualify using the recognition criteria in the *Conceptual Framework* and specific Standards, including IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and others; and

    (b) the recognition criteria in US GAAP (FAS 71) are not fully consistent with IFRS.

15. In May 2008, the Committee began to consider another submission from the European Commission, which asked whether an entity subject to rate-regulation could recognise a regulatory liability in situations where the regulator required a reduction of future rates (prices). This submission acknowledged that regulatory

assets should also be reconsidered as part of the same issue as regulatory liabilities.

16. In November 2008, the Committee tentatively decided to confirm its previous decision not to add this issue to its agenda, noting that:

    (a) there is little divergence in practice within IFRS jurisdictions; generally rate-regulated assets and liabilities are **not** recognised; and

    (b) resolving the issue would require interpreting the definitions of assets and liabilities in the *Conceptual Framework* and their interaction with other IFRSs.

17. Subsequently, in December 2008, the IASB decided to add a project to their agenda. The aim of the project was to develop a narrow-scope IFRS dealing only with cost-of-service regulatory regimes.

Previous narrow-scope project

18. The IASB agreed the scope of the project in February 2009 and discussed the technical issues during meetings in April, May and June 2009. An Exposure Draft *Rate-regulated Activities* (the 2009 ED) was published in July 2009, with a 120-day comment period ending on 20 November 2009. The 2009 ED was approved by twelve of the fourteen members of the IASB, with two members dissenting. Nine of those who approved the 2009 ED have subsequently retired from the IASB.

19. In February 2010, staff presented to the IASB an analysis of the 155 comment letter responses to the 2009 ED. Over half of the respondents were 'preparers' with the vast majority of those preparers coming from the utility industry. Approximately sixty percent of the respondents are classified as 'North

American[3]', with a majority of the North American respondents being utility preparers or utility industry associations.

20. The vast majority of utilities-sector respondents were broadly supportive of the general proposal to recognise 'regulatory assets' and 'regulatory liabilities'. However, other types of respondents were fairly evenly divided between those who supported recognition and those who did not.

21. Of all respondents in support of the project, the vast majority provided recommended changes from the 2009 ED. Additionally, several of the respondents that did not support the overall project nonetheless provided recommended changes from the 2009 ED in the event the IASB decided to proceed with the project. The recommended changes were not limited to a small area of the 2009 ED, but rather impacted all major aspects of the 2009 ED.

22. A summary of the 2009 ED proposals and the main technical issues covered by respondents to the 2009 ED is presented in the "Technical Issues" section of this paper (see paragraphs 26-37).

23. The responses to the 2009 ED and the subsequent IASB discussions during the July 2010 and September 2010 meetings confirmed that the issue could not be resolved quickly. Views were strongly held on both sides:

    (a) 'regulatory assets' and 'regulatory liabilities' do not meet the definition of assets and liabilities in the *Conceptual Framework* and so cannot be recognised; or

    (b) recognition of 'regulatory assets' and 'regulatory liabilities' is supported because, in a cost-of-service model, there is a direct link between past costs and future cash flows.

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[3] Utility entities in the USA recognise regulatory variance and deferral account balances in their financial statements in accordance with Topic 980. Canadian utility entities applied similar accounting requirements to Topic 980 through Canadian GAAP before Canada adopted IFRS for accounting periods beginning on or after 1 January 2011. These entities were concerned that they would not be able to continue to recognise regulatory assets or liabilities after transition to IFRS. Subsequently, most Canadian utility entities have been granted exemptions from applying IFRS, at least until 1 January 2015; and currently the majority of those entities apply either US GAAP or pre-transition Canadian GAAP.

24. In an effort to find some middle ground, some IASB members noted that the economic characteristics of the rate regulation seemed to be intrinsically linked to another intangible asset, ie the licence or right to operate that the entity has in accordance with the regulation. The issue then becomes whether that licence or right is recognised and how it should be measured, which is currently constrained by the requirements of IAS 38 *Intangible Assets*. IAS 38 is not considered to permit the recognition of a separate 'regulatory asset' nor does it permit the remeasurement of any regulatory component of the related licence to reflect the economic effects of rate regulation.

25. The divergence of views and the lack of a clear way forward resulted in the project being suspended, pending the outcome of the 2011 Agenda Consultation. Subsequently, the IASB and the Advisory Council have expressed their support for staff to develop the Rate-regulated Activities project in response to the feedback received from the 2011 Agenda Consultation (see paragraph 39).

Technical issues discussed in the previous project

26. As previously noted (paragraph 6), the key issue discussed in the previous project was whether cost-of-service rate regulation creates 'regulatory assets' and 'regulatory liabilities', as defined in the *Conceptual Framework* and whether they are consistent with other current IFRSs.

27. The majority of IASB members at the time of the previous project (2009-2010) acknowledged that the pricing mechanism in rate-regulated environments do have an economic impact on the value of the entity's rate-regulated activities. What the IASB (and respondents to the 2009-ED) could not agree on was whether these value changes can (or should) be recognised, either as separate 'regulatory assets' and 'regulatory liabilities' or as part of a larger intangible asset (the licence to operate within the regulated environment).

Scope

28. The scope of the previous project and the subsequent 2009 ED was intended to be narrow and to capture the same rate-regulated environments as Topic 980. Consequently, the IASB focused on regulatory environments where:

    (a) an authorised body is empowered to establish rates that bind customers; and

    (b) the rates are designed to recover the specific “allowable” costs and to earn a specified return.

29. This type of regulatory environment is often called a “cost-of-service” model and requires a linkage between past events or transactions (ie past costs) and future rate changes. Supporters of the Topic 980 approach argue that this linkage between past costs and future rates is the underlying rationale supporting the recognition of ‘regulatory assets’ and ‘regulatory liabilities’ in a cost-of-service type regulatory scheme.

30. Some of the arguments against the cost-of-service narrow scope are:

    (a) many regulatory regimes started out as cost-of-service models but most are now moving towards more incentive-based or hybrid (ie elements of both cost-of-service and incentive-based) models. Consequently, dealing only with cost-of-service regimes would fail to address the majority of rate-regulated environments or would create complexity in identifying which elements of an entity’s rate-regulated activities are within scope; and

    (b) the distinction between cost-of-service and incentive-based models is unclear and any boundary is arbitrary, which would create tension around where the boundary is set. In particular it was argued that the qualitative characteristics set out in the 2009 ED in support of recognising ‘regulatory assets’ and ‘regulatory liabilities’ are equally applicable to:

        (i) regulated activities in incentive-based regulatory schemes; and

(ii) non-regulated activities of an entity with a dominant market position having some monopolistic features.

Recognition

31. The 2009 ED did not include any explicit recognition criteria. In particular, the 2009 ED did not set a “probability” threshold. This is contrary to the current *Conceptual Framework* definitions of recognisable assets and liabilities, but was consistent with some of the developing thinking within the Conceptual Framework project that was in progress at that time[4]. However, this lack of explicit recognition criteria proved controversial in other EDs issued around the same time, such as the proposed replacements for IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and for IAS 12 *Income Taxes*[5]. Both of these projects were subsequently suspended.

32. Many arguments against the recognition of ‘regulatory assets’ and ‘regulatory liabilities’ focus on the fact that most rate-regulatory schemes adjust rates **prospectively.** Consequently, any under- or over-recovery of allowable costs is “corrected” through future sales. This reliance on future operations is considered by many to be contrary to the definitions of assets and liabilities in the *Conceptual Framework.*

Measurement

33. The 2009 ED proposed that a recognised ‘regulatory asset’ or ‘regulatory liability’ should be measured at the expected present value of the probability-weighted future cash flows, with remeasurement at each reporting date. There was little support for this proposal, even among those who supported recognition of ‘regulatory assets’ and ‘regulatory liabilities’. The arguments against this approach included:

[4] This approach to changing the definitions of assets and liabilities by removing the reference to probability has been continued in the IASB’s current Conceptual Framework project. A discussion Paper *A Review of the Conceptual Framework for Financial Reporting* was published on 18 July 2013 and is available to download from the IFRS website at http://www.ifrs.org/Open-to-Comment/Pages/International-Accounting-Standards-Board-Open-to-Comment.aspx.

[5] The IAS 37 ED was published in January 2010 and the IAS 12 ED was published in March 2009.

(a) determining different probability scenarios is onerous – a "management's best estimate" approach is preferable;

(b) remeasurement at each reporting date is onerous – many preferred measurement only at initial recognition with subsequent amortisation; and

(c) Topic 980 uses a cost-accumulation approach, which is considered to be consistent with the cost-of-service model and which maintains a clearer link between allowable costs and the amounts recognised as regulatory assets/liabilities.

Presentation

34. Many rate-regulatory schemes allow particular costs to be included in the cost of a self-constructed tangible asset or internally-generated intangible asset for regulatory purposes. The 2009 ED proposed that these costs should also be included in the capitalised costs of such assets for financial reporting purposes, even though they would otherwise be expensed in accordance with IFRS. This is consistent with the approach of Topic 980 but would reduce comparability with non-regulated activities and would reduce transparency about the impact of rate-regulation. An alternative approach would be to recognise such regulatory amounts as part of a separate 'regulatory asset' or 'regulatory liability' and require all other assets and liabilities to comply fully with other IFRSs, such as IAS 16 and IAS 38.

35. The 2009 ED focused on the recognition of 'regulatory assets' and 'regulatory liabilities' but did not include any explicit guidance on where the other side of the entry should be recognised within the statement of comprehensive income. This created uncertainty and confusion, particularly concerning the recognition of any remeasurement changes.

Disclosure

36. The 2009 ED set out both qualitative and quantitative disclosure requirements for each "category of regulatory asset or regulatory liability recognised that is subject to a different regulator". Many respondents noted that this would be onerous

because even smaller preparers are often subject to several different rate regulators.

First-time adopters

37. In September 2008, the IASB published a proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* relating to rate-regulated activities. This amendment proposed that an entity that could elect to use the carrying amount of items of property, plant and equipment held, or previously held, for use in rate-regulation operations as deemed cost at the date of transition to IFRSs. Before this amendment, an entity with such items whose carrying amounts include amounts that do not qualify for capitalisation under IFRSs (see paragraph 34 of this paper) would have had either to restate those items retrospectively to remove the non-qualifying amounts, or to use the exemption in paragraph D5 of IFRS 1 (fair value as deemed cost). Both of those alternatives pose significant practical challenges, the cost of which can often outweigh the benefit. This exemption was confirmed in *Improvements to IFRSs* issue in May 2010 and is contained in paragraph D8B of IFRS 1.

Suspension of the previous project

38. After considering the responses to the 2009 ED, the IASB asked the staff to continue its research and analysis of the key issue as to whether ‘regulatory assets’ and ‘regulatory liabilities’ can be recognised in accordance with the current *Conceptual Framework* and other current IFRSs. This further work was considered by the IASB in the July 2010 and September 2010 but was inconclusive. Consequently, the project was suspended in September 2010 without further progress.

The ‘new’ IASB Rate-regulated Activities project

39. As a result of the feedback from the 2011 Agenda Consultation, the IASB, in September 2012, decided to restart the rate-regulated activities project as a research project. The initial aim is to carry out a more comprehensive review of rate regulation and to develop a Discussion paper (‘the planned rate regulation

DP', or 'the planned DP'). It also decided, in December 2012, to develop an interim Standard on the accounting for regulatory deferral accounts that would apply until the completion of the comprehensive project.

The planned Rate Regulation DP

40. The 2009 ED started from the premise that regulatory deferral (or variance) account balances should be recognised in specified circumstances. It explained the rationale for this, which was focused on a strict, cost-based rate-setting mechanism that has a predictable and clearly identifiable causal effect between costs incurred and the rates charged to, and collected from, customers. However, the responses received suggested that a more fundamental discussion was needed as to whether this was the right starting point.

41. The IASB has, therefore, decided to develop the planned DP in order to explore whether the features of rate regulation can be analysed further to identify, at a more fundamental level, the common features that create rights and obligations. The IASB can then consider whether such rights and obligations satisfy the definitions of assets and liabilities in the IFRS *Conceptual Framework*. If they do not, then the IASB can consider the best course of action and whether information about the rights and obligations should be required to be disclosed. Alternatively, some respondents to the 2009 ED suggested that some items should be recognised in the statement of financial position even if they do not meet the definition of assets and liabilities.

42. The planned Rate Regulation DP will identify and more clearly articulate:

    (a) the common features of rate regulation;

    (b) whether these common features create economic resources for, or claims against, a rate regulated entity that should be recognised in IFRS financial statements; and

    (c) the information about the consequences of rate regulation that would be most useful for users of IFRS financial statements.

The interim Standard

43. The established practice in IFRS has been that almost all rate-regulated entities eliminate regulatory variance or deferral account balances from the statement of financial position when they adopt IFRS and do not recognise such balances in IFRS financial statements. However, many of these rate-regulated entities argue that recognising such balances as assets and liabilities would provide more relevant information and would be a more representationally faithful way of reporting their rate-regulated activities. They argue that the terms of the rate regulation create special conditions that support the recognition of regulatory deferral account balances, even when those balances consist of deferred costs that other Standards require to be recognised as an expense in the period in which they are incurred.

44. The IASB recognises that discontinuing the recognition of regulatory deferral account balances in advance of the comprehensive Rate-regulated Activities project could be a significant barrier to the adoption of IFRS for those entities for which regulatory deferral account balances represent a significant proportion of net assets. The IASB has, therefore, decided to issue the Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the 2013 ED).

45. The 2013 ED proposes to allow only those entities that currently recognise regulatory deferral account balances in accordance with their previous GAAP, to continue to do so when making the transition to IFRS. In order to improve comparability between those first-time adopters of IFRS and existing IFRS preparers that are subject to rate-regulation but do not recognise regulatory deferral account balances, the 2013 ED proposes some changes to the presentation of these balances. Those presentation and disclosure proposals separate the regulatory deferral account balances from the assets and liabilities that are recognised in accordance with other IFRS.

46. The proposals in the 2013 are intended to provide temporary relief to entities within its scope until the comprehensive Rate-regulated Activities project is completed. The IASB note that, by publishing the 2013 ED, it is in no way anticipating the outcome of the comprehensive project or the planned DP (see paragraphs 40-42).

Appendix: Summary of previous meetings during which rate-regulated activities have been specifically addressed

Meeting date	Ref	Agenda paper title	Headline news
April 2013	**ED *Rate-regulated Activities* published**		
March 2013	**ED *Rate-regulated Activities* published**		
IASB February 2013	13 13A 13B	Cover note Interim Standard: Sweep issues Research project: Request for information	The IASB discussed the interaction of other Standards with the regulatory deferral account balances that might be recognised as a result of the interim Standard proposals tentatively agreed during the January 2012 meeting. In addition, the IASB decided to publish a Request for Information to gather more factual evidence about different types of rate regulation as part of the comprehensive research project.
IASB January 2013	5 5A 5B 5C 5D 5E 5F	Interim Standard: Cover note Interim Standard: Scope Interim Standard: Recognition and measurement requirements Interim Standard: Presentation Interim Standard: Disclosure Interim Standard: Transition and consequential amendments Interim Standard: Due process	The IASB discussed proposals for the scope of an interim Standard for Rate-regulated Activities that would allow entities adopting IFRS to continue to use their local GAAP requirements for rate-regulated activities until the main project is completed. The IASB also proposals for impairment, presentation, disclosure and transition.
IASB December 2012	6 6A 6B 6C	Cover note; Issues to be addressed in the DP; Rate-regulated Activities: Proposed project plan; Rate-regulated	The IASB also discussed the issues proposed to be addressed in the Discussion Paper (DP) and suggested some additional points to cover. The IASB tentatively decided that a formal consultative group should be formed for the project because of the specialist

Meeting date	Ref	Agenda paper title	Headline news
		Activities: Unsolicited comment letter	nature of the subject and the need for industry expertise. In addition, the IASB tentatively decided to develop an Exposure Draft for an interim Standard to provide guidance on the accounting for Rate-regulated Activities until the comprehensive project is completed.
IFRIC IC November 2012	5	Regulatory assets and liabilities	The Committee again reaffirmed the decision made at the May and July 2012 meetings not to address the specific questions raised in the submission seeking clarification on whether a regulatory asset or regulatory liability should be recognised in specified circumstances. The Committee noted that the IASB has recently resumed a comprehensive project on Rate-regulated Activities.
Advisory Council October 2012	3	Rate-regulated Activities	The Advisory Council discussed what factors the IASB should prioritise in making their decision whether to develop an interim IFRS and, if so, what type of interim IFRS on rate-regulated activities.
IASB September 2012	15	Rate-regulated Activities	The IASB discussed their initial views on developing a plan for a standards-level project for Rate regulated Activities. The IASB considered whether the project should include the publication of a Discussion Paper (DP). The IASB also discussed whether an interim IFRS should be developed in the shorter term, including different options for such an interim IFRS if the IASB were to decide to develop one.
IFRIC IC July 2012	8	IAS 18 Revenue, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and IAS 39 Financial Instruments: Recognition and Measurement: Regulatory assets and	The Committee reaffirmed the decision made at the May 2012 meeting not to address the specific questions raised in the submission seeking clarification on whether a regulatory asset or regulatory liability should be recognised in specified circumstances. In addition, the Committee noted that even though there is no active IASB project on Rate-

Meeting date	Ref	Agenda paper title	Headline news
		liabilities	regulated Activities, in the IASB's May 2012 meeting, the IASB unanimously supported giving priority to developing a standards-level proposal for Rate-regulated activities in its deliberation related to standards-level projects for the near future.
Advisory Council June 2012 IASB May 2012	4B 13B	Request for Views—Agenda Consultation 2011: Developing the IASB's Technical Programme	Both the IASB and the Council accepted the staff recommendation to give priority to move quickly to develop the rate-regulated activities project
IFRS IC May 2012	15	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? The Committee did not address the two specific questions in the submission, noting instead that it concluded in 2005 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 there have been no major changes made to these IFRSs that warrant revisiting this issue since the Committee reached that conclusion.

Meeting date	Ref	Agenda paper title	Headline news
Project suspended, pending the 2011 Agenda Consultation			
IASB September 2010	12 12A 12B 12C 12D	Cover note, summary and questions for the Board Analysis of intangible assets Additional analysis of regulatory liabilities Analysis of RRA disclosure requirements Future plans for the RRA project	The IASB did not reach conclusions on any technical issues at this meeting, but discussed: • whether the effect of regulators should be analysed in the context of IAS 38 *Intangible Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. • whether the effect of regulators should be recognised in financial statements that are prepared in accordance with existing IFRSs. • the status of the Rate-regulated Activities project as a stand-alone project. • whether IFRSs should be amended to require specific disclosure requirements related to the impact of regulations on an entity that is subject to regulations. The IASB reconfirmed its earlier view that the matter could not be resolved quickly. The IASB therefore decided to include in its public consultation on its future agenda a request for views on what form a future project might take, if any, to address rate-regulated activities. The potential future steps include, but are not limited to: • a disclosure only standard • an interim standard, similar to IFRS 4 *Insurance Contracts* or IFRS 6 *Exploration for and Evaluation of Mineral Resources*, to grandfather previous GAAP accounting practices with some limited improvements • a medium term project focused on the effects of rate-regulation • a comprehensive project on intangible assets.
IASB	11	Cover note	At this meeting, the IASB focused on the

Meeting date	Ref	Agenda paper title	Headline news
July 2010	11A 11B 11C 11D 11E 11F 11G 11H	Staff summary and questions for the Board Analysis of regulatory environments Analysis of scope (unit of account) Comparison of RRA project to current IFRSs Comparison of RRA project to other current IASB projects Results of outreach efforts Analysis of scope (required application of RRA to non-utility entities) Other project matters	key issue of whether regulatory assets and regulatory liabilities exist, whether they should be recognised in accordance with the current *Framework for the Preparation and Presentation of Financial Statements* and whether they are consistent with other current IFRSs. The IASB reviewed analyses of several aspects of the key issue prepared by the staff including an analysis of the regulatory environment, comparison to current IFRSs, comparison to other current IASB projects, analysis of the unit of account to apply to this project, a summary of outreach efforts, a summary of the potential application of this project to non-utility entities and a summary of requests for an interim standard.
IASB February 2010	7	Summary comment letter analysis	The IASB discussed the summary analysis of the comments received on its ED *Rate-regulated Activities* published in July 2009. The IASB reviewed the background of the issue, a summary analysis of the respondent demographics and a summary of the primary technical issues. The IASB did not make any tentative decisions on specific aspects of the project, except that the IASB decided to finalise the transition relief for first-time adopters. This was subsequently published in the *Improvements to IFRSs* issued in May 2010.
July 2009	**ED *Rate-regulated Activities* published**		
IASB June 2009	12	Sweep issues reflected in the pre-ballot draft	The IASB discussed some sweep issues including transition impairment. Most notably it tentatively decided that: • the cost of self-constructed property, plant and equipment or internally generated intangible assets should include all the amounts the regulator permits to be included in their cost,

Meeting date	Ref	Agenda paper title	Headline news
			as an exception to the requirements in IAS 16 *Property, Plant and Equipment*, IAS 23 *Borrowing Costs* and IAS 38 *Intangible Assets*; and • if amounts determined using the entity's previous GAAP would otherwise be recognised separately as regulatory assets in accordance with the new *Rate-regulated Activities* IFRS, first-time adopters of IFRSs could elect to include them in the carrying amount of property, plant and equipment or intangible assets.
IASB May 2009	9 9A 9B	Cover note Measurement and expected cash flows Illustrative examples on presentation and disclosures	The IASB decided tentatively that an entity should recognise a regulatory asset for all identifiable costs of self-constructed assets the regulator specifically permits in the determination of rates (even if specifically incurred costs are not identifiable or the costs would not otherwise be recognised in accordance with IFRS (eg a notional cost of capital that would not be allowed to be capitalised in accordance with IAS 23). The IASB also tentatively agreed to some general disclosure principles, and on minimum disclosures to be required to meet those principles.
IASB April 2009	9 9A 9B 9C	Cover note Recognition and measurement Presentation and disclosure requirements Scope — additional considerations	The IASB decided tentatively that specific recognition criteria are not needed. Regulated activities within the scope would result in recognised 'regulatory assets and liabilities'. It is not clear whether these assets and liabilities are supported by the Framework and so they would be excluded from the scope of IAS 38 *Intangible Assets* and *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, respectively. The IASB decided tentatively that a probability-weighted average of possible future cash flows should be used to

Meeting date	Ref	Agenda paper title	Headline news
			measure assets and liabilities arising from the effects of rate regulation both on initial recognition and subsequently. However, the IASB directed the staff to provide further analysis to clarify the interaction of future economic benefits and previously incurred specific costs.
IASB February 2009	9	Rate-regulated activities: Defining the scope of the project	The IASB tentatively decided that two criteria should define the rate-regulated activities in the scope of this project: • an authorised body is empowered to establish rates that bind customers; and • the rate regulation takes the form of a cost-of-service regulation. In such regulation, the rates are designed to recover the specific entity's costs of providing the goods and services that are subject to regulation and to earn a specified return. The specified return could be a minimum or range and need not be a fixed or guaranteed return.
IASB December 2008	12	Agenda proposal: rate-regulated activities	Support given for staff proposal to develop a narrow-scope permanent Standard dealing only with cost-of-service regulatory regimes
Advisory Council November 2008	4	Possible Agenda Proposal on Accounting for the Effects of Rate Regulation	The Council supported a staff proposal to add the project to the agenda but was unclear whether to develop an interim IFRS4/6-style Standard or to aim for a more permanent solution. The paper notes that the project is cross-cutting other projects and would be a useful test of the developing ideas within the Conceptual Framework project too.
IFRS IC November 2008	6 6A	Regulatory assets and liabilities: Staff analysis and recommendation Regulatory assets and liabilities: Background	Decision not to add to the agenda, because: • There is little divergence in practice within IFRS jurisdictions; generally rate-regulated assets and liabilities are not recognised • Resolving the issue would require interpreting the definitions of

Meeting date	Ref	Agenda paper title	Headline news
			assets and liabilities in the Framework and their interaction with other IFRSs Reported in November 2008 Update (with confirmation in March 2009 Update).
IFRS IC September 2008	5 5A	Regulatory assets and liabilities—Education Session Regulatory Assets and Liabilities — Examples	Education session to provide feedback on research so far. Paper briefly summarises FAS 71 and notes in particular that: • The regulator can determine the timing of recovery of costs • The timing of recovery assumes that rates (ie selling prices) are set at levels that can be charged and collected from customers (ie the level of demand will closely match the estimates used by the regulator) • If timing of recovery is later than costs are incurred – recognise an asset • If timing of recovery is before costs are incurred – recognise a liability • The scope of FAS 71 is limited to entities where the regulated rate is based directly on costs incurred, but the paper acknowledges that, in practice, these are increasing rare because more regimes include some element of price-cap or efficiency incentive.
IFRS IC May 2008	7A	Project plan for agenda request on rate regulated liabilities	Discussion of request received in Jan 2008 from the EU Commission asking if rate-regulated liabilities can be recognised using IFRSs. Decision to allow staff to carry out research and develop a project plan.
IFRS IC March 2005	A3	IAS 38 Regulatory Assets	Decision not to add to the agenda, because: • Can only recognise assets that qualify using the recognition criteria in the Framework and specific Standards, eg IAS 16, IAS 38 and others

Meeting date	Ref	Agenda paper title	Headline news
			• Recognition criteria in US GAAP (FAS 71) are not fully consistent with IFRS. Reported in June 2005 Update (with confirmation in August 2005 Update). The IFRIC had previously considered rate-regulated prices within the IFRIC 12 *Service Concession Arrangements* project (see IFRIC 12.BC46-52)
IFRS IC December 2004	A13	Regulatory Assets	Brief paper asking whether an entity can carry forward as an intangible assets costs incurred if the regulator gives permission to adjust future prices