STAFF PAPER

26 July 2013

Rate-regulated Activities Consultative Group

Project	Rate Regulation		
Paper topic	Issues to be addressed in the Discussion Paper		
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Developing the Discussion Paper

1. In July 2009, the IASB published the Exposure Draft *Rate-regulated Activities* (the 2009 ED). Responses to the 2009 ED highlighted a diversity of strongly held views which demonstrated differences of interpretation of the *Conceptual Framework*. These differing interpretations could not be resolved in a timely manner and so, in September 2010, the IASB decided to suspend the project.

2. In September 2012, the IASB decided to restart the project with the development of a Discussion Paper (DP). The IASB agreed that developing a DP will provide the opportunity for a broader debate on the circumstances in which rate regulated activities may give rise to assets or liabilities.

3. In the IASB's meeting in December 2012, the IASB discussed the issues that should be addressed in the planned DP. These issues are summarised in the Appendix to this Paper[1].

4. At this meeting, we will discuss some aspects of the following listed issues:

   (a) A1. What do we mean by "rate regulation" and should we define it? and A2. What should be the scope of guidance on Rate-regulated Activities? (see Agenda Papers 6-6E); and

[1] A list of issues that was discussed by the IASB in their December 2012 meeting is included in Agenda Paper X for that meeting. Some Board members raised additional issues, which have been incorporated into the list in the Appendix to this paper.

(b) A8. What disclosures are needed to help users understand the impact of rate regulation on the financial position, performance and cash flows of the rate regulated entity? (see Agenda Paper 5)

5. To make the best possible use of the Consultative Group's limited meeting time, we do not expect to allocate time to discuss the remaining issues listed in the Appendix, which will be addressed later in the project.

6. However, if Consultative Group members believe that there are any additional issues that should be addressed in the planned DP, they are encouraged to raise these with staff outside the meeting, unless they believe that it would be beneficial to discuss particular matters in the full group.

Appendix A: Issues to be addressed in the DP

A1. What do we mean by "rate regulation" and should we define it?

(a) What are the features of rate regulation that differentiate rate-regulated activities from non-rate-regulated activities, ie what specific rights and obligations does the rate regulation convey to or impose on the rate-regulated entity?

(b) Do the different forms of rate regulation (such as cost-of-service, incentive-based, price-cap, hybrid, etc) create different rights and obligations?

(c) Are the differentiating features of rate regulation specific to the industry in which it applies or to the form of regulation?

(d) What are the processes in place to recover the costs or to eliminate the excess profit?

A2. What should be the scope of guidance on Rate-regulated Activities?

(a) Should it apply to all entities that have activities subject to rate regulation or should any specified industries be explicitly excluded or included?

(b) Should its application be restricted to entities or business segments that are fully rate-regulated or should it apply to the specific activities within the entity or segment that are subject to rate regulation?

(c) Should it be limited to cost-of-service rate regulation (as it was in the 2009 ED)?

(d) How much regulation should the entity or activities be subject to?

A3. What characteristics of the rights and obligations created by rate regulations meet the definitions of assets and liabilities in the IFRS Conceptual Framework?

(a) What are the current definitions and recognition criteria in the Conceptual Framework?

(b) What are the working definitions being developed in the Conceptual Framework DP and how does this affect the analysis?

(c) What features (ie what rights and obligations) would need to be present in a particular regulatory regime in order to identify what assets and liabilities can be recognised?

(d) How does the analysis of this issue interact with other similar issues such as emissions trading and other conceptually difficulty topics?

(e) How do we define 'the customer', ie what is the unit of account?

A4. If the rights and obligations created by particular rate regulations do meet the definitions of assets and liabilities, what type of asset, liability or combination of assets and liabilities are created?

(a) If a separately identifiable asset or liability is created, is it:

(i) a financial asset or financial liability?

(ii) an intangible asset?

(iii) any other type of asset or liability, eg a deferred cost asset, an unbilled receivable asset, or a deferred income liability?

(b) If an asset or liability is created that is not separately identifiable as an individual item, is it an integral or separable component of a broader asset (eg part of the cost of an item of plant or equipment or part of the value of an operating licence)?

(c) For any assets or liabilities identified, what are the relative advantages and disadvantages of alternative accounting models for recognition and measurement?

A5. What recognition criteria are required, eg should probability of economic inflows/outflows be a recognition hurdle or part of the measurement basis? (This issue will be influenced by the Conceptual Framework project. The 2009 ED did not contain any recognition criteria, relying instead on the scope definition.)

(a) Should the regulatory item be measured at historical cost or using a current value model?

(i) Should the subsequent measurement be on the same basis as initial measurement?

(ii) If the regulatory item is to be measured using a current value model, what discount rate should be used, eg the rate determined as allowable by the rate regulator?

(b) Consider the approach to derecognition when the regulatory system changes or is discontinued.

A6. Does IFRS already include appropriate accounting models for recognition and measurement that can be applied to any regulatory assets or regulatory liabilities identified?

(a) If so, can the appropriate models be applied without changing existing requirements, eg by providing application guidance?

(b) If not, should the existing guidance be modified to deal with the particular features of rate regulation, eg to match the accounting model determined by the rate regulator?

A7. How should any regulatory assets and regulatory liabilities recognised be presented in the financial statements?

(a) In which line items in the statement of profit or loss and other comprehensive income for the period should the changes in the value of the assets and liabilities recognised be presented?

(b) If a regulatory asset or regulatory liability is identified as a component of a broader asset (see paragraph 13(b)), should it be presented within the broader item or as a separate item?

(c) Are there any other presentation approaches that could be used (especially if the outcome is that the regulatory items are not assets or liabilities)?

A8. What disclosures are needed to help users understand the impact of rate regulation on the financial position, performance and cash flows of the rate-regulated entity?

(a) Should reconciliations be provided between the IFRS amounts and those used for rate regulation purposes?

(b) Should the assumptions made by management about the outcomes of regulatory reviews, expected future rate level, expected rate or timing of recovery of any regulatory items recognised be disclosed?

(c) What level of detail should be disclosed about the type of rate regulation that the entity is subject to and the extent of the rate-regulated activities?

(d) If relevant regulatory information is publicly available elsewhere, eg directly from the rate regulator, does it (or a summary of it) need to be included in the financial statements or can it be cross-referred to instead?

A9. If the conclusion is that rate regulation does not create additional assets and liabilities to be recognised, what information about the rate regulation needs to be presented, and how should this be done?