STAFF PAPER

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Rate-regulated Activities Consultative Group

Project	Rate Regulation		
Paper topic	Interactions with other projects and IFRSs		
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Purpose of this paper

1. The purpose of this paper is to highlight possible implications of other projects for the scope and timing of this project on Rate-regulated Activities. We do not have time to discuss all of these interactions at this meeting, although some will be considered briefly and others will be considered later in the project. Consequently, this paper does not provide material for an informed discussion of those projects.

Overview

2. Other particularly relevant IASB projects include:

   (a) Conceptual Framework;

   (b) Exposure Draft *Regulatory Deferral Accounts*;

   (c) Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38);

   (d) Variable payments for the separate acquisition of PPE and intangible assets (IFRS Interpretations Committee—possible amendments to IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangements*);

   (e) IFRIC 12 *Service Concession Arrangements*; and

(f) Revenue Recognition.

3. This paper highlights the main issues arising from the interactions with these other projects. In addition, this paper includes a brief summary of the most relevant developments in the Conceptual Framework project.

Conceptual Framework

4. The IASB uses the *Conceptual Framework* when it develops or revises its International Financial Reporting Standards (IFRSs). The *Conceptual Framework* sets out the underlying concepts for the preparation and presentation of financial statements and forms the basis for specific recognition and measurement requirements in IFRS.

5. The *Conceptual Framework* is intended to address matters that are fundamental to the accounting process. The IASB has recently published the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the Conceptual Framework DP)[1]. There will be a presumption that future Standards and amendments to Standards are consistent with the *Conceptual Framework*. The Conceptual Framework DP suggests that if the IASB decide to depart from any aspect of the *Conceptual Framework*, then the reasons for that departure must be explained in the Standard. Such a departure may, for example, be required to ensure that the information presented and/or disclosed in financial statements is more relevant to users.

6. The aspects of the Conceptual Framework that are most relevant to the rate-regulated Activities project include:

   (a) definitions of assets, liabilities, equity, income and expense (the ‘elements’[2]); and

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[1] The Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* was published on 18 July 2013. It is available to download from the IFRS website at http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Discussion-Paper-July-2013/Pages/Discussion-Paper-and-Comment-letters.aspx.

[2] **‘Elements’** are the basic building blocks from which financial statements are constructed. Assets and liabilities are fundamental elements that are used as the basis for the definitions of other elements, including equity, income and expenses.

(b) the recognition, measurement, presentation and disclosure of those elements.

Definitions of assets and liabilities

7. The IASB believes that the existing definitions of assets and liabilities have worked well, but that they could be refined. The Conceptual Framework DP suggests revised definitions (see the Appendix to this paper) that:

(a) focus on an asset as a resource, and a liability as an obligation; and

(b) suggest that uncertainty about related inflows and outflows of economic benefits should be addressed primarily as a measurement issues, rather than a recognition issue.

8. The Rate-regulated Activities project is closely interlinked with the definitions of assets and liabilities in the *Conceptual Framework*. The IASB plan to use examples from the Rate-regulated Activities project to test the definitions of assets and liabilities being developed in the Conceptual Framework project.

Exposure Draft Regulatory Deferral Accounts

9. Agenda paper 2 *Background to the project* notes that the IASB has issued, in April 2013, the Exposure Draft *Regulatory Deferral Accounts* (the 2013 ED). The 2013 ED is intended to result in a narrow scope interim Standard until the comprehensive Rate-regulated Activities project is completed.

10. Although the 2013 ED proposes to allow first-time adopters of IFRS within its scope to continue to apply existing accounting policies for recognising and measuring regulatory variance and deferral account balances, it does propose changes to existing presentation and disclosure requirements. To enhance transparency and comparability, the 2013 ED proposes that regulatory variance or deferral account balances, and movements in those balances, should be presented separately. The 2013 ED presentation and disclosure proposals are reproduced in the Appendix to Agenda paper 5 *What do users need?*

11. As highlighted in Agenda paper 5, the objective of financial reporting is to provide financial information about the reporting entity that is useful to the primary users of financial statements. This focus on users' information needs may

result in the IASB giving greater priority to some aspects of the *Conceptual Framework* than others (see also paragraph 5 above). The IASB hope that the responses to the presentation and disclosure proposals in the 2013 ED will provide valuable evidence about the information that the users of financial statements value about rate regulation.

Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)

12. Exposure Draft (ED) *Clarification of Acceptable methods of Depreciation and Amortisation*, published in December 2012, noted a possible interaction between the proposals in that ED and the requirements of IFRIC 12 *Service Concession Arrangements*.[3] The ED contains a proposal to amend IAS 16 *Property, Plant and equipment* and IAS 38 *Intangible Assets*. Several respondents to the ED raised concerns[4] about the nature of the intangible asset that arises in the context of a service concession arrangement and is recognised in accordance with IFRIC 12. One respondent thinks that the amortisation of service concession arrangements should be analysed as part of the Rate-regulated Activities project.

13. As noted in paragraph 18 below, there are many cross-cutting issues between the Rate-regulated Activities project and IFRIC 12. The staff observes the comments made in the latest Interpretations Committee meeting discussions and will consider these and any forthcoming discussions on the issue as the Rate-regulated Activities project progresses.

Variable payments for the separate acquisition of PPE and intangible assets (IFRS Interpretations Committee—possible amendments to IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IFRIC 12 Service Concession Arrangements)

14. The IFRS Interpretations Committee (the Interpretations Committee) received a request to address an issue that is related to contractual payments that are made by an operator under a service concession arrangement that is within the scope of

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[3] For further information about this project can be found at http://www.ifrs.org/Current-Projects/IASB-Projects/Depreciation-and-Amortisation/Pages/Depreciation-and-Amortisation.aspx.

[4] See paragraphs 19-27 of the Agenda Paper 6 for the IFRS Interpretations Committee meeting in July 2013.

IFRIC 12. Where concession fees are variable, the Interpretations Committee noted that the issue is linked to the broader issue of variable payments for the separate acquisition of PPE and intangible assets outside of a business combination.

15. At the March 2013[5] meeting, the Interpretations Committee decided to recommend to the IASB that it should amend IAS 16, IAS 38 and IAS 39 *Financial Instruments: Recognition and Measurement*, as part of a narrow-scope project. The Interpretations Committee also decided to proceed with their recommendation to propose amendments to IFRIC 12 to address the accounting for fixed and variable payments made by an operator to a grantor as part of a service concession arrangement.

16. As noted in paragraph 18 below, there are many cross-cutting issues between the Rate-regulated Activities project and IFRIC 12. The staff observes the comments made in the latest Interpretations Committee meeting discussions and will consider these and any forthcoming discussions on the issue as the Rate-regulated Activities project progresses.

IFRIC 12 Service Concession Arrangements

17. The introductory paragraphs of IFRIC 12 highlight that such arrangements usually contain some element of rate regulation. Paragraph 3(c) of IFRIC 12 notes that a common feature of a service concession arrangement is that the "[service concession] contract sets out the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement". This feature is confirmed within the scope criteria in paragraph 5(a) of IFRC 12.

18. Some of the respondents to the Exposure Draft *Rate-regulated Activities*, published in July 2009 (the 2009 ED) and to the Request for Information (RFI) *Rate Regulation*, published in March 2013 noted that the activities within the scope of IFRIC 12 display many similarities to more general rate-regulated activities. Consequently, they highlighted that the accounting model set out in

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[5] Further information about this issue can be found on the Interpretations Committee work in progress section of the IFRS website at http://www.ifrs.org/Current-Projects/IASB-Projects/Variable-payments-for-separate-acquisition-of-PPE-and-intangible-assets/Pages/Project-summary.aspx.

IFRIC 12 contains several cross-cutting issues, including the pattern of revenue recognition, recognition of an intangible or financial asset, the amortisation of an intangible asset and the recognition of a provision for future maintenance services. Consequently, those respondents raised questions about the interaction between rate regulation and the accounting for service concession arrangements in accordance with IFRC 12.

19. The IASB will consider this interaction when setting the scope for the planned Rate Regulation DP (see agenda paper 6E) and will consider other issues later in the project.

Revenue Recognition

20. In May 2012, the IFRS Interpretations Committee (the Interpretations Committee) discussed a request seeking clarification on whether a regulatory asset or regulatory liability should be recognised in a 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:

    (a) Can the population of customers be regarded as a single unit of account?

    (b) If the population is a single unit of account, is it acceptable to recognise an asset or liability?

21. 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 Interpretations Committee noted that there have been no major changes made to these IFRSs that warrant revisiting this issue since the Committee reached that conclusion.

22. The objective of the Revenue Recognition project is to clarify the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The IASB

expects to issue a new Standard in the third quarter of 2013, dealing with the recognition of revenue from contracts with customers, which will replace IAS 11 and IAS 18.

23. The two questions noted above in paragraph 20 will be considered in the light of that new Standard as part of the development of the planned Rate Regulation DP.

Appendix: Definitions of Assets and Liabilities

A1. The table below sets out the existing definitions of assets and liabilities in the Conceptual Framework, together with the working definitions contained in the forthcoming Discussion Paper *A Review of the Conceptual Framework For Financial Reporting*.

	Existing definitions	**Proposed definition**
Asset (of an entity)	a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.	a present economic resource controlled by the entity as a result of past events.
Liability (of an entity)	a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.	a present obligation of the entity to transfer an economic resource as a result of past events.
Economic resource	[no existing definition]	a right, or other source of value, that is capable of producing economic benefits.