IFRS

STAFF PAPER

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Rate-regulated Activities Consultative Group

Project	**Rate-regulated Activities: Rate regulation research project**		
Paper topic	Presentation and disclosure		
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Introduction

1. The Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the interim ED), proposes that rate-regulated entities within its scope can recognise regulatory variance and deferral account balances in the statement of financial position. In order to highlight the impact of these proposals, the ED proposes to require separate presentation of the amounts recognised in both the statement of financial position and in the statement(s) of profit or loss and other comprehensive income.

2. In addition, the interim ED proposes the disclosure of both qualitative and quantitative information about the rate regulation to which the entity is subject. Appendix A to this paper reproduces the presentation and disclosure proposals contained in the interim ED, together with the illustrative examples accompanying the interim ED.

3. In October 2013, the IASB considered an analysis of the responses to the presentation and disclosure questions (Questions 6 and 7) contained in the Invitation to Comment of the interim ED. The analysis is reproduced in Appendix B to this paper.

4. At the October 2013 meeting, the IASB tentatively decided to retain the presentation and disclosure proposals in the interim ED, with the following amendments:

(a) require the net movement in regulatory balances presented in the statement of profit or loss and other comprehensive income (OCI) to be split between amounts related to items reported in profit or loss and those reported in OCI; and

(b) delete the specific reference to materiality as a factor to consider in deciding the level of detail to disclose.

4. We have yet to determine whether rate regulation might result in the recognition of ‘regulatory assets’ and ‘regulatory liabilities’ in the statement of financial position in IFRS financial statements. If that is the outcome of the comprehensive project on rate-regulated activities, supplemental disclosure will be required. If the comprehensive project concludes that regulatory balances should not be recognised as assets and liabilities, we will still need to consider what information should be presented in IFRS financial statements to help users understand the impact of rate regulation on an entity.

Purpose of the paper

5. The purpose of this paper is to seek input from Consultative Group members to compare the proposed presentation and disclosure requirements of the interim ED with what information is currently made available by rate-regulated entities.

6. We would like to hear the current experience of all Consultative Group members relating to existing practice. In particular, we are interested to hear how the proposals compare to:

(a) information about the impact of rate regulation that is currently disclosed in published financial statements?

(b) supplemental information that is currently provided in the management commentary that accompanies the financial statements?

(c) other information that is provided by preparers to investors and/or analysts, for example as part of a ‘results package’ or presentation of the performance of the entity for the period.

Appendix A: Extract from Exposure Draft *Regulatory Deferral Accounts*

A1. The following extract reproduces the presentation and disclosure proposals contained in paragraphs 18-33 of Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the interim ED).[1]

Presentation

Changes in presentation

18 This [draft] interim Standard introduces presentation requirements, outlined in paragraphs 19–21, for regulatory deferral account balances that are recognised in accordance with paragraphs 14–15. As stated in paragraph 6, regulatory deferral account balances are the incremental amounts that are recognised in addition to the assets and liabilities that are recognised in accordance with other Standards. These presentation requirements separate the impact of recognising regulatory deferral account balances from the financial reporting requirements of other Standards.

19 In addition to the items that are required to be presented in the statement of financial position and in the statement of profit or loss and other comprehensive income in accordance with IAS 1 *Presentation of Financial Statements*, an entity applying this [draft] interim Standard shall present all regulatory deferral account balances and the movements in those balances in accordance with paragraphs 20–21.

Classification of regulatory deferral account balances

20 An entity shall present separate line items in the statement of financial position for:

(a) the total of all regulatory deferral account debit balances; and

(b) the total of all regulatory deferral account credit balances.

These separate line items shall be distinguished from the assets and liabilities that are presented in accordance with other Standards by use of sub-totals, which are drawn before the regulatory deferral account balances are presented.

Classification of movements in regulatory deferral account balances

21 An entity shall present, in the profit or loss section of the statement of profit or loss and other comprehensive income, or in the separate statement of profit or loss, the net movement in all regulatory deferral account balances for the reporting period, except for amounts acquired or disposed of. This separate line item shall be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total for the amount of profit or loss before the net movement in regulatory deferral account balances.

[1] Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the interim ED) can be downloaded from the IFRS website at http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Exposure-Draft-April-2013/Pages/Exposure-Draft-and-Comment-Letters.aspx

Disclosure

Objective

22 **An entity shall disclose information that enables users to evaluate:**

(a) the nature of, and the risks associated with, the rate regulation that restricts the price that the entity can charge customers for the goods and services it provides; and

(b) the effects of that rate regulation on its financial position, financial performance and cash flows.

23 If any of the disclosures set out in paragraphs 25–33 are not considered relevant to meet the requirements in paragraph 22, they may be omitted from the financial statements. If the disclosures provided in accordance with paragraphs 25–33 are insufficient to meet the requirements in paragraph 22, an entity shall disclose additional information that is necessary to meet those requirements.

24 To meet the disclosure requirements in paragraph 22, an entity shall consider all of the following:

(a) whether the rate-regulated activities are material to the financial performance or position of the entity;

(b) the level of detail that is necessary to satisfy the disclosure requirements;

(c) how much emphasis to place on each of the various requirements;

(d) how much aggregation or disaggregation to undertake; and

(e) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

Explanation of activities subject to rate regulation

25 To help a user of the financial statements assess the nature of, and the risks associated with, the rate regulation that restricts the price that the entity can charge customers for the goods and services it provides, an entity shall, for each portion of rate-regulated activities that is material to the financial performance or position of the entity, disclose:

(a) a brief description of the nature and extent of the rate-regulated activities and the nature of the regulatory rate-setting process;

(b) the identity of the rate regulator. If the rate regulator is a related party (as defined in IAS 24 *Related Party Disclosures*), the entity shall disclose a statement to that effect, together with an explanation of how it is related; and

(c) how the future recovery of each regulatory deferral account debit balance or reversal of each regulatory deferral account credit balance is affected by risks and uncertainty, for example:

(i) demand risk (for example, changes in either consumer attitudes, the availability of alternative sources of supply, or the levels of competition);

(ii) regulatory risk (for example, the submission or approval of a rate-setting application; or the entity's assessment of the expected future regulatory actions); and

(iii) other risks (for example, currency or other market risks).

26 The disclosures required by paragraph 25 shall be given either in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the

financial statements on the same terms as the financial statements and at the same time. If the information is not included in the financial statements or incorporated by cross-reference, the financial statements are incomplete.

Explanation of recognised amounts

27 An entity shall disclose the basis on which regulatory deferral account balances are recognised and measured initially and subsequently, including how regulatory deferral account balances are assessed for recoverability and the allocation of any impairment loss.

28 For each portion of rate-regulated activities that is material to the financial performance or position of the entity and for others in aggregate, an entity shall disclose the following information for each category of regulatory deferral account (ie for each type of cost or income) that is individually material and for others in aggregate:

(a) a reconciliation of the carrying amount at the beginning and the end of the period, in a tabular format unless another format is more appropriate. The entity shall apply judgement in deciding the level of detail necessary (see paragraph 24), but the following components would usually be relevant:

(i) the amounts that have been recognised in the current period in the statement of financial position as regulatory deferral account balances to be recovered or reversed in the current or future periods;

(ii) the amount that is recognised in the statement of profit or loss and other comprehensive income relating to balances that have been recovered, amortised or reversed in the current period; and

(iii) other amounts that affected the regulatory deferral account balances, such as items acquired or assumed in a business combination or items disposed of, or the effects of changes in foreign exchange rates, discount rates or estimated cash flows. If a single cause has a significant effect on a regulatory deferral account balance, the entity shall disclose it separately;

(b) the rate of return or discount rate (including a zero rate or a range of rates, when applicable) allowed, or required, by the rate regulator to reflect the time value of money that is applicable to each regulatory deferral account balance; and

(c) the remaining periods over which the entity expects to recover or amortise the carrying amount of each regulatory deferral account debit balance or to reverse each regulatory deferral account credit balance.

29 When regulatory accounting requirements affect the amount and timing of a rate-regulated entity's income tax payments, the entity shall identify, as a separate category of deferral account in the reconciliation required by paragraph 28, the deferred tax that arises in respect of the regulatory deferral account debit and credit balances (see paragraphs B4–B6).

30 When an entity presents earnings per share in accordance with IAS 33 *Earnings per Share*, the entity shall present additional basic and diluted earnings per share, which are calculated using the earnings amounts required by IAS 33 but excluding regulatory amounts (see paragraphs B7–B8).

31 When an entity presents a discontinued operation or a disposal group in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the entity shall include any related regulatory deferral account balances and the net movement in those balances, as applicable, as part of the regulatory deferral account balances and movements instead of within the disposal groups or discontinued operations (see paragraphs B11–B13).

32 When an entity provides disclosures in accordance with IFRS 12 *Disclosure of Interests in Other Entities* for an interest in a subsidiary, associate or joint venture that has rate-regulated activities and for which regulatory deferral account balances are recognised in accordance with this [draft] interim Standard, the entity shall disclose the amounts that are included for the regulatory deferral account debit and credit balances and the net movement in the balances for those interests (see paragraphs B14–B17).

33 When an entity concludes that a regulatory deferral account balance is no longer fully recoverable, it shall disclose that fact, the reason why it is not recoverable and the amount by which the regulatory deferral account balance has been reduced.

IFRS X *Regulatory Deferral Accounts*
[Draft] Illustrative examples

These examples accompany, but are not part of, the [draft] interim Standard.

Regulatory deferral account balances

Example 3—Illustrative presentation of financial statements

IE1 Paragraphs 20–21 of the [draft] interim Standard require that an entity shall present regulatory deferral account debit and credit balances and the net movement in those balances as separate line items in the statement of financial position and the statement of profit or loss and other comprehensive income respectively. Sub-totals are drawn before the regulatory line items are presented. In addition, paragraph 30 requires an entity to present additional basic and diluted earnings per share, which are calculated by excluding the net movement in regulatory deferral account balances, when the entity presents earnings per share in accordance with IAS 33. Example 3 illustrates how these requirements might be met, but is not intended to illustrate all aspects of this [draft] interim Standard or IFRS more generally.

XYZ Group—Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	**31 Dec 20X6**
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Investments in equity instruments	142,500	156,000
	901,620	945,460
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	212,160	220,570
	464,640	476,410
Total assets before regulatory balances	**1,366,260**	**1,421,870**
Regulatory deferral account debit balances	100,240	102,330
Total assets	**1,466,500**	**1,524,200**

XYZ Group—Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	903,700	782,900
Non-controlling interests	70,050	48,600
Total equity	**973,750**	**831,500**
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
	177,650	238,280
Current liabilities		
Trade and other payables	87,140	111,150
Short-term borrowings	80,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
	217,140	377,950
Total liabilities before regulatory balances	**394,790**	**616,230**
Regulatory deferral account credit balances	97,960	76,470
Total liabilities	**492,750**	**692,700**
Total equity and liabilities	**1,466,500**	**1,524,200**

XYZ Group—Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)

(in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	44,247	16,220
Distribution costs	(9,000)	(13,700)
Administrative expenses	(20,000)	(31,500)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates	35,100	15,100
Profit before tax and regulatory account movements	**185,247**	**102,420**
Income tax expense	(40,417)	(32,000)
Net movement in regulatory deferral accounts	(23,580)	(4,920)
PROFIT FOR THE YEAR	**121,250**	**65,500**
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30
Basic and diluted before net movement in regulatory deferral accounts	0.57	0.33

Note: to simplify the example, it is assumed that all regulatory deferral accounts relate to activities that are carried out in wholly-owned subsidiaries, and so no amounts are attributable to non-controlling interests.

IE2 For each material portion of rate regulated activities, paragraph 28 requires an entity to present, for each category of regulatory deferral account, a reconciliation of the carrying amount at the beginning and the end of the period. This example illustrates how that requirement may be met, but is not intended to illustrate all aspects of this [draft] interim Standard or IFRS more generally.

Regulatory deferral account debit balances	20X7	Under-/ over- recoveries	Recovery/ reversal	20X6	Remaining recovery/ reversal period (years)
Electricity distribution					
Construction costs[(a)]	24,080	5,440	(80)	18,720	4-10
Storm damage	52,350	–	(12,060)	64,410	4
Other regulatory accounts[(b)]	7,640	2,320	(950)	6,270	4-10
Gas distribution					
Pension costs	12,270	10,120	(2,980)	5,130	N/A
Gas cost variances	3,900	–	(3,900)	7,800	1
	100,240	**17,880**	**(19,970)**	**102,330**	
Regulatory deferral account credit balances					
Electricity distribution					
Land disposal	19,000	19,000	–	–	10
Deferred taxation	8,474	3,207	(1,093)	6,360	1-10
Gas distribution					
Gas cost variances	4,400	4,000	(200)	600	2-3
Deferred taxation	4,236	1,603	(547)	3,180	1-10
Decommissioning costs	61,850	(2,030)	(2,450)	66,330	3-20
	97,960	**25,780**	**(4,290)**	**76,470**	

(a) These are costs that are not permitted to be included in the cost of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.

(b) These are regulatory deferral account debit balances that are individually immaterial.

Example 4—Discontinued operations and taxation

IE3 Paragraphs 29 and 31 of the [draft] interim Standard require an entity to disclose the regulatory deferral account debit and credit balances and the net movement in those balances that relate to deferred taxes and discontinued operations and disposal groups respectively. Paragraph B4–B6 and B11–B13 provide additional guidance relating to these disclosures. In particular, paragraphs B6 and B13 permit an entity to present the regulatory deferral account amounts that are related to tax or discontinued operations or disposal groups alongside the other regulatory deferral account amounts that are presented in the statement of financial position or the statement of profit or loss and other comprehensive income, or disclose them in the table that is required by paragraph 28. Example 4 illustrates how these requirements might be met, but is not intended to illustrate all aspects of this [draft] interim Standard or IFRS more generally.

IE4 In this example, the entity is in the process of disposing of one of its wholly-owned, rate-regulated subsidiaries and, consequently, is presenting the assets and liabilities of that subsidiary as a disposal group in the statement of financial position in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. In addition, the results of that subsidiary are presented in a single line item in the statement of profit or loss as a discontinued operation. The entity has decided that the amounts related to the regulatory deferral account balances included in the disposal group should be presented separately in the statement of financial position as permitted by paragraph B13.

IE5 In addition, the entity has decided to present the regulatory deferral account balance relating to taxation expenses that is expected to be recovered through future rates by presenting additional line items for this balance and the movement on it, as permitted by paragraph B6.

XYZ Group—Statement of financial position as at 31 December 20X7 (extract)

(in thousands of currency units)

	31 Dec 20X7	**31 Dec 20X6**
ASSETS		
Non-current assets		
AAA	x	x
	901,620	945,460
Current assets		
BBB	x	x
	x	x
Disposal group assets	15,200	–
	464,640	476,410
Total assets before regulatory balances	**1,366,260**	**1,421,870**
Regulatory deferral account debit balances directly associated with disposal group	9,800	–
Other regulatory deferral account debit balances	90,440	102,330
Total assets	**1,466,500**	**1,524,200**

	31 Dec 20X7	**31 Dec 20X6**
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent	x	x
Non-controlling interests	x	x
Total equity	**973,750**	**831,500**
Non-current liabilities		
DDD	x	x
	177,650	238,280
Current liabilities		
EEE	x	x
	x	x
Disposal group liabilities	2,540	–
	217,140	377,950
Total liabilities before regulatory balances	**394,790**	**616,230**
Regulatory deferral account credit balances directly associated with disposal group	17,460	–
Deferred tax liability associated with regulatory deferral account credit balances	12,710	9,540
Other regulatory deferral account credit balances	67,790	66,930
Total liabilities	**492,750**	**692,700**
Total equity and liabilities	**1,466,500**	**1,524,200**

XYZ Group—Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7 (extract)

(illustrating the presentation of profit or loss and other comprehensive income in one statement)

(in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
FFF	x	x
Profit before tax and regulatory account movements	188,747	102,420
Income tax expense	(40,417)	(32,000)
Net movement in tax regulatory deferral account	(3,170)	(12,320)
Net movement in other regulatory deferral accounts	(20,410)	7,400
Profit for the year from continuing operations	**124,750**	**65,500**
Loss for the year from discontinued operations	(3,500)	–
PROFIT FOR THE YEAR	**121,250**	**65,500**

Regulatory deferral account balances

Regulatory deferral account debit balances	**20X7**		**Under-/ over-recoveries**	**Recovery /reversal**	**Transfer**	**20X6**	**Remain-ing period (years)**
Electricity distribution							
Construction costs	24,080		5,440	(80)	–	18,720	4–10
Storm damage	42,550		–	(12,060)	(9,800)	64,410	4
Other regulatory balances	7,640		2,320	(950)	–	6,270	4–10
Gas distribution							
Pension costs	12,270		10,120	(2,980)	–	5,130	N/A
Gas cost variances	3,900		–	(3,900)	–	7,800	1
	90,440		17,880	(19,970)	(9,800)	102,330	
Disposal group	9,800		–	–	9,800	–	
	100,240		**17,880**	**(19,970)**	–	**102,330**	
Regulatory deferral account credit balances							
Electricity distribution							
Land disposal	19,000		19,000	–	–	–	10
Deferred taxation	8,474		3,207	(1,093)	–	6,360	1–10
Gas distribution							
Gas cost variance	4,400		4,000	(200)	–	600	2–3
Deferred taxation	4,236		1,603	(547)	–	3,180	1–10
Decommissioning costs	44,390		(2,030)	(2,450)	(17,460)	66,330	3–20
	80,500	(a)	**25,780**	**(4,290)**	**(17,460)**	**76,470**	
Disposal group	17,460		–	–	17,460	–	
	97,960		**25,780**	**(4,290)**	–	**76,470**	

(a) This total includes deferred taxation of CU12,710 (20X6: CU9,540) and other regulatory deferral account balances of CU67,790 (20X6: CU66,930).

Appendix B: Extract from Agenda Paper 22C, October 2013

B1. The following extract reproduces the summary and analysis of comment letter responses to the presentation and disclosure questions (Questions 6 and 7) contained in the Invitation to Comment of the Exposure Draft *Regulatory Deferral Accounts* (the interim ED).[2]

Question 6: should regulatory balances be presented separately?

B2. The interim ED proposes that the incremental amounts that are recognised as regulatory deferral account balances and movements in those balances should then be isolated by presenting them separately from the assets, liabilities, income and expenses that are recognised in accordance with other Standards.

B3. The majority of respondents who answered this question agreed with the proposal to isolate the regulatory balances recognised and present them separately. A few of these respondents noted that this separation of the balances was critical to their support of the proposals. Without separation, they claimed, the level of inconsistency and reduction of comparability would be unacceptable.

B4. However, several respondents suggested that the separate line item presented below the profit before tax item in the statement of profit or loss and other comprehensive income (OCI) should be split into two components; the amount related to profit or loss and the amount related to OCI.

B5. The respondents noted that, for example, the rate regulator might allow pensions costs to be reflected in rates as incurred, whereas IAS 19 Employee Benefits requires them to be attributed to periods of service in accordance with the plan's benefit formula, or in some cases on a straight-line basis. This would create a timing difference for which a regulatory balance could be created. When movements in the net pension asset or liability are recorded in OCI, in accordance with IAS 19, presenting the movement in the related regulatory account balance within the single line item in profit or loss could be misleading.

[2] The analysis of comment letter responses to the Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the interim ED) is contained in IASB Agenda Papers 22-22C, October 2013.

B6. Although this issue was raised mainly within the context of IAS 19, it may also apply to other items reflected in OCI in accordance with other Standards, such as IFRS 9 Financial Instruments.

(d) In contrast, a few respondents suggested that the separate presentation was too restrictive and asked that more flexibility should be permitted. For example:

(e) the net movement in regulatory balances should be allowed to be included within operating profit;

(f) the net movement in regulatory balances should be allowed to be disaggregated and incorporated within other line items, with the total highlighted in a disclosure note;

(g) a split of regulatory balances between current and non-current amounts and should be permitted in the statement of financial position; and

(h) the net regulatory balances should be allowed to be disaggregated and incorporated within other line items.

B7. A few respondents suggested that further separation should be required in the statement of changes in equity and in the statement of cash flows.

Staff analysis

B8. We are persuaded by those respondents who argue that separating out the net movement on regulatory balances that relates to amounts presented in OCI from amounts included in profit or loss would provide more relevant information in the primary statement. In particular, this split would be most useful in cases in which the entity chooses to present the statement of profit or loss separately from the statement of other comprehensive income, as permitted by IAS 1 Presentation of Financial Statements.

B9. We are not persuaded by arguments for other changes. We think that if an entity wants to disaggregate the regulatory line items further, for example in order to show the impact of movements in regulatory balances against individual profit or loss items, then this would be more appropriately included in the note disclosure (see paragraphs B16 and B23 below).

B10. In addition, the proposed disclosure requirements already include information about the remaining periods over which the entity expects to recover/amortise or reverse the carrying amount of each regulatory balance. We consider that this is sufficient to enable users to identify the current and non-current amounts. An entity could also disclose subtotals for current and non-current accounts within the note if considered useful.

B11. As noted previously, the majority of respondents agreed with the proposals to isolate the presentation of regulatory balances within the primary financial statements, with a more detailed breakdown to be disclosed in the notes. Indeed, some respondents noted that this element of the proposals was critical to the IASB's intention to improve comparability between entities, irrespective of whether they could recognise regulatory account balances in accordance with the [draft] interim IFRS or not.

B12. It is worth noting that many respondents from Canada and the USA accepted this proposal on this basis. For example, the following statement from Hydro-Québec is typical of several responses:

> "We believe the separate presentation approach is appropriate. It will enhance comparability with other entities and increase the transparency of regulatory deferral account balances. It will also help users to clearly identify the amounts involved. In addition, this separate presentation approach would result in a consistent application of IFRS for all other transactions or activities, regardless of whether an entity has rate-regulated activities."

B13. The US Federal Energy Regulatory Commission (FERC) further noted:

> "Additionally, we support the IASB's proposal that the [draft] interim Standard require separate presentation of regulatory deferral account balances from assets, liabilities, income, and expenses that are recognized in accordance with other IFRS Standards. This approach will assist users of IFRS financial statements to fully understand the nature and financial effects of rate regulation and at the same time preserve the presentation

of all other assets, liabilities, income, and expenses that are recognized in accordance with other IFRS Standards intact and, thus, comparable to those of non-rate-regulated entities. We believe that this approach, if adopted, will result in reporting of financial information that is relevant, comparable, and readily available to users of such financial information from both rate-regulated entities and non-rate-regulated entities."

Question 7: are the disclosure requirements appropriate?

B14. The interim ED proposes disclosure requirements to enable users of financial statements to understand the nature and financial effects of rate regulation on the entity's activities and to identify and explain the amounts of the regulatory deferral account balances that are recognised in the financial statements.

B15. The majority of respondents that answered this question agreed that the disclosure proposals set out in the interim ED are appropriate and would provide relevant information to help users understand the impact of the rate regulatory environment on the financial statements.

B16. A few respondents suggested that additional disclosure should be provided to analyse each material change to the regulatory balances that is reflected in the movement reported in the statement of profit or loss and other comprehensive income. This would involve allocating the net movement reflected in the statement of profit or loss and other comprehensive income to each relevant line item of income or expense presented in that statement.

B17. In addition, three respondents expressed concern with the proposed option to incorporate the explanation of activities subject to rate regulation, which was proposed in paragraph 25 of the interim ED, by cross–reference from the financial statements to some other statement such as the accompanying management commentary. For example one respondent is "unsure as to how cross referencing external documents such as a management risk report would be accepted by our local securities regulators and auditors". Another suggested that "Information becomes less useful to a user if an alternate document has to be obtained and referred to".

B18. A few respondents commented that the proposed disclosures were too detailed or too prescriptive and that entities should be given more discretion and flexibility to decide what disclosures are considered necessary to provide users with sufficient information. However, the vast majority agreed that the proposed disclosures were appropriate and that the approach taken in paragraphs 22-24 of the interim ED provides sufficient flexibility.

Staff analysis

B19. Paragraph 24 of the interim ED provides a list of issues that an entity should when deciding how much detail is required to satisfy the overall disclosure requirement set out in paragraph 22 of the interim ED. We think that this provides sufficient flexibility and, consequently, we disagree with those respondents that suggested that the proposed disclosures are too prescriptive.

B20. Several other respondents noted that they already provide much of the information in accordance with their existing local GAAP. One respondent went further by noting that:

> "We think the proposed disclosure requirements provide decision-useful information and note their similarity to the requirements of Accounting Guideline AcG-19 "Disclosures by Entities Subject to Rate Regulation" in pre–changeover Canadian GAAP. Our experience with the Canadian requirements has been that preparers do not consider them burdensome and financial statement users find them beneficial. We consider the table required by paragraph 28 of the Exposure Draft to be an improvement over pre–changeover Canadian GAAP disclosure requirements for the reasons stated in paragraph BC65."

B21. We also disagree with those respondents that object to permitting the qualitative information referred to in paragraph 22 above to be incorporated by cross reference from the financial statements to an accompanying report. The cross–reference means that the disclosures are an integral part of the financial statements, as confirmed in paragraph 26 of the interim ED, which states: "If the information is not [. . .] incorporated by cross–reference, the financial statements are incomplete."

B22. In addition, incorporating the information by cross reference is an option, not a requirement. Many entities that currently recognise regulatory balances in accordance with their local GAAP already provide much of the qualitative information about rate regulation in their management commentary report. We do not think that it is necessary to require them to replicate, or relocate, this information. As explained in paragraph BC66 of the interim ED, this approach is consistent with that used in IFRS 7 *Financial Instruments: Disclosures*.

B23. We agree with the respondents who suggested that presenting disaggregated information about each material change to the regulatory balances that is reflected in the movement reported in the statement of profit or loss and other comprehensive income might provide useful information in some circumstances. However, this may not be relevant to all types of rate–regulatory environment. We do not, therefore, think that it is necessary to mandate such an analysis but instead would prefer to allow management to decide whether it would be useful to provide it. Consequently, we do not propose to add this to the existing proposals.