

International Financial Reporting Standards

Rate-regulated Activities Consultative Group meeting, 15 November 2013
Agenda paper 5

Rate-regulated Activities: Interim IFRS project update

Friday 15 November 2013

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Agenda

- Background
- Interim proposals - ED *Regulatory Deferral Accounts*
- Next steps
- Q&A

Rate-regulated Activities - Background

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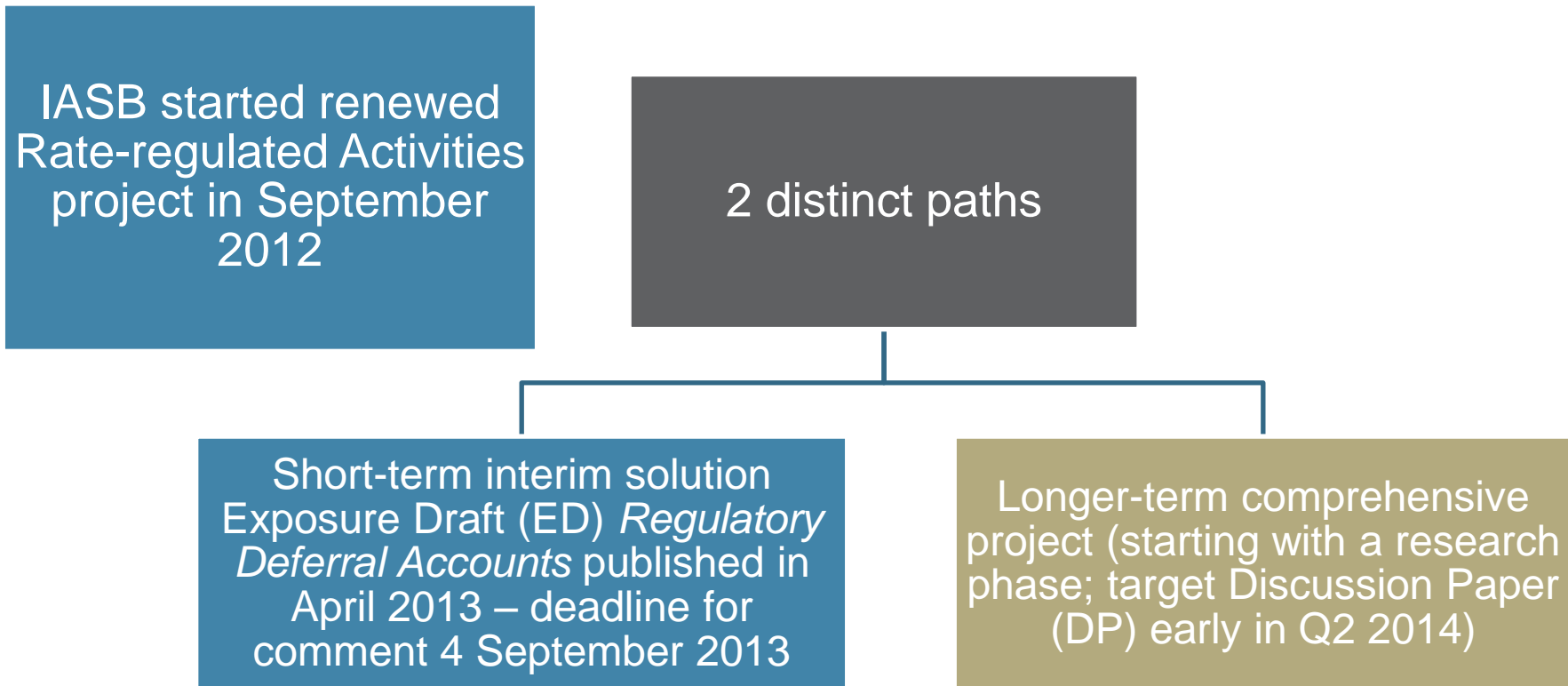
Some national GAAPs permit or require regulatory balances to be recognised in financial statements – either as separate '**regulatory assets**' or '**regulatory liabilities**', or as part of another asset or liability balance (eg part of the cost of property, plant and equipment)

Regulatory debit balances represent deferred 'allowable' costs (the rate regulation gives the entity the right to increase future rates)

Regulatory credit balances generally represent deferred 'excess' profits (the rate regulation requires the entity to reduce future rates)

No specific guidance in IFRS

The new Rate-regulated Activities project



Interim solution: ED Regulatory Deferral Accounts

Interim solution
proposes:

- to permit first-time adopters of IFRS to continue to recognise regulatory balances in accordance with their existing local GAAP (recognition and measurement)
- to require the impact of recognising regulatory balances to be isolated in order to allow direct comparison with rate-regulated entities that do not recognise regulatory balances (presentation and disclosure)

How will the proposals affect IFRS financial statements (1)

No impact on existing IFRS financial statements



No impact on cash flows



Isolated impact of recognising regulatory balances in the financial statements:

2 line items in the balance sheet:

- Regulatory debit balances – after total assets
- Regulatory credit balances – after total liabilities

1 line item in profit or loss – after profit before tax

How will the proposals affect IFRS financial statements (2)

If finalised, the Standard will lower a significant barrier to the adoption of IFRS for many entities

- will allow users to compare a greater number of rate-regulated entities across a wider range of countries
- limited scope (only first-time adopters that already recognise regulatory balances) will introduce some inconsistency in IFRS financial statements

Isolation of regulatory balances should improve comparability:

- should improve transparency of reported regulatory impact
 - regulatory amounts will no longer be incorporated within other line items in balance sheet or income statement
 - all other line items presented in accordance with IFRS

Interim ED comment letter responses

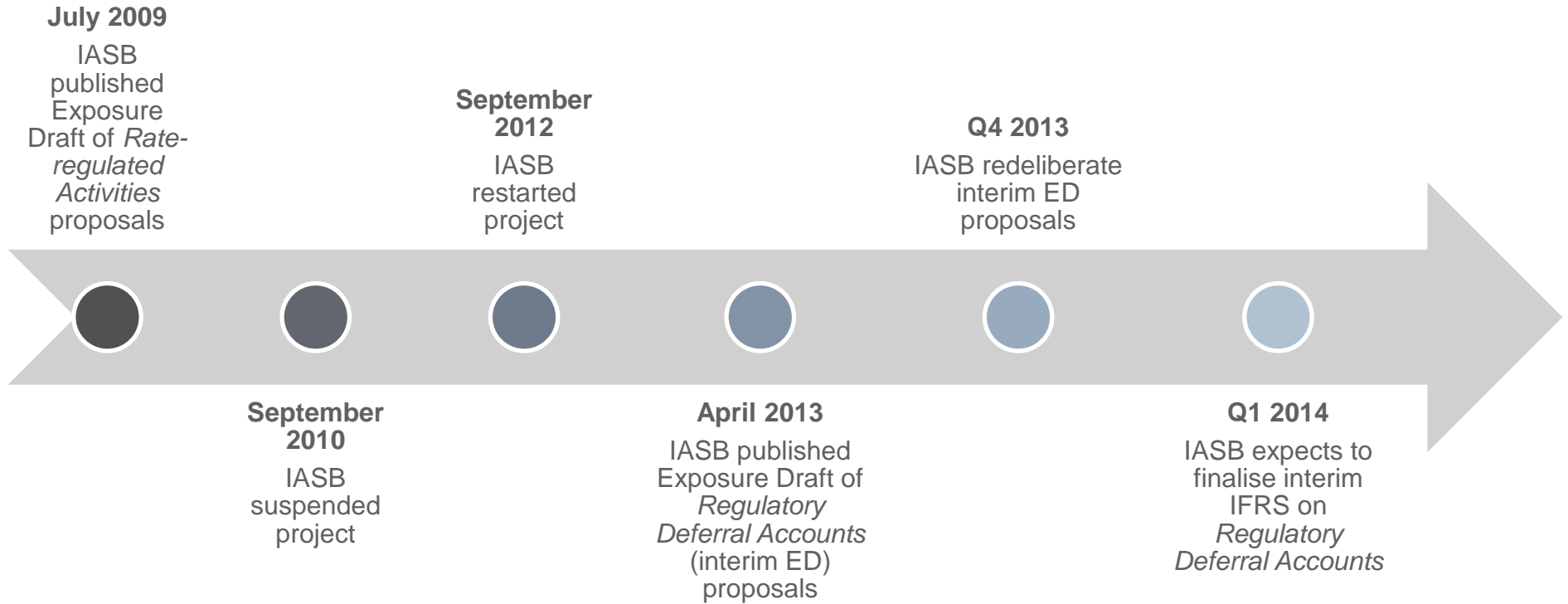
	Europe	North America	Asia	Latin America	Oceania	Global	Africa	Total
Accountancy body	2	0	2	0	0	1	3	8
Accounting firm (Big 4 and others)	0	0	0	0	0	7	0	7
Government body	0	1	0	0	0	0	0	1
Individual	2	0	0	1	0	0	0	3
Preparer	6	28	2	4	0	0	0	40
Preparer/representative body	4	8	1	3	0	0	0	16
Rate regulator/rep body	1	3	0	0	0	0	0	4
Securities regulator/rep body	2	4	1	0	0	0	0	7
Standard-setting body [incl. endorsement advice bodies]	10	1	4	3	3	0	1	22
User/representative body	0	5	0	0	0	1	0	6
Total	27	50	10	11	3	9	4	114

- The IASB tentatively decided to retain the proposals in the interim ED, with the following amendments:
 - clarify that the scope criterion in paragraph 7(a) to exclude self-regulated entities but permit some flexibility in the pricing;
 - delete the scope criterion in paragraph 7(b) that refers to recoverability of allowable costs;
 - add application guidance to clarify some group accounting issues;
 - introduce a limited exception to IFRS 3 *Business Combinations*;
 - specify the continuation of previous GAAP policies for derecognition;

(continued)

- The IASB tentatively decided to retain the proposals in the interim ED, with the following amendments (continued):
 - clarify that an entity is not prohibited from recognising new regulatory balances that are created as a consequence of a change in an accounting policy for other items required by IFRS;
 - require the net movement in regulatory balances to be split between profit or loss and other comprehensive income; and
 - delete the specific reference to materiality as a factor to consider in deciding the level of detail to disclose.

Interim IFRS project timeline



Where to go for more information

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- Rate-regulated Activities project page on the IFRS website
 - <http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Pages/Rate-regulated-activities-landing.aspx>

Jane Pike jpике@ifrs.org

Senior Technical Manager, IASB

