STAFF PAPER

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IASB Meeting

Project	**Rate-regulated Activities: Interim IFRS**
Paper topic	Comment letter analysis

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Introduction

1. In April 2013, the IASB published the Exposure Draft *Regulatory Deferral Accounts* (the interim ED). The proposals in the interim ED are aimed at entities that adopt IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, ie the basis of accounting that a first-time adopter used immediately before adopting IFRS).
2. The closing date for comments on the Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the interim ED), was 4 September 2013.

Purpose and structure of the paper

3. This Agenda Paper 22 summarises the high level messages received from the responses to the interim ED. The analysis of the detailed questions set out in the Invitation to Comment of the interim ED is contained in the accompanying Agenda Papers 22A-22C. This paper summarises the staff's recommendations for finalising the proposals and reproduces the questions for the IASB, which are included in those papers.
4. The paper contains the following sections:

   (a) Summary of high level messages received;

(b) Summary of staff recommendations and questions for the IASB;

(c) Appendix A: Quantitative summary of respondents; and

(d) Appendix B: Invitation to Comment questions.

Summary of high level messages received

5. 114 responses were received from 26 countries, representing seven geographical regions. Appendix A shows a breakdown of the geographical distribution of respondents. The largest number of respondents (49 per cent) are preparers of financial statements and preparer representative bodies. Other respondents are primarily standard-setters (19 per cent), and accounting firms or bodies (13 per cent). Of the six responses[1] (five per cent of responses) described as "User/representative body", one is an association of valuers and three represent consumer groups.

6. The overall support or disagreement with the general proposal to issue an interim Standard available to first-time adopters of IFRS is mixed:

   (a) A slight majority of responses support the issue of an interim IFRS applicable to first-time adopters only;

   (b) A significant minority of responses (a little over one quarter of all respondents) disagree with the issue of an interim IFRS; and

   (c) A slightly smaller number of responses (approximately one-fifth of all responses) disagree with providing an interim IFRS only for first-time adopters. The majority of these would support an interim IFRS that was applicable to a wider range of entities.

7. Many of the respondents that disagreed with the overall proposal still provided responses to the individual questions within the interim ED, which were provided to assist the IASB if it decides to go ahead with publishing an interim IFRS.

[1] International Association of Consultants, Valuators and Analysts (IACVA); National Association of State Utility Consumer Advocates; NASUCA Tax & Accounting Committee; Wyoming Public Service Commission. Other user responses came from Standard & Poors and from the User Advisory Council [the User Group of the Canadian standard-setter].

8. There was general support for the IASB's comprehensive Rate-regulated Activities project. Some of the respondents noted that their support for the interim IFRS was partially conditional on the IASB prioritising the work on that project to ensure that it is completed in a timely manner. Some stressed that the 'uneven playing field' created by an interim solution aimed only at prospective first-time adopters is not sustainable as a long-term solution.

General reasons for supporting or disagreeing with the proposals

9. A high level summary of the main arguments for and against the general proposal for an interim IFRS was presented to the IASB in September 2013[2] and will not be reproduced in full here.

10. In short, those that support an interim solution only for first-time adopters agree with the IASB's reasons for issuing the interim ED, in particular:

    (a) it will not increase diversity among existing IFRS preparers;

    (b) it will reduce a significant barrier to the adoption of IFRS by entities with rate-regulated activities, which will improve comparability by reducing the number of different accounting frameworks being used; and

    (c) the separate presentation and disclosure requirements will help comparability across IFRS preparers.

11. Those that disagree with issuing an interim solution gave a wider variety of reasons in addition to those provided by the alternative views of IASB members.[3] Those other reasons include:

    (a) the proposals are contrary to the IASB's policy of publishing a single set of Standards that are available to all on equal terms, ie creating a 'level playing field'. This will weaken the reputation of the IFRS 'brand' and is unfair to entities that previously eliminated regulatory balances on adoption of IFRS;

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[2] Agenda Paper 9C interim ED: *Early feedback from comment letters*.

[3] See paragraphs AV1–AV7 of the interim ED.

(b) experience with other 'interim' Standards, ie IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources*, suggest that an interim Standard will not be a 'short-term' solution; and

(c) although the IASB has stated that the interim proposals will not prejudice the outcome of the comprehensive project, the recognition of regulatory balances through an interim IFRS will naturally increase the pressure to continue this treatment for all.

12. Several respondents suggested that the IASB should redirect resources to the comprehensive project instead of completing the interim IFRS. Many of them noted the importance of addressing whether rate regulation should result in the recognition of assets and liabilities for all IFRS preparers, not merely the limited population of entities targeted by the interim proposals.

Summary of staff recommendations, and questions for the IASB

13. We are not persuaded that there are any substantially new arguments against issuing an interim IFRS. We continue to be persuaded that the IASB's reasons for issuing the interim ED[4] and the benefits perceived from issuing an interim IFRS[5] outweigh the disadvantages in this case.

Question: Proceeding with the interim IFRS
Does the IASB agree to proceed with finalising the proposals in the interim ED, subject to the outcome of the detailed analysis of responses to the individual questions set out in the Invitation to Comment of the interim ED?

15. Agenda Papers 22A-22C set out the staff's analysis of the responses to the specific questions contained in the interim ED. The following paragraphs summarise the staff recommendations and reproduce the questions for the IASB contained in those Agenda Papers.

[4] See paragraphs BC11–BC19 of the interim ED.

[5] See BC20 of the interim ED.

Agenda Paper 22A

16. We recommend that the scope and transition requirements proposed in paragraphs 4–15 and paragraph C1 of the interim ED should be retained, with the following amendments:

    (a) clarify the intention of the scope criterion in paragraph 7(a) of the interim ED , which requires that an authorised body (the rate regulator) restricts the price that the entity can charge its customers for the goods or services that the entity provides (see paragraph 20 and paragraphs 23–25 of Agenda Paper 22A);

    (b) delete the scope criterion in paragraph 7(b) of the interim ED, which requires that the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services (see paragraph 21 and paragraphs 26–27 of Agenda Paper 22A); and

    (c) add some application guidance relating to group accounting issues (see paragraphs 40–51 of Agenda Paper 22A).

Questions for the IASB

Question 1: Restricting the scope to first-time adopters
Does the IASB agree to retain the interim ED proposal to restrict the scope to the first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP?

Question 2: Criteria related to the type of rate regulation
Does the IASB agree with the staff recommendations to:
(a) clarify the criterion in paragraph 7(a) of the interim ED that prevents self–regulation from being captured in the scope but permits some

	flexibility in the prices established by the rate regulator? and
(b)	delete the criterion in paragraph 7(b) of the interim ED that requires a qualitative judgment to be made about the cause–and–effect relationship between costs and revenue?

Question 3:Optional application

Does the IASB agree with the staff recommendation to retain the proposal to make adoption of the [draft] interim IFRS optional for those entities that are eligible to use it?

Question 4: Restriction to prevent an entity from starting to recognise regulatory account balances

Do the IASB agree with the staff recommendations to:

(a) retain the existing proposal to permit only those entities that recognise, immediately prior to the application of an interim IFRS, regulatory deferral account balances to continue to apply their previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances and prevent entities that do not recognise such balances from starting to do so? and

(b) add application guidance to clarify the group accounting issues? If so, do you agree with the staff's analysis of these issues as described in paragraphs 40–51 above?

Question 5: Transition

Does the IASB agree to retain the existing transition provisions?

Agenda Paper 22B

17. We recommend that the recognition, measurement and impairment requirements and their interaction with other IFRS requirements, as proposed in paragraphs 14–17 and Appendix B of the interim ED, are retained with the following amendments:

    (a) introduce a limited exception to IFRS 3 *Business Combinations* to permit the continued previous GAAP accounting policy for the recognition and measurement of regulatory account balances to be applied for a business combination (see paragraphs 5–11 of Agenda Paper 22B);

    (b) specify that an entity should continue to apply its previous GAAP policies for the derecognition of regulatory account balances (see paragraphs 22–23 of Agenda Paper 22B); and

    (c) clarify that an entity may recognise new regulatory balances that are created due to a change in accounting policy for other items required by IFRS (see paragraphs 24–29 of Agenda Paper 22B).

Questions for the IASB

Questions: Additional application guidance	
1.	Do you agree with the staff's recommendations to add further guidance for: (a) recognition and measurement of regulatory account balances in a business combination? (b) derecognition of regulatory account balances? and (c) new regulatory account balances created by changes in accounting policy when making the transition to IFRS?
2.	Do you agree with the staff's recommendation not to add guidance for: (a) impairment? (b) interim financial statements? and (c) the interaction with IFRIC 12?

Agenda Paper 22C

18. We recommend that the presentation and disclosure requirements proposed in paragraphs 18–33 of the interim ED are retained with the following amendments:

    (a) the net movement in regulatory balances presented in the statement of profit or loss and other comprehensive income (OCI) should be split between amounts related to items reported in profit or loss and those reported in OCI (see paragraphs 4–18 of Agenda Paper 22C); and

    (b) the specific reference to materiality as a factor to consider in deciding the level of detail to disclose should be deleted (see paragraphs 30–37 of Agenda Paper 22C).

Questions for the IASB

Question 1: Separation of regulatory line items
1. Do you agree with the staff recommendation to: (a) separate the net movement in regulatory balances between amounts related to profit or loss and amounts related to items included in other comprehensive income? and (b) retain the presentation requirements proposed in paragraphs 18-21 of the interim ED?

Question 2: Detailed disclosure requirements
Does the IASB agree with the staff recommendation to retain the disclosure requirements as drafted in paragraphs 22–33 of the interim ED, subject to the decision related to the specific reference to materiality discussed below?

Question 3: Factors to consider for disclosure, including materiality
Does the IASB agree that the specific reference to materiality as a factor to consider in deciding the level of detail to provide to satisfy the disclosure requirements should be deleted?

Appendix A: Summary of responses to the Exposure Draft *Regulatory Deferral Accounts*, published in April 2013—geographical analysis

	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**

Appendix B: Summary of questions in the Invitation to Comment on the Exposure Draft *Regulatory Deferral Accounts*, published in April 2013

B1. The Invitation to Comment section of the Exposure Draft Regulatory Deferral Accounts (the interim ED) contains the following questions:

Scope

Question 1

The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP.

Is the scope restriction appropriate? Why or why not?

Question 2

The Exposure Draft proposes two criteria that must be met for regulatory deferral accounts to be within the scope of the proposed interim Standard. These criteria require that:

(a) an authorised body (the rate regulator) restricts the price that the entity can charge its customers for the goods or services that the entity provides, and that price binds the customers; and

(b) the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services (see paragraphs 7–8 and BC33–BC34).

Are the scope criteria for regulatory deferral accounts appropriate? Why or why not?

Question 3

The Exposure Draft proposes that if an entity is eligible to adopt the [draft] interim Standard it is permitted, but not required, to apply it. If an eligible entity chooses to apply it, the entity must apply the requirements to all of the rate-regulated activities and resulting regulatory deferral account balances within the scope. If an eligible entity chooses not to adopt the [draft] interim Standard, it would derecognise any regulatory deferral account balances that would not be permitted to be recognised in accordance with other Standards and the *Conceptual Framework* (see paragraphs 6, BC11 and BC49).

Do you agree that adoption of the [draft] interim Standard should be optional for entities within its scope? If not, why not?

Recognition, measurement and impairment

Question 4
The Exposure Draft proposes to permit an entity within its scope to continue to apply its previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances. An entity that has rate-regulated activities but does not, immediately prior to the application of this [draft] interim Standard, recognise regulatory deferral account balances shall not start to do so (see paragraphs 14–15 and BC47–BC48). Do you agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so? If not, why not?

Question 5
The Exposure Draft proposes that, in the absence of any specific exemption or exception contained within the [draft] interim Standard, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets and liabilities that are recognised in accordance with other Standards (see paragraphs 16–17, Appendix B and paragraph BC51). Is the approach to the general application of other Standards to the regulatory deferral account balances appropriate? Why or why not?

Presentation

Question 6
The Exposure Draft proposes that an entity should apply the requirements of all other Standards before applying the requirements of this [draft] interim Standard. In addition, the Exposure Draft 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 (see paragraphs 6, 18–21 and BC55–BC62). Is this separate presentation approach appropriate? Why or why not?

Disclosure

Question 7
The Exposure Draft 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 (see paragraphs 22–33 and BC65).

Do the proposed disclosure requirements provide decision-useful information? Why or why not? Please identify any disclosure requirements that you think should be removed from, or added to, the [draft] interim Standard.

Question 8

The Exposure Draft explicitly refers to materiality and other factors that an entity should consider when deciding how to meet the proposed disclosure requirements (see paragraphs 22–24 and BC63–BC64).

Is this approach appropriate? Why or why not?

Transition

Question 9

The Exposure Draft does not propose any specific transition requirements because it will initially be applied at the same time as IFRS 1, which sets out the transition requirements and relief available.

Is the transition approach appropriate? Why or why not?

Other comments

Question 10

Do you have any other comments on the proposals in the Exposure Draft?