

## STAFF PAPER

October 2013

## IASB Meeting

<b>Project</b>	<b>Rate-regulated Activities: Interim IFRS</b>		
<b>Paper topic</b>	Scope and transition		
<b>CONTACT(S)</b>	Jane Pike	jpike@ifrs.org	+44 (0)20 7246 6925

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**Purpose and structure of the paper**

1. Agenda Paper 22A analyses the responses to the scope and transition questions presented within the Invitation to Comment of the Exposure Draft *Regulatory Deferral Accounts*, which was published in April 2013 (the interim ED). In addition, this paper summarises the staff's recommendations for finalising the proposals.
2. The paper deals with the following questions from the interim ED:
  - (a) Question 1: should the scope be restricted to first-time adopters only?
  - (b) Question 2: are the two additional scope criteria appropriate?
  - (c) Question 3: should the interim IFRS be optional?
  - (d) Question 4: should entities be able to start to recognise regulatory balances?
  - (e) Question 9: are the transition proposals appropriate?
3. Although Question 4 was included under the heading "Recognition, measurement and impairment" in the Invitation to Comment of the interim ED, we have included it within the scope issues because of its interaction with the proposed scope restriction for first-time adopters in Question 1. We have also included the transition question (Question 9) here because, again, it is closely interrelated with the first-time adopter restriction.

## Summary of staff recommendations

4. We recommend that the scope and transition requirements proposed in paragraphs 4–15 and paragraph C1 of the interim ED are 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 paragraphs 20 and 23–25);
  - (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 paragraphs 21 and 26–27); and
  - (c) add some application guidance relating to group accounting issues (see paragraphs 40–51).

### Question 1: should the scope be restricted to first-time adopters only?

5. The interim ED proposes 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 (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*<sup>1</sup>).
6. There was widespread acknowledgement that the question as to whether rate regulation should result in the recognition of ‘regulatory assets’ and ‘regulatory liabilities’ was a complex and difficult one. Consequently, many of the supporters of this scope restriction agreed that allowing first-time adopters of IFRS to continue to recognise regulatory balances that they currently recognise in accordance with their previous GAAP was a practical and pragmatic short-term solution to a significant barrier to the adoption of IFRS. In addition, some supporters of this scope restriction noted that it would be inappropriate for other entities to begin recognising regulatory balances in IFRS financial statements until

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<sup>1</sup> IFRS 1 defines ‘previous GAAP’ as “[t]he basis of accounting that a first-time adopter used immediately before adopting IFRSs”.

the IASB completes its comprehensive project to answer whether, and if so, how, such balances should be recognised (see responses to Question 4, discussed in paragraphs 35-53).

7. Some respondents suggested that the scope should be open to all rate-regulated entities that satisfy the other scope criteria (see the section related to Question 2). Those respondents argued that restricting the scope to the first-time adopters that recognised regulatory balances in accordance with their previous GAAP would reduce comparability between entities, depending on when they first applied IFRS.
8. Some respondents also suggested that restricting the scope to only the first-time adopters that recognised regulatory balances in accordance with their previous GAAP might also discriminate against existing IFRS preparers. This may give an unfair advantage to those entities within the scope. For example, one respondent noted:<sup>2</sup>

... companies bidding for tenders would be subject to distortions of competition, depending on whether they are allowed by their local GAAP to recognise regulatory deferral accounts or not, and on whether they are first-time adopters or not.

9. A few responses suggested that the scope should be widened to capture those entities that eliminated regulatory balances when adopting IFRS. They suggested that limiting the scope to future first-time adopters was unfair to those that had already reluctantly accepted the predominant IFRS practice and had eliminated the regulatory balances when they adopted it. It could be argued that this is especially relevant to those entities in jurisdictions that have recently adopted IFRS, such as Brazil and Korea and to the few entities in Canada that have made the transition to IFRS.

### **Staff analysis**

10. We do not agree that the proposals will reduce comparability. As explained in Agenda Paper 22, we think that comparability will be enhanced because reducing

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<sup>2</sup> Autorité des normes comptables (ANC)

the barrier to IFRS adoption will result in the requirements of IFRS being applied to the other reported balances and transactions in the financial statements instead of a variety of other accounting frameworks.

11. We do agree that the treatment of regulatory balances will not be consistent across all entities, as the IASB acknowledged in paragraph BC19 of the interim ED.<sup>3</sup> The interim ED proposes to permit first-time adopters to continue to apply existing accounting policies for the recognition, measurement and impairment of regulatory balances. This ‘grandfathering’ policy may result in different accounting policies being adopted for regulatory balances. However, the IASB has previously observed that, in many jurisdictions, the accounting policies developed for regulatory balances are based on US GAAP or local GAAP that provides similar guidance. Consequently, a reasonable level of comparability of the treatment of the regulatory balances is expected within the limited population of eligible entities.<sup>4</sup>
12. The respondents who disagreed with the scope restriction, and suggested that the scope should include existing IFRS preparers that are subject to rate regulation, gave no clear direction as to what accounting policies should be adopted by entities that currently do not recognise regulatory balances. Some suggested that entities should return to the policies that they used before making the transition to IFRS; others suggested allowing entities to develop their own policies; and others suggested that the IASB provides more detailed guidance on what recognition, measurement and impairment policies should be applied.
13. The staff are not convinced by these arguments. Allowing entities to return to previous accounting policies or to determine their own policies will introduce a wider variety of accounting policies and, therefore, introduce more inconsistency than the proposals in the interim ED. As noted in paragraph BC39 of the interim ED, the IASB is not able to establish the most appropriate recognition, measurement and impairment requirements for reporting the effects of rate

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<sup>3</sup> Paragraph BC19 states: “The IASB acknowledges that the proposal to permit only a limited population of entities to recognise regulatory deferral account balances will introduce some inconsistency and diversity into IFRS practice for the treatment of regulatory deferral account balances, when it does not currently exist. ...”.

<sup>4</sup> See paragraph BC16 of the interim ED.

regulation until there are answers to the fundamental issues that are currently being addressed in the comprehensive research project.

14. In addition, we do not think that it is appropriate for entities that have recently eliminated regulatory account balances when making the transition to IFRS to reinstate them when the outcome of the IASB's comprehensive Rate-regulated Activities project is still uncertain. One of the main purposes of the IASB proposing an interim solution was to help first-time adopters within the proposed scope to avoid making a major change to their accounting policies for regulatory account balances until guidance is developed through the comprehensive project.<sup>5</sup> Allowing entities to revert back to a previous policy that may again need to be changed when the comprehensive project is completed would be contrary to the IASB's objective and introduce greater volatility and inconsistency.

#### *Existing IFRS preparers*

15. During the development of the interim ED, the IASB focused on first-time adopters of IFRS because the predominant practice among existing IFRS preparers is not to recognise regulatory balances. Although it was acknowledged that there may be a few rare examples of regulatory balances being recognised within the existing IFRS population, the IASB tentatively decided that the interim ED did not need to address those cases.
16. While carrying out research for the comprehensive project, the staff have not seen evidence to contradict the IASB's earlier observation that exceptions to the predominant practice are rare. Consequently, we do not think that the scope needs to be widened to capture existing IFRS preparers that currently recognise regulatory balances in IFRS financial statements.

#### **Staff recommendation**

17. We recommend that the IASB retains the proposal 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.

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<sup>5</sup> See paragraph BC18 of the interim ED.

*Question 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: are the two rate–regulatory scope criteria appropriate?**

18. The interim ED proposes two criteria that must be met for regulatory deferral accounts to be within the scope of the proposed interim Standard. The 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 of the interim ED).
19. The majority of responses agreed that the two criteria are appropriate. However, some respondents asked for clarifications of the IASB’s intention and others rejected the criteria.
20. The clarifications requested mainly relate to the criterion in paragraph 21(a) above and suggest that it is amended to:
- (a) make more explicit the IASB’s statement in paragraph BC33 of the interim ED that an entity must be subject to formal rate regulation; self–regulation is not sufficient to be captured by the scope;<sup>6</sup> and
  - (b) clarify that, where the entity has some flexibility in setting prices, this does not preclude the activities from being included within the scope

<sup>6</sup> The IASB discussed this issue at the September 2013 meeting when it consider the features that distinguish rate–regulated activities from general commercial activities (see Agenda Paper 9B(ii)).

criterion if the flexibility is explicitly restrained by the rate-setting mechanism.<sup>6</sup>

21. Some respondents rejected the criterion in paragraph 21(b) on the basis that:
- (a) it is similar to the criterion in the 2009 ED and, therefore, it is too narrowly focused on the cost-of-service type rate regulation that is common in a limited number of jurisdictions. Consequently, those respondents argue that this limits the number of entities (and jurisdictions) that would be able to benefit from the proposed relief. This is contrary to the stated objective of the interim ED, which is to reduce the barrier to adoption of IFRS for those entities for which regulatory balances represent a significant proportion of net assets;<sup>7</sup> and
  - (b) some respondents argue that the IASB had used this criterion to support the tentative decision in the 2009 ED that rate regulation that requires an identifiable cause-and-effect relationship between costs and revenues does create assets and liabilities. Consequently, those respondents suggest that retaining this criterion sets a qualitative characteristic that implies that such rate-regulatory schemes are more likely to create assets and liabilities. In addition, this criterion may be perceived as prejudging the outcome of the comprehensive Rate-regulated Activities project.
22. Some respondents who did not support the issue of an interim IFRS did, however, support the criteria limiting the scope. This agreement was based on limiting the population of entities that would be eligible to apply the interim IFRS (if it is finalised) until the IASB's comprehensive Rate-regulated Activities project is completed.

### **Staff analysis**

23. The two requested clarifications noted in paragraph 20 above were discussed briefly by the IASB at the September 2013 meeting, in the context of the scope of the comprehensive project. At that meeting, the IASB considered the common

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<sup>7</sup> See paragraphs BC16 and BC18 of the interim ED.

features of rate regulation that the staff have identified as distinguishing rate-regulated activities from other general commercial activities.<sup>8</sup> The identification of these features was based on the responses to the Request for Information *Rate Regulation*, issued in March 2013, and subsequent discussions with the IASB's Rate-regulated Activities Consultative Group and other informal outreach.

*Criterion (a)—price established by an authorised body*

24. This criterion was discussed at the September 2013 IASB meeting in the context of establishing the distinguishing features of rate regulation that will form the basis of the Discussion Paper being developed in the comprehensive project. At that meeting, the IASB tentatively agreed that the existence of an external source of regulation is an important feature that distinguishes rate-regulated activities from other commercial activities. This tentative decision is consistent with the IASB's previous decision that self-regulation was not sufficient to be captured within the scope of the interim proposals. That previous decision is explained in paragraph BC33 of the interim ED, which specifies that an entity that voluntarily chooses to self-regulate its prices should not be permitted to apply the interim IFRS.
25. In addition, the IASB discussed, in the September 2013 meeting, the ability of an entity to apply some flexibility to its pricing structure. The staff noted that such pricing flexibility is common and suggested that some flexibility in pricing should not preclude the activities from being captured within the scope of rate-regulated activities when the flexibility is within clear restrictions set by the rate regulation. The IASB tentatively agreed with this suggestion for the purposes of establishing the distinguishing features of rate regulation that will form the basis of the Discussion Paper being developed in the comprehensive project.

*Criterion (b)—regulation designed to recover the entity's allowable costs*

26. We agree with those respondents who disagreed with the scope criterion (b), ie there must be an identifiable cause-and-effect relationship between costs and revenues. We are persuaded by the arguments that this implies that the interim

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<sup>8</sup> Agenda Papers 9-9B(iii), September 2013.



proposals prejudice the comprehensive project and would be against the underlying objective of the IASB in issuing an interim solution.

27. Early work on the comprehensive Rate–regulated Activities project has shown that there are many types of rate regulation that have similar features. Consequently, we agree that it would be best to avoid making a qualitative judgement about the type of rate regulation that should be included in the scope of an interim IFRS. We think that restricting the scope to those entities that currently recognise regulatory balances, and preventing entities from changing an accounting policy to start recognising such balances, should sufficiently restrain the population of entities within the scope of the interim IFRS.

**Staff recommendation**

28. We recommend that the IASB retains criterion (a), ie 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. In addition, we recommend that the clarifications related to self–regulation and to pricing flexibility, discussed in paragraphs 24–25 above should be made if the IASB agrees to issue an interim IFRS.
29. We also recommend that the IASB deletes criterion (b), ie specifying the type of rate regulation, on the basis that this is inconsistent with the underlying objective of the IASB to reduce barriers to the adoption of IFRS and that it may be perceived as prejudging the outcome of the comprehensive project, as discussed in paragraphs 26–27 above.

*Question for the IASB*

<b>Question 2: Criteria related to the type of rate regulation</b>	
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?
b)	delete the criterion in paragraph 7(b) of the interim ED that requires

a qualitative judgement to be made about the cause-and-effect relationship between costs and revenue?

### **Question 3: should the interim IFRS be optional?**

30. The interim ED proposes that if an entity is eligible to adopt the [draft] interim IFRS it is permitted, but not required, to apply it.
31. The vast majority of respondents agreed with this proposal. Many argue that the reliefs provided in IFRS 1 are optional, and so, making the relief proposed in the interim ED optional is consistent with this approach.
32. In addition, many respondents agreed with the IASB's reasoning in paragraph BC49 of the interim ED that entities should be able to choose not to apply the relief in order to be more comparable with earlier adopters of IFRS. This is because the predominant practice among existing IFRS preparers is not to recognise regulatory balances.
33. A few respondents disagreed with the proposals. They argue that introducing an option would introduce more inconsistency and would further reduce comparability.

### ***Staff recommendation***

34. We agree with the arguments supporting the proposal. Consequently, we recommend that the IASB retains the existing proposals that:
  - (a) if an entity is eligible to adopt the [draft] interim IFRS it is permitted, but not required, to apply it; and
  - (b) if an eligible entity chooses to apply the [draft] interim IFRS, the entity must apply the requirements to all of the rate-regulated activities and resulting regulatory deferral account balances within the scope.

*Question for the IASB***Question 3: Optional application**

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

**Question 4: should entities be able to start to recognise regulatory balances?**

35. The interim ED proposes that an entity that has rate-regulated activities but that does not, immediately prior to the application of this [draft] interim IFRS, recognise regulatory deferral account balances shall not start to do so.
36. This question is closely linked to the scope issue in Question 1, which is related to first-time adopters. Not surprisingly, the responses were similar. The majority of responses agreed that an entity that does not currently recognise regulatory balances should not be permitted to start recognising them using the interim proposals. As noted in paragraph 14 above, allowing entities to return to previous accounting policies or to determine their own policies will introduce a wider variety of accounting policies and, therefore, introduce more inconsistency than the proposals in the interim ED. As noted in paragraph BC39 of the interim ED, the IASB is not able to establish the most appropriate recognition, measurement and impairment requirements for reporting the effects of rate regulation until there are answers to the fundamental issues that are currently being addressed in the comprehensive research project.
37. Some responses asked the IASB to clarify how this restriction would apply in the following cases:
- (a) if an entity does not have any eligible regulatory balances and, consequently, does not recognise any regulatory balances, at the date of transition to IFRS but subsequently acquires or begins eligible rate-regulated activities; and
  - (b) in a group situation, is it the accounting policy of the parent or the subsidiary that takes precedence?

**Staff analysis**

38. The IASB discussed the first scenario in developing the interim ED. As explained in paragraph BC17 of the interim ED, the IASB tentatively decided that:

“... an entity that does not recognise regulatory deferral account balances in the period immediately preceding its first IFRS financial statements is not eligible to apply this [draft] interim Standard in order to start recognising such balances. An entity would not, therefore, be eligible if, for example, the entity did not have any relevant rate-regulated activities in the period before it made the transition to IFRS or the entity is a newly formed business and adopts IFRS in its first financial statements. The IASB thinks that this restriction balances the needs of preparers and users in jurisdictions that currently recognise regulatory deferral account balances in accordance with previous GAAP, and those that do not recognise such balances in accordance with IFRS.

39. The staff have not been persuaded that there is a widespread need to change the IASB’s earlier decision. The comprehensive project is intended to resolve the issue as to whether rate regulation should result in the recognition of assets and liabilities. Until that project is completed, we think that it is appropriate to prevent an entity from starting to recognise regulatory balances.

*Consolidated financial statements—parent does not apply the [draft] interim IFRS*

40. In a group situation, there is a somewhat complex relationship between the requirements of IFRS 10 *Consolidated Financial Statements* and IFRS 1. The outcome will depend on when both parent and subsidiary adopt IFRS for the first time and when the parent begins to consolidate the subsidiary.
41. Paragraph 19 of IFRS 10 requires that a “parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances”. Consider a parent entity that either currently applies IFRS or adopts IFRS for the first time and does not recognise regulatory balances (ie the parent entity is not eligible to start to recognise

regulatory balances) but subsequently acquires a subsidiary that does recognise such balances. If the parent does not have rate-regulated activities but acquires them through its new subsidiary, we think that this is captured by the scenario in paragraph 38 above. Consequently, the parent would eliminate the subsidiary's regulatory balances when consolidating for the first time.

42. More generally, if the parent does have rate-regulated activities but does not recognise regulatory account balances in its consolidated financial statements, it would not be able to start recognising such balances for rate-regulated activities carried out in its newly acquired subsidiary.
43. However, if that subsidiary subsequently adopts IFRS, then we think that it will be eligible to apply the [draft] interim IFRS (assuming all other eligibility criteria are met) and continue to recognise its regulatory balances in its own financial statements. This is because, when a subsidiary adopts IFRS later than its parent, paragraph D16 of IFRS 1 applies. That paragraph allows such a subsidiary to measure (and recognise) its assets and liabilities at either:
- (a) the carrying amounts that would be included in the parent's consolidated financial statements; or
  - (b) the carrying amounts required by the rest of this IFRS (ie IFRS 1), based on the subsidiary's date of transition to IFRS.
44. We think that the proposal in the interim ED that, in the absence of any specific exemption or exception contained within the [draft] interim IFRS, 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, would allow the subsidiary to apply paragraph D16 of IFRS 1 to its regulatory balances.

*Consolidated financial statements—parent does apply the [draft] interim IFRS*

45. If, alternatively, a parent entity currently recognises regulatory balances and is permitted to continue to recognise them in accordance with the proposals in the interim ED, then we think that the parent should recognise regulatory balances for

all rate-regulated activities within the scope of the proposals.<sup>9</sup> This again is consistent with the existing requirement for the parent to apply consistent accounting policies to all group entities in accordance with Paragraph 19 of IFRS 10.

46. If the parent entity is a first-time adopter of IFRS and its previous GAAP contained a similar requirement for consistent accounting policies for the group, then we do not think that this should raise any specific technical difficulties because the parent will already be recognising the regulatory balances of the subsidiary (or subsidiaries) in the consolidated financial statements and will continue to do so in accordance with the [draft] interim IFRS.
47. If the parent has a subsidiary that currently prepares financial statements in accordance with IFRS and which does not recognise regulatory balances in its IFRS financial statements, the accounting policies of that subsidiary will not be affected. This is because the subsidiary will not be eligible to apply the [draft] interim IFRS.

*Consolidated financial statements—parent does apply the [draft] interim IFRS but previously did not apply consistent policies to consolidate all subsidiaries*

48. If the parent entity is a first-time adopter of IFRS and its previous GAAP did not contain a requirement for consistent accounting policies for the group, which is similar to paragraph 19 of IFRS 10, then there may be a situation when the parent has a previous GAAP accounting policy to recognise regulatory balances for some, but not all, of its eligible rate-regulated activities.
49. Consequently, we think that such a parent entity would need to select an accounting policy for all of its eligible rate-regulated activities at the date of transition to IFRS. If the parent entity is eligible to, and chooses to, apply the [draft] interim IFRS, then it would not only continue to recognise the regulatory balances of those subsidiaries that it already recognises such balances for but, it shall also recognise the regulatory balances of those subsidiaries that it did not

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<sup>9</sup> Paragraph 7 of the interim ED proposes that an entity that is eligible to and elects to apply this [draft] interim Standard shall apply all of its requirements to the regulatory deferral accounts arising from all of the entity's rate-regulated activities that meet the scope criteria.

recognise such balances for. For any such subsidiaries that have previously adopted IFRS, we think that the recognition of such balances would be captured as a consolidation adjustment in accordance with paragraph D17 of IFRS 1 within the parent's consolidated financial statements. However, the subsidiary would not be eligible to apply the interim IFRS and so would not be permitted to start to recognise regulatory balances in its own financial statements.

50. For subsidiaries that are not existing IFRS preparers, the parent would apply the requirements of Appendix C of IFRS 1. This would mean that the parent would make the necessary adjustments to recognise any regulatory balances that are required, in accordance with the interim IFRS, to be recognised for those subsidiaries at the date of the parent's transition to IFRS.

#### *Associates and joint ventures*

51. We think that the analysis in paragraphs 40–50 above, which relates to a parent and subsidiary relationship, also applies to associates and joint ventures. This is consistent with the approach of paragraphs D16–D17 and Appendix C of IFRS 1, which are related to the recognition and measurement of the assets and liabilities of subsidiaries, and to past business combinations, respectively.<sup>10</sup>

#### **Staff recommendation**

52. We recommend that the IASB retains the existing proposal to permit only those entities that recognise, immediately prior to the application of this [draft] interim IFRS, regulatory deferral account balances to continue to apply the previous GAAP accounting policies for the recognition, measurement and impairment of those balances. An entity that has rate-regulated activities but that does not, immediately prior to the application of this [draft] interim IFRS, recognise regulatory deferral account balances shall not start to do so.
53. In addition, we recommend adding some application guidance to clarify the group accounting issues as described in paragraphs 40–51 above. Consistently with the related guidance in IFRS 1, we think that the same guidance would be applicable to investments in associates and joint ventures.

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<sup>10</sup> See paragraphs C5 and D16–D17 of IFRS 1.

*Question for the IASB***Question 4: Restriction to prevent an entity from starting to recognise regulatory account balances**

Does 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 the previous GAAP accounting policies for the recognition, measurement and impairment of those balances and prevent entities that do not recognise such balances from starting to do so?
- 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 9: are the transition proposals appropriate?**

- 54. The interim ED 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.
- 55. The respondents that disagreed with the proposals to restrict the scope to first-time adopters that currently recognise regulatory balances in their previous GAAP financial statements also disagreed with the transition proposals. This is because, if an entity currently does not recognise regulatory balances but was able to change its accounting policy to start to recognise them, then specific transition requirements would need to be provided. The few respondents that suggested a transition method in this situation suggested that the new policy should be applied retrospectively.
- 56. Among other responses, all agreed that the proposed transition requirements were appropriate if the resulting interim IFRS was available only to first-time adopters; and only permitted the continuance of existing accounting policies, as proposed in the interim ED.



**Staff analysis**

57. As noted in paragraphs 17 and 52–53 above, we recommend that the IASB retains the proposals to restrict the application of the [draft] interim IFRS to those entities that already recognise regulatory balances in accordance with their previous GAAP and to prohibit entities from changing their accounting policies to start to recognise such balances.
58. Consequently, we do not think that any changes to the proposed transition requirements are needed.
59. However, it is worth noting here that the interim ED proposed a consequential amendment to the existing relief provided to first-time adopters. This amendment was designed to amend the scope of paragraph D8B of IFRS 1 in order to make the scope consistent with the proposed scope of the interim ED. Consequently, any amendment to the scope of any resultant interim IFRS would also need to be reflected in IFRS 1.

**Staff recommendation**

60. If the IASB agrees to restrict the application of the [draft] interim IFRS to those entities that already recognise regulatory balances and to prohibit entities from changing their accounting policies to start to recognise such balances, then we recommend that the transition proposals in the interim ED are retained.
61. However, if the IASB decides to widen the scope of the proposals and to permit entities to change their accounting policies to start to recognise regulatory balances, we recommend that such changes should apply retrospectively. In this case, the staff will need to develop recommendations for transition and to bring proposals to the IASB in a future meeting.

*Question for the IASB***Question 5: Transition**

Does the IASB agree to retain the existing transition provisions?