

# AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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Agenda ref 3C

PRESENTER ALAN TEIXEIRA

## Regulatory Deferral Accounts: due process ‘lifecycle’ review

### Introduction

1. This report summarises the due process steps completed for the IASB’s Rate-regulated Activities: interim IFRS project. The project will result in a new IFRS that will permit first-time adopters of IFRS to continue to apply their existing accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances when making the transition to IFRS. This should lower a significant barrier to the adoption of IFRS for these entities.
2. Appendix A of this report summarises discussions with the Trustees and the DPOC on this project. Further details of the due process steps considered by the IASB can be found in Agenda Paper 3C(i), which is the Due Process Paper presented to the IASB in November 2013 (a copy of this paper was circulated to the DPOC under cover of an e-mail message from Alan Teixeira on 11 November 2013). An updated version of the protocol table has been included as Appendix B.
3. In addition:
  - (a) Appendix C of this paper reproduces the dissenting opinions of three IASB members who oppose the issuance of the interim IFRS; and
  - (b) Appendix D reproduces the Effects Analysis to be issued with the interim IFRS.

### Due process efforts undertaken

#### ***The suspended project***

4. The IASB’s Rate-regulated Activities project began with the Exposure Draft (ED) *Rate-regulated Activities* published in July 2009. In addition to the responses received through formal comment letters, the IASB staff carried out extensive outreach both during and after the formal comment period. The staff conducted meetings, calls and solicited correspondence from the investor/analyst community, utility preparers and trade organisations, international accounting firms, national standard-setters, securities

regulators and utilities regulators. The feedback from the outreach activities was summarised in papers presented to the IASB in February 2010 (Agenda Paper, AP 7 *Summary Comment Letter Analysis*) and July 2010 (AP 11F *Results of outreach efforts*).

5. The IASB could not decide how to resolve the many technical issues raised by respondents, both in formal comments letters and in other outreach activities. The IASB was also divided on how to progress the project. Consequently, due to resource constraints at that time, the IASB decided to suspend the project and wait for the outcome of its public consultation on its future agenda before deciding what form a future project, if any, might take to address rate-regulated activities (a decision that was reported in *IASB Update* September 2010).

### ***The restarted project***

6. In response to the views received in the Agenda Consultation, the IASB decided, in September 2012, that the Rate-regulated Activities project should restart with a research phase, with the aim of developing a Discussion Paper.
7. At the same time, the IASB began considering requests, which had been highlighted in the Agenda Consultation responses and related round-table meetings, for an interim IFRS to be developed for use until a more comprehensive solution is developed. These requests came primarily from interested parties that consider that the high levels of uncertainty about the outcome of the Rate-regulated Activities project, compounded by the mixed views of respondents and IASB members, together with a lack of guidance within IFRS, is a major barrier to the adoption of IFRS in the jurisdictions that currently recognise regulatory deferral account balances in accordance with their local generally accepted accounting principles (GAAP).
8. In October 2012, the IFRS Advisory Council (the Advisory Council) considered the factors that the IASB should be aware of when deciding whether or not to develop an interim IFRS. Although a majority of Advisory Council members did not support an interim solution, there were some members who strongly supported it. The Advisory Council did acknowledge the uncertainty and lack of understanding about the economic effects and potential financial reporting impacts of rate regulation. Consequently, they supported the IASB's decision to carry out the research project and concluded that, if any interim solution is to be developed, this should be done quickly in order to avoid jeopardising the timetable for any comprehensive solution to be developed as a result of the research project.
9. In December 2012, the IASB decided to develop an ED for an interim solution, within the constraints recommended by the Advisory Council. The ED *Regulatory Deferral Accounts* was published in April 2013, with a 132-day comment period. The ED proposed to permit first-time adopters of IFRS that recognise regulatory deferral account balances in accordance with their previous GAAP to continue with their existing

accounting policies for such balances when making the transition to IFRS. This should lower a significant barrier to the adoption of IFRS for these entities because it should allow them to adopt IFRS without having to make a major change to their accounting policies for rate-regulated activities that might be followed by another major change once the comprehensive project is completed.

10. Some IASB members expressed concerns about reducing comparability in IFRS reporting because some regulatory deferral account balances and the movements in them are incorporated into other line items in financial statements in accordance with some local GAAP. Consequently, the ED proposed some presentation and disclosure requirements that are designed to segregate the impact of recognising regulatory deferral account balances. This will minimise the impact of the interim IFRS on other line items recognised in accordance with existing IFRS. The IASB thinks that this will not only improve comparability with other IFRS financial statements but will enhance transparency and consistency in the way that regulatory deferral account balances are presented.
11. Given the extensive outreach carried out on the 2009 ED (see paragraph 4) and the responses to the Agenda Consultation on the issue (see paragraph 7), the IASB did not undertake further targeted outreach in developing its proposals for the interim Standard. The work and outreach activities carried out in the research project has, so far, supported the feedback received in the earlier outreach activities.

### ***Responses to the Exposure Draft Regulatory Deferral Accounts***

12. The IASB received 114 comment letters in response to the ED. There was widespread support for the IASB's research project for rate-regulated activities but the support for the proposed interim solution was 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 responses) 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 of IFRS. The majority of these would support an interim IFRS that was applicable to a wider range of entities.
13. Some of the respondents noted that their support for the interim solution was partially conditional on the IASB prioritising the work on the research project to ensure that it is completed in a timely manner.

14. The respondents that disagreed with providing an interim solution only for first-time adopters of IFRS but would support an interim IFRS that was applicable to a wider range of entities generally noted that the limited scope proposal was contrary to the IASB's policy of publishing a single set of Standards to create a 'level playing field' and is unfair to entities that previously eliminated regulatory deferral account balances on the adoption of IFRS.
15. The draft of the Effects Analysis issued with the ED attracted very little comment, with only one respondent commenting specifically on it, although that respondent made the Effects Analysis the major theme of the comment letter in support of the proposals in the ED.<sup>1</sup>

### ***The IASB's redeliberations of the Exposure Draft proposals***

16. A summary of the main reasons for supporting or disagreeing with the proposals was considered by the IASB in the September and October 2013 meetings. The summary is contained in Appendix A of Agenda Paper 3C(i), which is the Due Process Paper presented to the IASB in November 2013. The respondents that disagree with the issue of an interim IFRS generally agree with the alternative views of the three IASB members that dissented to the publication of the ED. Their Alternative Views were published alongside the Basis for Conclusions on the ED (see Appendix C of this paper).
17. Following its redeliberations, the IASB decided to finalise, subject to some clarifications and additional application guidance, the proposals for an interim IFRS that is limited to first-time adopters of IFRS. The IASB thinks that the restriction on the scope of the interim IFRS, together with the presentation and disclosure requirements, balances the needs of preparers and users in jurisdictions that currently recognise regulatory deferral account balances in accordance with previous GAAP, and those that already prepare IFRS financial statements and do not recognise such balances.
18. The IASB decided not to allow a wider range of entities to apply the interim IFRS because:
  - (a) this would be contrary to one of the main objectives of the interim project, that is to reduce a major barrier to the adoption of IFRS; and
  - (b) developing guidance for how entities prepare IFRS financial statements and that currently do not recognise regulatory deferral account balances would take significantly more time because it would require many of the issues being considered in the research project to be addressed. This would divert resources from the research project and risk delaying its outcome.

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<sup>1</sup> CAMPUT, which is a representative body consisting of 14 of Canada's Energy and Utility Regulators. CAMPUT's Comment Letter is available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Exposure-Draft-April-2013/Pages/Comment-letters.aspx>.

19. The three IASB members that provided alternative views on the ED continue to dissent to the issue of the interim IFRS, for the same reasons as the views published with the Basis for Conclusions on the ED. These reasons are reproduced in Appendix C of this paper.
20. At its November 2013 meeting, the IASB also stated that it is satisfied that it has completed all of the necessary due process steps required to date and instructed the staff to prepare a draft of the interim IFRS for ballot. The balloting process process is being completed and the interim IFRS is scheduled for publication as soon as possible after this DPOC meeting.

## Appendix A

### RATE-REGULATED ACTIVITIES FORTHCOMING INTERIM IFRS DUE PROCESS LIFE CYCLE REVIEW: REPORTING TO THE TRUSTEES AND THE DUE PROCESS OVERSIGHT COMMITTEE (DPOC)

Date	Trustees/DPOC	Report
Oct 2012	Trustees	Reference in <i>Report of the IASB Chair</i> (Agenda Paper, AP, 2) noting – in the context of the follow-up to the IASB’s <i>Agenda Consultation 2011</i> – the IASB’s plans for a Standards-level project on Rate-regulated Activities (RRA). The report noted the IASB’s consideration for publication of an interim Standard in response to stakeholders’ requests for interim guidance until a more comprehensive solution was developed.
Oct 2012	DPOC	Reference as above in <i>Update on Technical Activities</i> (AP 3B).
Jan 2013	Trustees	Reference in <i>Technical Projects – Update</i> (AP 2A) noting the IASB’s decision taken at its December 2012 meeting to develop an Exposure Draft (ED) for an interim Standard on RRA. The paper noted that the IASB had made it clear that the interim Standard must not delay the completion of the main project and did not in any way prejudice the outcome of that project.
Jan 2013	DPOC	Reference as above in <i>Update on Technical Activities</i> (AP 3C (i)). The IASB considered the due process steps undertaken at its meeting in January 2013 (AP 5F). Hard copies of this paper were given out at the DPOC meeting.
Apr 2013	Trustees	References as above in <i>Report of the IASB Chair</i> (AP 2) and <i>Technical Projects – Update</i> (AP 2A).
Apr 2013	DPOC	Reference in <i>Technical Projects – Update</i> (AP 3A) as above. The <i>Report of the DPOC meeting</i> stated that the DPOC had been updated on the progress of the project.
Jul 2013	Trustees	Reference in <i>Report of the IASB Chair</i> (AP 2) to the publication of an ED to provide interim requirements for RRA.
Jul 2013	DPOC	Reference in <i>Technical Projects – Update</i> (AP 3B) as above.
Oct 2013	DPOC	Reference in <i>Technical Projects – Update</i> (AP 3B). The <i>Report of the DPOC meeting</i> stated that the DPOC had been updated on the progress of the project and that, in September 2013, the IASB had received an initial summary of responses received to the ED proposals and would begin redeliberations in October. The report noted that, as with all other major projects, the DPOC was satisfied that all the due process requirements were being met.
Nov 2013	DPOC	E-mail to DPOC covering an AP (14) to the IASB for its November 2013 meeting <i>Rate-regulated Activities: Interim IFRS – Effective date and due process steps</i> .

## Appendix B

### Appendix B: Due process steps – finalisation of a Standard

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
<b>Consideration of information gathered during consultation</b>				
<b>The IASB posts all of the comment letters that are received in relation to the ED on the project pages.</b>	Required if request issued	Letters posted on the project pages.	The IASB has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.	Comment letters have been posted on the project pages in a timely manner.  The IASB has reported progress on the project to the Trustees at their quarterly meetings, most recently in October 2013.
<b>Round-tables between external participants and members of the IASB.</b>	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Not required, because this is a narrow-scope project.
<b>IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.</b>	Required	<p>Meetings held.</p> <p>Project website contains a full description with up-to-date information.</p> <p>Meeting papers posted in a timely fashion.</p> <p>Extent of meetings with consultative group held and confirmation that critical issues have been reviewed with them.</p>	<p>The IASB and the DPOC have discussed progress on major projects, in relation to the due process being conducted.</p> <p>The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed.</p> <p>The DPOC has met with the Advisory Council to understand stakeholders' perspectives.</p>	<p>The IASB considered a preliminary analysis of high level messages received in comment letters in the September 2013 meeting.</p> <p>The IASB considered a more detailed analysis and redeliberated the proposals in the October 2013 meeting.</p> <p>The Consultative Group has been established primarily for the comprehensive project and detailed consultation with them on the Exposure Draft is not considered necessary. The Group will be updated on the project at the meeting on 15 November 2013.</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
			The DPOC has reviewed and responded to comments on due process as appropriate.	
<b>Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or on-going associated costs.</b>	Required	Publication of the Effects Analysis.	<p>The IASB and the DPOC have reviewed the results of the Effects Analysis and how it has considered such findings in the proposed Standard.</p> <p>The IASB has provided a copy of the Effects Analysis to the DPOC at the point of the Standard's publication.</p>	<p>The Effects Analysis was previously considered by the IASB and was published with the Exposure Draft. The proposed changes to the Exposure Draft proposals are not expected to change the outcome of the Effects Analysis.</p> <p>A copy of the Effects Analysis is attached as Appendix D to this paper.</p>
<b>Email alerts are issued to registered recipients.</b>	Optional	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	Not required, because this is a narrow-scope project.
<b>Outreach meetings to promote debate and hear views on proposals that are published for public comment.</b>	Optional	Extent of meetings held, including efforts aimed at investors.	The DPOC has received a report of outreach activities.	Not required, because this is a narrow-scope project.
<b>Regional discussion forums are organised with national standard-setters and the IASB.</b>	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Not required, because this is a narrow-scope project.
<b>Finalisation</b>				
<b>Due process steps are reviewed by the IASB.</b>	Required	Summary of all due process steps have been discussed by the IASB before a	The DPOC has received a summary report of the due process steps that have been followed before the Standard is	Summary of all due process steps to this stage was discussed at the November 2013 IASB meeting and a copy of the

<b>Step</b>	<b>Required/ Optional</b>	<b>Metrics or evidence</b>	<b>Evidence provided to DPOC</b>	<b>Actions</b>
		Standard is issued.	issued.	Agenda Paper (AP14) was emailed to the DPOC.
<b>Need for re-exposure of a Standard is considered.</b>	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.	The IASB has discussed its thinking on the issue of re-exposure with the DPOC.	The IASB decided, at the November 2013 IASB meeting, that re-exposure was unnecessary and a copy of the Agenda Paper (AP14) supporting the decision was emailed to the DPOC.
<b>The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.</b>	Required	Effective date set, with full consideration of the implementation challenges.	The IASB has discussed any proposed shortening of the period for effective application with the DPOC.	The IASB decided, at the November 2013 IASB meeting, that the effective date should be 1 Jan 2016, with earlier application permitted. A copy of the Agenda Paper (AP14) was emailed to the DPOC and is attached as AP3C(i).
<b>Drafting</b>				
<b>Drafting quality assurance steps are adequate.</b>	Required	The Translations team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The Translations team has been included in the review process.
<b>Drafting quality assurance steps are adequate.</b>	Required	The XBRL team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	The XBRL team has been included in the review process.
<b>Drafting quality assurance steps are adequate.</b>	Optional	<p>The Editorial team has been included in the review process.</p> <p>In addition, external reviewers used to review drafts for editorial review and the comments collected have been</p>	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued, including the extent to which external reviewers have been used in the drafting process.	<p>The Editorial team has been included in the review process.</p> <p>In addition, comments have been received from a total of 8 external reviewers. These comments were incorporated into the ballot draft reviewed by</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
		considered by the IASB.		the IASB.
<b>Drafting quality assurance steps are adequate.</b>	Optional	Draft for editorial review has been made available to members of the IFASS and the comments have been collected and considered by the IASB.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	Optional step not taken.  The ED relates to a very narrow scope and target audience so the drafts were sent to selected external reviewers with industry knowledge, including the Rate-regulated Activities Consultative group.
<b>Drafting quality assurance steps are adequate.</b>	Optional	Draft for editorial review has been posted on the project website.	The DPOC has received a summary report of the due process steps that have been followed before a Standard is issued.	Optional step not taken.  The ED relates to a very narrow scope and target audience so the drafts were sent to selected external reviewers with industry knowledge.
<b>Publication</b>				
<b>Press release to announce final Standard.</b>	Required	Press release has been announced in a timely fashion.  Media coverage of the release.	The DPOC has received a copy of the press release and a summary of the media coverage.	Press release will be posted to the IASB website on the same day that the Standard is issued, and will also be sent as an eAlert.
<b>A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.</b>	Required	Publication of the Feedback Statement.	The IASB has provided a copy of the Feedback Statement to the DPOC at the point of the Standard's publication.	A combined Project Summary and Feedback Statement will be posted to the IASB website on the same day that the Standard is issued.
<b>Podcast to provide interested parties with high</b>	Optional	Number of podcasts held.	The DPOC has received a report of outreach activities.	The staff plan to post a podcast to the IASB website on the same day that the Standard is issued

<b>Step</b>	<b>Required/ Optional</b>	<b>Metrics or evidence</b>	<b>Evidence provided to DPOC</b>	<b>Actions</b>
<b>level updates or other useful information about the Standard.</b>				and to do an interactive webcast via the IASB website a week or so later.
<b>Standard is published.</b>	Required	Official release.	The DPOC has been informed of the release.	Press release will be emailed to the DPOC on the same day that the Standard is issued.

## Appendix C

### DISSENTING OPINIONS

**Dissenting opinions of Messrs Edelman, Gomes and Zhang, as contained in the latest post-ballot draft of IFRS 14 *Regulatory Deferral Accounts*, as at 13 January 2014. The views expressed are unchanged from those published with the Basis for Conclusions on the Exposure Draft.**

#### **Dissent of Messrs Edelman, Gomes and Zhang**

DO1 Messrs Edelman, Gomes and Zhang voted against the publication of IFRS 14.

#### **Reduced comparability and inconsistency with existing IFRS practice**

DO2 The established practice in IFRS has been that rate-regulated entities do not recognise regulatory deferral account balances in IFRS financial statements. Consequently, almost all rate-regulated entities around the world that previously recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP did not continue to recognise such balances but instead, derecognised them when they first adopted IFRS. In the view of Messrs Edelman, Gomes and Zhang, to now permit an unknown population of rate-regulated entities to recognise these balances when adopting IFRS will introduce inconsistent accounting treatment into IFRS reporting and will reduce existing comparability.

DO3 In addition, Messrs Edelman, Gomes and Zhang disagree with permitting first-time adopters of IFRS to continue to measure the regulatory deferral account balances that are recognised in the statement of financial position using their previous GAAP accounting policies. They believe that further inconsistency might be introduced by entities continuing to apply existing practices that might not be comparable with other entities that have different existing practice. In their view, isolating the impact of recognising regulatory deferral account balances by presenting them separately is not sufficient to eliminate the effect of this inconsistency. Messrs Edelman, Gomes and Zhang are also concerned that entities might encounter operational difficulties in applying other general Standards to regulatory deferral account balances because there is uncertainty as to whether these balances are assets and liabilities, and there is no single clear and consistent recognition and measurement policy for them. This in turn might create additional diversity and further reduce comparability in practice.

#### **Creating uncertainty for potential future adopters of IFRS**

DO4 Messrs Edelman, Gomes and Zhang acknowledge that this Standard is intended to be a practical and short-term interim solution to address a significant barrier to the adoption of IFRS in some jurisdictions. They note that a major argument for this Standard is to avoid rate-regulated entities having to make a major change to their accounting policies when making the transition to IFRS (ie derecognise their regulatory deferral account balances in accordance with the current established practice in IFRS of almost all of the rate-regulated entities) until guidance can be developed through the comprehensive project on rate-regulated activities (see paragraph BC18). However, they also note that this argument is not new, and nor is it specific to this particular subject. Despite this argument, when developing major projects, the IASB does not usually introduce interim Standards to be applied only by first-time adopters of IFRS. In particular, the IASB did not decide to introduce an interim Standard when it worked on the Exposure Draft

*Rate-regulated Activities*, published in July 2009 (the ‘2009 ED’), which, at that time, would have equally avoided the issue for many entities in jurisdictions that have since adopted IFRS.

- DO5 In addition, Messrs Edelmann, Gomes and Zhang note that the majority of IFRS Advisory Council members, at their meeting in October 2012, did not support the development of an interim Standard that would permit the continuation of existing previous GAAP policies. Many of those members warned against setting a precedent of implementing a policy of adopting an interim solution whenever a major standard-setting project is activated. Messrs Edelmann, Gomes and Zhang are concerned that developing an interim solution in this situation might create uncertainty as to what the IASB’s approach might be when major projects are being researched in the future.

### **Recognition is contrary to the *Conceptual Framework for Financial Reporting***

- DO6 Messrs Gomes and Zhang also disagree with permitting regulatory deferral account balances to be recognised in the statement of financial position because they do not think that all such balances meet the definitions of assets and liabilities in the IASB’s *Conceptual Framework*. This is one of the issues that the comprehensive Rate-regulated Activities project is looking to resolve. Consequently, the IASB has stated that IFRS 14 does not anticipate the outcome of the comprehensive project, and uses the neutral term ‘regulatory deferral account balances’ instead of ‘regulatory assets’ and ‘regulatory liabilities’ (see paragraph BC21). However, Messrs Gomes and Zhang believe that permitting them to be included in the statement of financial position is equivalent to recognising them as assets and liabilities, which, in their view, is contrary to the current accounting principles in the *Conceptual Framework* and the application of existing Standards.
- DO7 In addition, Messrs Gomes and Zhang are concerned that allowing regulatory deferral account balances to be recognised in the financial statements is contrary to the IASB’s objectives of requiring high-quality, transparent and comparable information in financial statements by requiring similar transactions and events to be accounted for and reported in a similar way. The IASB acknowledges that rate regulators have different objectives for regulatory reporting than the IASB has for financial reporting. In the view of Messrs Gomes and Zhang, allowing regulatory deferral account balances to be recognised will effectively allow the objectives of the rate regulator(s) to take precedence over the objectives of general purpose financial reporting, as expressed in the *Conceptual Framework*. In particular, they believe that allowing regulatory deferral account balances to be recognised effectively allows the objectives of the rate regulator(s) for setting rates and smoothing out the volatility, which results from real economic events, to be reflected in the financial statements. Messrs Gomes and Zhang think that this is inconsistent with paragraph OB17 of the *Conceptual Framework*, which notes the importance of depicting the effects of transactions and other events and circumstances on a reporting entity’s economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period.

## Appendix D

### EFFECTS ANALYSIS

**The Appendix reproduces the Effects Analysis contained in the latest post-ballot draft of IFRS 14 *Regulatory Deferral Accounts* as at 13 January 2014. This analysis is largely unchanged from that published with the Basis for Conclusions on the Exposure Draft.**

- BC63 The IASB is committed to assessing and sharing knowledge about the likely costs of implementing new requirements and the likely ongoing costs and benefits of each new Standard. The costs and benefits are collectively referred to as ‘effects’. The IASB gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals, analysis and consultations with relevant parties.
- BC64 In evaluating the likely effects of permitting rate-regulated entities that are first-time adopters of IFRS to continue to recognise regulatory deferral account balances, the IASB has considered the following factors:
- (a) how the changes to the presentation of regulatory deferral account balances affect the financial statements of a rate-regulated entity;
  - (b) whether those changes improve the comparability of financial information between different reporting periods for a rate-regulated entity and between different rate-regulated entities in a particular reporting period;
  - (c) whether the changes will improve the quality of the financial information that is available to investors and its usefulness in assessing the future cash flows of a rate-regulated entity;
  - (d) whether users will benefit from better economic decision-making as a result of improved financial reporting;
  - (e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and
  - (f) whether the likely costs of analysis for users are affected.

### Financial statements of rate-regulated entities

- BC65 The scope of this Standard is limited to first-time adopters of IFRS that already recognise regulatory deferral account balances in their financial statements in accordance with their previous GAAP. Consequently, the financial statements of rate-regulated entities that already apply IFRS, or that do not otherwise recognise such balances, will not be affected by this Standard.
- BC66 This Standard permits rate-regulated entities within its scope to continue to apply their existing recognition, measurement, impairment and derecognition policies for regulatory deferral account balances. Consequently, the application of this Standard should have little or no impact on the net assets or the net profit reported in the financial statements.
- BC67 However, the presentation of some regulatory deferral account balances will be changed to isolate the impact of their recognition and present this impact as separate line items within the statement of financial position and the statement of profit or loss and other comprehensive income. In particular, some regulatory deferral account balances that would be presented within the carrying amount of items of property, plant and equipment, intangible assets and inventories

in accordance with previous GAAP will, in future, be presented separately from those classes of asset in accordance with this Standard.

### **Comparability**

- BC68 The IASB acknowledges that the requirements of this Standard will reduce comparability in some ways, but thinks that this reduction will be outweighed by other improvements in comparability that will result from applying the requirements in this Standard.
- BC69 As noted in paragraph BC19, permitting only a limited population of entities to recognise regulatory deferral account balances will introduce some inconsistency and diversity into IFRS practice, when it does not currently exist. However, this is mitigated by the requirements to isolate the regulatory deferral account balances, and the movements in those balances, into separate line items in the financial statements.
- BC70 The IASB is aware that many rate-regulated entities view the inability to recognise regulatory deferral account balances in IFRS financial statements as a major barrier to the adoption of IFRS. Although many of these entities are understood to use similar policies for the recognition and measurement of these balances, they use different frameworks of accounting for the preparation and presentation of the financial statements as a whole. The IASB thinks that reducing the barriers for these entities to adopt IFRS will improve the comparability of the financial statements of rate-regulated entities across jurisdictions.
- BC71 In addition, the IASB thinks that the requirements to isolate the regulatory deferral account balances, and the movements in those balances, from other items in the financial statements will increase the transparency of these items. This will provide greater comparability across those entities within the scope of this Standard. This will, as a result, assist users of financial statements to understand more clearly the impact of recognising regulatory deferral account balances, and will allow direct comparisons not only against those entities that will be permitted to recognise these balances, but also against entities that do not recognise them.

### **Usefulness in assessing the future cash flows of an entity**

- BC72 Rate regulation imposes a framework for establishing prices that can be charged to customers for goods or services. Consequently, a rate-regulated entity is usually unable to react quickly in order to change its selling price in response to changes in its operating or other costs. Many of those who support the recognition of regulatory deferral account balances in financial statements argue that these balances provide some indication of the impact of these time delays on the cash flows that will be generated through future sales that will be made at a higher or lower price. The disclosures required by this Standard should provide more information about the amount and expected timing of the recovery or reversal of the regulatory deferral account balances recognised.

### **Better economic decision-making**

- BC73 The IASB has been told by many users in jurisdictions that currently permit or require regulatory deferral account balances to be recognised in financial statements that the information about those balances is useful in making economic decisions. At the same time, many other users of IFRS financial statements have noted that the inclusion of such balances could be confusing because it is not clear whether they meet the definitions of assets and liabilities. As a result, these users think that it is unclear what these balances represent.

- BC74 The IASB thinks that this Standard will allow entities within its scope to continue to provide information that some users find useful, but that the presentation requirements will provide clarity to avoid confusion for those who are not familiar with the recognition of regulatory deferral account balances.
- BC75 In particular, the IASB thinks that the improvements in comparability noted in paragraphs BC69–BC71 will provide users of financial statements with more information to help them better understand the impact of rate regulation on those rate-regulated entities that will be able to continue to recognise regulatory deferral account balances in accordance with this Standard.

### **Effect on compliance costs for preparers**

- BC76 This Standard will not change the recognition or measurement policies of entities within its scope, and thus will not result in any cost change in this respect. However, the IASB acknowledges that the separate presentation of regulatory deferral account balances is likely to result in changes to most existing presentation policies. Existing policies of entities within the scope of this Standard usually require or permit certain regulatory deferral account balances to be included within the carrying amount of items of property, plant and equipment and intangible assets. This separate presentation required by this Standard may add some cost on an ongoing basis, because preparers would need to track some of the differences between the regulatory amounts and those reported in the financial statements in more detail than is currently required.
- BC77 However, the cost on the initial application of this Standard would largely be mitigated by the exemption that is already contained in paragraph D8B of IFRS 1. This exemption applies to first-time adopters of IFRS that hold items of property, plant and equipment or intangible assets that are, or were previously, used in operations subject to rate regulation. It allows those first-time adopters to use the previous GAAP carrying amount of such an item at the date of transition to IFRS as deemed cost. Consequently, the additional administrative burden of tracking changes need only apply on a prospective basis for differences arising after the date of transition.
- BC78 In addition, the IASB understands that in many regulatory regimes, the regulatory accounting requirements require that regulatory deferral account balances are recorded in separate accounts within the entity's financial record-keeping system, at least until such time that the regulator issues a formal rate decision. Consequently, the IASB thinks that the incremental costs of retaining this separation beyond the time normally required by the regulator should not be significant.

### **How the costs of analysis for users are affected**

- BC79 The likely effect of these requirements on the costs of analysis for users of financial statements is expected to be outweighed by the benefits of improved reporting. Some users have commented that information related to the impact that rate regulation has on the amount, timing and certainty of returns and cash flows is important. The IASB think that the segregated presentation and related disclosures required by this Standard will highlight more clearly this impact. As noted in paragraph BC66, the requirements should have little or no impact on the net assets or the net profit reported in the financial statements of those entities within the scope of this Standard. Consequently, there is expected to be little disruption to the information available for trend analyses. Although the changes to the presentation of the amounts may cause some initial costs to be incurred, the IASB thinks that the added transparency introduced by this Standard will provide users with clearer and more comparable information.