

## STAFF PAPER

July 2014

## IASB Meeting

<b>Project</b>	<b>Rate-regulated Activities: Research project</b>		
<b>Paper topic</b>	Due process and permission to ballot		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Purpose of this paper**

1. This paper:
  - (a) sets out the due process steps undertaken in developing the Rate-regulated Activities Discussion Paper;
  - (b) discusses the comment period for the Discussion Paper; and
  - (c) seeks the IASB's permission to ballot the Discussion Paper.

**Purpose of the Discussion paper**

2. Before developing an accounting model for rate-regulated activities, the IASB has decided to publish a Discussion Paper to help identify what characteristics of rate regulation might give rise to special information needs. It is difficult to assess possible approaches to accounting for rate regulation without having a clear understanding of the characteristics of rate regulation, the resultant economic consequences and what information is needed by users of IFRS financial statements about the economic consequences.
3. Consequently, the purpose of the Rate-regulated Activities Discussion Paper is:
  - (a) to develop a common understanding of the features of rate regulation that have contributed to the repeated requests for changes to the current established IFRS practice (that is, no differential accounting treatment to reflect rate-regulatory accounting requirements);

- (b) to identify which features of rate regulation have the biggest impact in distinguishing the economic environment of rate-regulated entities from that of entities that are not subject to rate regulation;
  - (c) to understand the economic consequences of the rate regulation for the financial position, financial performance and cash flows of a rate-regulated entity; in particular, the impact on the amounts, timing and certainty of revenue, profits and cash flows;
  - (d) to identify what information about the economic consequences of rate regulation is most relevant to users of IFRS financial statements in making investment and lending decisions; and
  - (e) to identify potential approaches that the IASB could consider in future deliberations about whether, and if so how, IFRS may be amended to provide relevant information in IFRS financial statements about the rate regulation to which the entity is subject.
4. By seeking input at this early stage, the staff intend to reduce the overall time needed to complete the project. This is because the feedback received is expected to provide a clearer basis for the IASB to assess the purpose and practicality of any future guidance that may need to be developed to account for rate regulation.

## Development of the Discussion paper

### ***External consultation***

5. In March 2013, the IASB published the Request for Information *Rate regulation*. The objective of the request was to gather high level overviews of the types of rate regulation that are in force in order to provide factual evidence and examples to support the development of the Discussion Paper. 79 responses were received from 25 countries, which describe aspects of rate regulation in 37 countries. The IASB's Consultative Group (see paragraphs 7–8) discussed the staff's analysis of the responses and contributed to the development of related Staff Papers that were discussed with the IASB and the Accounting Standards Advisory Forum (ASAF) (see paragraph 12).

6. In addition to the consultation with the Consultative Group, IASB staff have attended three one-day meetings of the Rate-regulated Activities Working Group of the European Financial Reporting Advisory Group (EFRAG).

### **Consultative group**

7. The IFRS Foundation's *Due Process Handbook* states that the IASB normally establishes a consultative group for major projects. The purpose of a consultative group is to provide additional practical experience and expertise. In April 2013, the IASB announced the formation of such a consultative group to help in its project on rate regulation. The group consists of senior professionals with extensive practical experience in the operation of a variety of rate-regulatory schemes and provides a variety of expert perspectives, including those of preparers, auditors and users of financial statements, and regulators.
8. In July and November 2013, IASB members and staff met with the Consultative Group and discussed the Rate-regulated Activities project. Consultative Group members provided comments, both during the meetings and subsequently, on a series of papers that are contributing to the development of the Discussion Paper.

### **Previous work**

9. In developing this Discussion Paper, the IASB has drawn on the public discussions and other work carried out in the previous Rate-regulated Activities project prior to its suspension in September 2010. In addition to the responses received through formal comment letters on the Exposure Draft *Rate-regulated Activities*, published in July 2009 (the '2009 ED'), 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 (*AP 7 Summary Comment Letter Analysis*) and July 2010 (*AP11F Results of Outreach Efforts*).

10. In developing the Discussion Paper, the staff have used the work from the previous project and the feedback gathered at that time.

### **Board meetings**

11. In addition to the IASB meetings held before the project was suspended in 2010, the IASB has discussed the development and proposed contents of the Rate-regulated Activities Discussion Paper at eight public meetings between December 2012 and April 2014.
12. The IASB has also received input from the ASAF in two public meetings in December 2013 and March 2014.

### **Comment period**

13. In accordance with paragraph 6.7 of the *Due Process Handbook*, we propose a minimum standard comment period of 120 days for the Discussion Paper. In favour of a 120-day comment period, the staff note that the interim solution contained in IFRS 14 *Regulatory Deferral Accounts* is only available to first-time adopters of IFRS that meet specified criteria to apply the Standard. This means that only a limited population of entities will be entitled to use it, which is much smaller than the population of rate-regulated entities that are seeking clarity from the comprehensive project. Consequently, the comprehensive project should be completed as quickly as possible, which is a point that the Due Process Oversight Committee (DPOC) emphasised at its January 2014 meeting.

#### **Question 1—comment period**

Do you agree with the staff recommendation to give the standard comment period of 120 days for the Discussion Paper?

### **Permission to ballot**

14. The Appendix summarises the due process steps undertaken so far in developing the Discussion Paper.

15. If you are satisfied that all necessary steps are completed, the staff would like permission to begin the formal balloting process.

**Question 2—due process**

Is the IASB satisfied that it has completed all of the steps that are necessary to ensure that the Rate-regulated Activities Discussion Paper is likely to meet its purpose?

**Question 3—permission to ballot**

Do the staff have permission to begin drafting the Discussion Paper for balloting?

**Proposed timetable for balloting and publication**

16. If you permit the formal balloting process to begin, it will start in July 2014 and the publication of the Discussion Paper is scheduled for September 2014.

## Appendix

### Due process steps during the development of the Rate-regulated Activities Discussion Paper

- A1. General IASB requirements: although not a mandatory step in the due process, the IASB often publishes a Discussion Paper (DP) as its first publication on any major new topic as a vehicle to explain the issue and seek early comment from interested parties. It is normally the first major milestone in a research project. The IASB normally allows a period of 120 days for comment on such papers (paragraphs 4.16–4.19 of the IFRS Foundation’s *Due Process Handbook*).
- A2. The Due Process Oversight Committee (DPOC) objective: to satisfy the DPOC that a thorough process was followed in the development of the papers. The DPOC responds to any comments received on the due process that the IASB followed when it developed and published a DP.

<i>Step</i>	<i>Required/optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>Discussion or Research Paper development</b>			
<b>DP developed in public meetings.</b>	Optional	Meetings held to discuss the topic.  Project website contains a full description with up-to-date information.  Meeting papers have been posted in a timely fashion.	The IASB has discussed developing the contents of the DP at eight public meetings between December 2012 and April 2014.  The website is up-to-date. Papers for the IASB meetings were posted before each meeting and a summary of each meeting was included in <i>IASB Update</i> .
<b>Consultation with the IFRS Advisory Council (the ‘Advisory Council’) has occurred.</b>	Optional	Discussions with the Advisory Council on the topic.	The Advisory Council expressed its support for restarting the project in its June 2012 meeting. In October 2012, the Advisory Council supported the IASB’s decision to carry out the research project to develop a DP 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.
<b>Project-specific updates are sent via email alerts</b>	Optional	Frequency of alerts provided.	None so far but will consider when the project

<i>Step</i>	<i>Required/ optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
to registered users.			proposals are more fully developed.
<b>Consultative groups are established depending on the nature of issues and the level of interest among interested parties.</b>	Optional	Argument provided for or against the use of the consultative group.  Extent of consultative group meetings that have been held.  Feedback to the consultative group has been provided.	A consultative group has been formed.  The consultative group met in July and November 2013 and will be kept informed as the DP is being drafted.
<b>Online survey to generate evidence in support of or against a particular approach.</b>	Optional	Survey shown on the IASB website.  Number and diversity of respondents.  Analysis of the response.	Not considered necessary at this point—the DP will explore various approaches on which input is sought.
<b>Outreach meetings to promote debate and hear views on the financial reporting issue that is being examined.</b>	Optional	Schedule of the outreach meetings.	Limited outreach so far but more will be held once the DP has been published.
<b>Public discussions with representative groups.</b>	Optional	Meetings held.	The Rate-regulated Activities project has been discussed with the Accounting Standards Advisory Forum (ASAF) (December 2013 and March 2014).
<b>Regional discussion forums, where possible, with national standard-setters with the IASB.</b>	Optional	Extent of meetings held and the venues where issues have been discussed.	Not undertaken at this stage, but issues have been discussed at two meetings of the ASAF (December 2013 and March 2014).
<b>Podcasts to provide interested parties with high level updates or other useful information about the specific project.</b>	Optional	Number of podcasts.  Number of participants on podcasts.	None provided.
<b>Publication</b>			
<b>DP has appropriate comment period.</b>	Required if DP issued	The IASB has set the comment period.  If outside the normal comment period, an explanation from the IASB to the DPOC has been provided and the decision has been approved.	To be discussed at the July 2014 IASB meeting.  The staff recommend giving the normal 120-day comment period.
<b>Press release to announce publication of the DP.</b>	Optional	Release was announced in a timely fashion.  Media coverage of the	Will be done in due course.

<i>Step</i>	<i>Required/ optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
		release.	
<b>Snapshot document to explain the rationale and basic concepts included in the DP.</b>	Optional	Snapshot prepared at the time of the release.	To be determined.
<b>Webcast of interactive presentations streamed in real time from the IASB's office.</b>	Optional	Number of webcasts held.	To be determined.
<b>The IASB determines if focused investor consultation is required to supplement the comment letters.</b>	Required if DP issued	Staff Paper.	Will be determined in due course.
<b>Request for additional comment and suggestions by conducting fieldwork.</b>	Optional	Meetings held.	To be determined.
<b>Round-table meetings between external participants and members of the IASB.</b>	Optional	Number of participants in round-table meetings and venues for the round-table meetings confirmed.	To be determined.