

STAFF PAPER

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Project	Rate-regulated Activities: Research project		
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Introduction

1. In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts*. This Standard permits particular entities, when adopting IFRS for the first time, to continue to apply their previous GAAP accounting policies for the recognition and measurement of regulatory deferral accounts, with specified presentation and disclosure requirements. IFRS 14 is classified as a temporary Standard that will either be modified or withdrawn, depending on the outcome of the research project.
2. In September 2014, the IASB published the Discussion Paper *Reporting the Financial Effects of Rate Regulation* (the Discussion Paper) to gather input from a wide range of stakeholders about the perceived financial reporting challenges created when an entity's activities are subject to various forms of rate regulation.
3. The Discussion Paper considers the common features of a defined type of rate regulation. This defined rate regulation is a 'hybrid' type of rate regulation, which contains a combination of cost-recovery and incentive-based mechanisms. The Discussion Paper explores which of the common features of defined rate regulation, if any, create a combination of rights and obligations that is distinguishable from the rights and obligations arising from activities that are not rate-regulated.

4. The Discussion Paper seeks to identify what information about the economic and financial effects of rate regulation are most relevant to users of financial statements. It considers how that information might best be presented or disclosed, either within IFRS financial statements or through other routes, such as the management commentary.
5. The Discussion Paper does not include detailed accounting proposals. Instead, it explores several possible approaches that the IASB could consider when deciding how best to report the financial effects of rate regulation. The possible approaches range from prohibiting the recognition of regulatory deferral account balances through recognising them as assets and liabilities within the *Conceptual Framework* definitions or as ‘other items’ in the financial statements.
6. The closing date for comments on the Discussion Paper was 15 January 2014. We received 113 comment letters up to 30 January 2015. The Accounting Standards Advisory Forum provided input about the project and some preliminary views on the Discussion Paper at its meeting in December 2014. Other preliminary views were gathered at outreach events during November and December 2014 in Brazil, USA, Canada and Belgium, and by video conference with Malaysia.¹

Purpose of the paper

7. This Agenda Paper AP9 summarises the high-level messages identified in the outreach performed and the comment letter responses received to the end of January 2015. The feedback will also be considered by the IASB’s Rate-regulated Activities Consultative Group (the Consultative Group) at its meeting to be held on 4 March 2015.
8. At this meeting we are not asking the IASB to make any tentative technical decisions. Instead, we ask if the IASB has any particular issues that it would like us to raise with the Consultative Group about the feedback or the project or any specific questions for us to consider and respond to at a future IASB meeting.

¹ Further information about external consultation and the outreach events is contained in Appendix 2 and on the project page at <http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Pages/Rate-regulated-activities-oct.aspx>

Summary of high-level messages received

9. The Discussion Paper contains thirteen questions, which can be grouped into the following three broad categories:
 - (a) What information about rate regulation is most relevant to users of financial statements and where in the annual report should it be presented?
 - (b) What are the distinguishing features of rate regulation and do they create a distinctive combination of rights and obligations for which specific financial reporting requirements or guidance is needed?
 - (c) If IFRS financial statements do not currently provide users of financial statements with the information that they need, what accounting approach is most likely to provide that information or would disclosure-only be sufficient?
10. The thirteen questions contained in the Discussion Paper are reproduced in Appendix 3.
11. The following paragraphs summarise the high-level messages received, grouped into the following categories:
 - (a) Overall approach and direction of the project;
 - (b) Description of defined rate regulation and whether specific guidance is needed;
 - (c) Preferences for the possible accounting approaches; and
 - (d) Presentation and disclosure of information about the financial effects of rate regulation.

Overall approach and direction of the project

12. There is almost unanimous support for the general approach of the project, that is, identifying the distinguishing characteristics of rate regulation, the related rights and obligations and what information users of financial statements find most useful before developing an accounting model.

13. Many respondents agree that the Discussion Paper provides a good description of the distinguishing characteristics of a wide range of rate-regulatory schemes that exist in practice. Most agree that the incentive-based type of rate regulation described as ‘market rate regulation’ in paragraph 3.30 of the Discussion Paper does not create sufficiently distinctive combination of rights and obligations to support developing specific accounting requirements. However, many suggest that information about this type of rate regulation should be included in any disclosure requirements developed as a result of this project.
14. Most respondents agree that the description of the hybrid-type of rate regulation, termed ‘defined rate regulation’ in paragraph 4.2 of the Discussion Paper, appropriately captures the common characteristics of a wide variety of rate-regulatory schemes found in practice, together with the rights and obligations created by the schemes. Consequently, there is strong support for using this as the basis for ongoing discussions about how best to report the financial effects of rate regulation.
15. Many respondents suggest that the combination of rights and obligations created by defined rate regulation creates unique or distinguishable economic conditions that are not faithfully represented by the current predominant practice in IFRS financial statements. As a result, we heard that users of financial statements seek information about the financial effects of the rate regulation from other sources. Although some users are content with this situation, others would prefer to obtain the information in a more accessible and comparable format within audited IFRS financial statements.
16. Some of the outreach discussions and comment letter responses highlighted that there is some diversity in IFRS financial statements that is affecting comparability. We have identified some entities that already recognise, in IFRS financial statements, some regulatory deferral account balances as assets and liabilities, typically within categories containing receivables and payables. Others recognise only regulatory ‘liabilities’ but it is not clear if this is just the net amount after netting any regulatory deferral account debit balances or whether it is the sum of regulatory deferral account credit balances.

Is there support for developing specific accounting requirements or guidance?

17. There is strong support for developing principle-based, specific accounting requirements that will lead to the recognition of at least some regulatory deferral account balances in IFRS financial statements. However, views are mixed about whether this should be done through a separate Standard to replace IFRS 14 or through amendments to, or an Interpretation of, existing Standards.
18. Most respondents who support the recognition of regulatory deferral account balances in IFRS financial statements consider that this can, and should, be achieved within either the existing or developing *Conceptual Framework*. The most common suggestion made is an approach that is based on the principles contained in IFRS 15 *Revenue from Contracts with Customers*, focusing on the entity's rights and obligations relating to the customers as a whole (the customer base), instead of individual customers.
19. There is a little support for recognising regulatory deferral account balances if the IASB ultimately decides that they do not meet the *Conceptual Framework* definitions of assets and liabilities. However, several respondents who are currently undecided suggest that they could only support recognition within the *Conceptual Framework*.
20. There is limited support for the IASB to develop disclosure-only requirements. However, many who support the recognition of regulatory deferral account balances acknowledge that disclosure-only requirements would be better than nothing if the IASB was ultimately to decide to prohibit recognition. This is because they consider that IFRS financial statements currently do not provide investors and lenders with the relevant information needed to make investing and lending decisions. Instead, they say that users of financial statements need to rely on non-GAAP information obtained from a variety of sources outside the audited financial statements, which they are concerned typically lacks comparability.
21. There is strong support for using the disclosure requirements of IFRS 14 as a starting point for developing any disclosure requirements that may result from this project. There are many suggestions for additional disclosures but few for omitting any of the IFRS 14 disclosures, although some concerns are expressed

about requiring too much granularity, particularly in cases in which an entity is subject to rate-regulation in several jurisdictions.

22. There is also strong support for identifying separately any regulatory deferral account balances and related income statement movements that are recognised, if any. However, there is little support for the current approach of IFRS 14, which results in the isolation of such amounts from the assets, liabilities, income and expenses recognised in accordance with other IFRSs. Instead, the most common suggestions are for the rate-regulatory amounts to be shown separately, either in the disclosure notes or as separate line items adjacent to related items.

Does support differ by region or type of respondent?

23. The distribution of comment letter responses by region and respondent type is outlined in Appendix 1. There is strong support for the IASB to develop principle-based, specific accounting requirements that will lead to the recognition of at least some regulatory deferral account balances in IFRS financial statements. There are, however, some respondents who oppose recognition and a similar number who are currently undecided.
24. The strongest support for recognising regulatory deferral account balances comes from preparers and rate regulators in industries that are subject to forms of rate regulation described as ‘defined rate regulation’ in the Discussion Paper. Support was moderate in the Asia-Oceania region, very strong in Europe and strongest in North and Latin America.
25. Support for recognition was strong among securities regulators and international accounting firms. Support was moderate among standard-setters, with the remainder evenly divided between those who oppose recognition and those who are currently undecided. This distribution was fairly consistent with the geographical results.
26. The demographic summary in Appendix 1 shows only five comment letter responses from users of financial statements (excluding rate regulators and securities regulators). Included in this category is a letter from the National Grid Audit Committee, which endorses the views expressed in the comment letter from National Grid plc, supporting the recognition of regulatory deferral account

balances. Currently, National Grid plc does not recognise such balances in its IFRS financial statements but provides extensive information in its annual report and other communications with investors.

27. Additional views from investors, lenders and analysts were obtained during outreach activities and other external consultations (see Appendix 2).
28. In addition, EFRAG performed outreach with analysts, some of which was also attended by IASB staff. We are grateful for the support of EFRAG in performing this valuable analysis of the views and information needs of users of financial statements. More details are available in EFRAG's comment letter but the following extract summarises the general findings, which is consistent with the IASB staff's finding from its outreach.²

11 EFRAG has learnt from many users that cover entities that operate in rate-regulated industries that they would like to see the financial effects of rate-regulated activities reflected in the financial statements. This would enhance their understanding of how rate regulation affects an entity's financial position and return on assets generated by rate-regulated activities, performance, cash flows and consequently the usefulness of the information provided. We have not heard that users are seeking specific rate-regulated information in the statement of cash flows.

12 On the other hand, more generalist users express the concern that regulatory regimes could be extremely complex and subject to significant uncertainty about how external factors could affect regulations and how regulatory requirements apply to entities. This creates complexity with regards to any recognition of the impacts of rate regulation and raises questions about whether information would be comparable between entities and across jurisdictions. As a result, they tend to favour having the information through

² Comment letters, including that of the EFRAG, are available on the IASB's website at <http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Discussion-Paper-September-2014/Pages/Discussion-Paper-and-Comment-letters.aspx>

disclosure - either in the notes to the financial statements or in the management commentary. However, specialist users did not share this concern because entities already deal with the inherent complexities that arise from rate regulation.

29. Some respondents express concern about recognising and measuring regulatory deferral account balances in financial statements because of the possible complexity that could be involved in doing so. This concern is not shared by preparers, many of whom have told us that they already deal with the complexity through the financial reports that they have to provide to the rate regulators.
30. Question 2 in the Discussion Paper asks whether respondents are familiar with using financial statements in which regulatory deferral account balances are recognised and, if so, what problems arise as a result of those balances being recognised. Most respondents to this question note that they are not aware of problems arising from recognising such balances. For example, the International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) noted:

Some members are from jurisdictions where regulatory assets and liabilities are recognized in accordance with US GAAP, other local GAAP or in accordance with IFRS 14. Those members note that problems have not been identified by the users of those financial statements, which is likely due to significant investor experience in using financial statements that recognize regulatory deferral account balances, as well as the investors in rate-regulated entities typically being motivated by income and security considerations, as opposed to growth considerations which may be a more common investment objective for non-rate-regulated entities.

31. Many respondents to this question highlight problems arising when such balances are not recognised. Some note that many rate-regulated entities, particularly those in industries that require substantial investment in long-life infrastructure assets, rely heavily on lending. Consequently, the primary users of the financial statements are debt holders and credit rating agencies. Several respondents noted

that many users of financial statements make adjustments to the amounts presented in financial statements if regulatory deferral account balances are not recognised.

Description of defined rate regulation

32. Paragraphs 4.4–4.6 of the Discussion Paper summarise the key features of defined rate regulation. Paragraph 4.4 notes:

that defined rate regulation involves a regulatory pricing (ie rate-setting) framework that includes all of the following:

- (a) it applies in situations in which customers have little or no choice but to purchase the goods or services from the rate-regulated entity because:
 - (i) there is no effective competition to supply; and
 - (ii) the rate-regulated goods or services are essential to customers (such as clean water or electricity).
- (b) it establishes parameters to maintain the availability and quality of the supply of the rate-regulated goods or services and other rate-regulated activities of the entity.
- (c) it establishes parameters for rates (sometimes referred to as prices or tariffs) that provide regulatory protections that:
 - (i) support greater stability of prices for customers; and
 - (ii) support the financial viability of the rate-regulated entity.
- (d) it creates rights and obligations that are enforceable on the rate-regulated entity and on the rate regulator.

33. Paragraph 4.5 notes:
- the rate-setting framework for defined rate regulation establishes:
- (a) a 'revenue requirement' (sometimes called 'allowable revenue' or 'authorised revenue'): this is the total consideration to which the entity is entitled in exchange for carrying out specified rate-regulated activities over a period of time; and
 - (b) a regulated rate, or rates, per unit that the entity charges to customers for delivering the rate-regulated goods or services during the regulatory period.
34. In addition, paragraph 4.6 notes
- the mechanism used to calculate the regulated rate(s) includes a regulatory adjustment mechanism to reverse specified differences between the amount of the revenue requirement accrued to date and the amounts billed to customers.
35. Many respondents agree that the Discussion Paper provides a good description of the distinguishing characteristics of a wide range of rate-regulatory schemes that exist in practice. In addition, many agree that the rights and obligations identified in the Discussion Paper adequately capture the rights and obligations created by a wide variety of rate-regulatory schemes and no significant additional rights or obligations were noted.
36. A common theme among respondents is that, although the individual rights or obligations described in the Discussion Paper are unlikely to be unique and, therefore, do not require any specific accounting requirements on an individual basis, the combination of rights and obligations is considered to create a sufficiently distinctive economic environment. This combination of rights and obligations is the focus of many comments that suggest that, when trying to establish the scope of any possible accounting requirements, the IASB should refine the description to focus on the regulatory support for the entity's

entitlement to a determinable amount of consideration in exchange for satisfying its performance obligations, ie the revenue requirement.

37. For example, the European Financial Reporting Advisory Group (EFRAG) noted:

Whilst we broadly support the description of defined rate regulation, we believe that the existence of a rate-setting framework that creates enforceable rights and obligations and includes an adjusting mechanism based on the revenue requirement (as defined in the DP) has a pivotal role to play in the scoping of the IASB's Rate-regulated Activities project. In our view, it is the enforceable rights and obligations that stem from this rate-setting framework that should be considered for recognition in the IFRS financial statements and therefore we see the main purpose of the features listed in paragraph 4.4(a)-(c) of the DP as ensuring enforceability of those rights and obligations.

38. EFRAG's view is consistent with many similar comments and recommendations for the IASB to focus on the existence of a regulatory pricing (ie rate-setting) framework that creates enforceable rights and obligations and includes an adjusting mechanism to reverse specified differences between the amount of the revenue requirement accrued to date and the amounts billed to customers. While many respondents agreed that the other features outlined in paragraph 4.4(a)-(c) of the Discussion Paper typically support the effectiveness of the rate-regulatory framework, they highlight that there may be significant operational difficulties in applying the features if they were to be set as mandatory scoping criteria. For example, several respondents note that the determination of which goods or services are deemed essential is very subjective and can vary in different jurisdictions. Similarly, the terms "customers have little or no choice" and "no effective competition to supply" could be very difficult to apply in practice, particularly in cases in which there is some limited competition from another supplier or substitute product (as discussed in paragraphs 4.38-4.42 of the Discussion Paper).

39. Consequently, many respondents suggest that, when defining the scope of any specific guidance resulting from this project, it would be better to distinguish

‘mandatory criteria’ from ‘supporting conditions or indicators’. The most common suggestion is to restrict mandatory criteria to the existence of a rate-setting framework that contains a rate-adjustment mechanism based around a revenue requirement, with the features outlined in paragraph 4.4(a)-(c) of the Discussion Paper being provided as non-mandatory indicators or supporting conditions.

40. Several respondents suggest that focusing the scope on the rate-regulatory framework and related rate-adjustment mechanism would be preferable to trying to define the scope based on any particular ‘type’ of rate regulation. This is because most rate-regulatory schemes are, like defined rate regulation, hybrid schemes that contain a combination of cost-based and incentive-based components. A focus on the rate-adjustment mechanism could help to clarify which components of the rate regulation and which specific financial effects are intended to be captured by any accounting requirements developed as a result of this project.
41. Many respondents think that focusing on the regulatory framework is more likely to lead to a more principle-based approach to developing accounting requirements that will be robust enough to deal with evolving rate-regulatory environments. This should help reduce the risk that an entity’s rate-regulated activities will fluctuate in and out of scope over time with relatively small changes to the detail of the rate regulation.
42. In addition, a clearer analysis of the rate-setting and rate-adjustment mechanisms could help to more readily identify which types of regulatory deferral account balances could appropriately be recognised in IFRS financial statements. The strongest support for recognition is for the types of regulatory deferral account balances that represent differences between the amount of revenue billed to date and the amount of consideration to which the entity is entitled, based on the activities performed to date. However, respondents highlight a need for more analysis about which activities should result in the recognition of revenue in the period (see paragraphs 72-75). Support was less clear for other types of regulatory deferral account balances that arise from differences in accounting policy between IFRS requirements and those of specific rate-regulatory schemes (see paragraphs 76-77).

43. Some respondents question the meaning of the term “enforceable” rights and obligations. They ask if this is intended to capture only explicit, legally enforceable rights and obligations or whether it could also capture ‘constructive obligations’ and implied rights and obligations. In particular, this issue was raised about regulatory deferral account balances that have been identified by the entity based on the general operation and wording of the rate-regulatory framework but have not yet been through the formal regulatory approval process by the rate regulator.
44. Many respondents also suggest that the identity of ‘the customer’ should be more clearly defined. This was raised in the context of two particularly critical issues:
- (a) Can the individual contracts between the supplier (the rate-regulated entity) and its customer be grouped together and accounted for as a single portfolio of contracts, that is, consider the rate regulation as an integral part of a combined set of contracts between the supplier and its customer-base?
 - (b) Does the ‘customer-base’ comprise only end-users of the rate-regulated goods or services or, in some cases, could the ‘customer’ or ‘customer-base’ be an intermediary entity who is responsible for ‘passing through’ the rate regulated amounts to end-users of the goods or services and for ‘passing back’ the related cash flows to the entity.
45. The issue of the customer-base was most commonly raised by respondents who support the recognition of regulatory deferral account balances. Many suggest that the economic substance of the rate regulation and the economic substance of the contracts between the supplier and its individual customers cannot be properly understood in isolation. Instead, the three-way relationship between the supplier, the rate regulator and the supplier’s customers need to be considered together. More details about the comments received relating to the customer-base are contained in paragraphs 49 and 67-71 of this paper).

Recognition of regulatory deferral account balances

46. There is strong support for developing specific accounting requirements that will lead to the recognition of at least some regulatory deferral account balances in

IFRS financial statements. However, views are mixed about whether this should be done through a separate Standard to replace IFRS 14 or through amendments to, or an Interpretation of, existing Standards.

47. Many of those who support recognition consider that, based on the description of the combination of rights and obligations created by defined rate regulation, there are at least some regulatory deferral account balances that do meet the definitions of assets and liabilities in the *Conceptual Framework*. There are some who consider that the suggested changes to the definitions that have been tentatively agreed by the IASB in the *Conceptual Framework* project are necessary to support this view. Others consider that some regulatory deferral account balances already meet the existing asset and liability definitions.
48. Some respondents are not convinced that the definitions of assets and liabilities are met, while others do not express a clear view on this point. Some of these respondents consider that the information needs of users of financial statements may support the recognition of some regulatory deferral account balances, even if they cannot be shown to meet the definitions of assets and liabilities. However, other respondents note the importance of recognising only those regulatory deferral account balances that are demonstrated to meet the *Conceptual Framework* definitions.
49. There is strong support for using the customer-base as the focus of the analysis of the rights and obligations created by defined rate regulation. Many suggest that using the customer base as the unit of account may provide support for the classification of some regulatory deferral account balances as assets and liabilities, as defined in the existing or developing *Conceptual Framework*. This is because, when looking at the customer-base as a whole, the rights and obligations contained in the individual contracts between the supplier and its customers are combined with the rights and obligations imposed on both the supplier and its customers by the rate regulation.

Preferences for the possible accounting approaches

50. The strongest support is for an approach that is based on the principles contained in IFRS 15 *Revenue from Contracts with Customers*, focusing on the entity's

rights and obligations relating to the customers as a whole (the customer-base), instead of individual customers. This is most likely to result in adjustments to the timing of recognition of a combination of revenue and costs.

51. Paragraph 5.34 of the Discussion Paper summarised four possible accounting approaches:

- (a) recognising the package of rights and obligations created by defined rate regulation as a single asset, namely the 'regulatory licence'. In this approach, the regulatory licence would be classified as an intangible asset. In order to more fully reflect changes in the balance of rights and obligations and, therefore, the changing value of this intangible asset, the IASB would need to consider amending the existing requirements of IAS 38.
- (b) adopting the accounting requirements established by the rate regulation in the general purpose IFRS financial statements of the rate-regulated entity. In order to apply this approach, the IASB would need to consider an exemption from applying existing IFRS for such entities in order to allow rate-regulated entities to present some aspects of their 'regulatory financial statements' as their general purpose financial statements.
- (c) recognising the impact of the rate regulation through specific IFRS requirements. This approach would require the IASB to consider how to amend existing IFRS to directly reflect the differences arising between the revenue requirement and the amounts billed to customers. Possible ways of modifying IFRS requirements include deferring/accelerating the recognition of:
 - (i) costs;
 - (ii) revenue; or
 - (iii) a combination of costs and revenue.

- (d) prohibiting the recognition of regulatory deferral account balances. This approach would effectively retain the current established IFRS practice for existing IFRS preparers (that is, preparers that do not apply IFRS 14). The established IFRS practice is not to recognise regulatory deferral account balances, nor to apply an accounting treatment that differs from the normal IFRS requirements that are applied by entities that are not subject to rate regulation. If the IASB was to decide to adopt this approach, it may consider whether or not to develop disclosure-only requirements.

Recognising the package of rights and obligations as an intangible asset

- 52. There is very little support for this approach. Most opponents of this approach that cite reasons for their view agree with the disadvantages outlined in the Discussion Paper. They suggest that the complexity of revaluing a component of the regulatory licence is likely to outweigh the benefit.
- 53. Other identified disadvantages of this approach include:
 - (a) it could cause unintended consequences to the accounting for other intangible assets and therefore a wider review of the accounting for intangible assets may be needed;
 - (b) it is not clear how the net effect of regulatory deferral account balances meet the definition of an intangible asset; and
 - (c) it would be confusing to show a 'negative intangible asset' if the overall effect of the regulatory deferral account balances is a credit balance.
- 54. Some respondents note the importance of communicating the timing of recovery or reversal of regulatory deferral account balances to help users of financial statements predict the timing of cash flows. This information would not be communicated through changes in value of a single intangible asset. Toronto Hydro Corporation support their opposition to an intangible asset approach as follows:

THC does not support recognizing net regulatory future benefits or obligations as an intangible asset. Valuing such an asset or negative intangible asset (similar to negative goodwill) inherently would have its own limitations. In addition, if the value of the intangible asset is restricted to the cost of the licence, which oftentimes is a negligible cost, the resulting asset provides no useful information to its users. As well, many regulatory future benefits and obligations will be resolved under different criteria and over different time periods. Not splitting the balance into current/non-current and debit/credit obscures important information from the statement of financial position.

55. Aeroporti di Romana SpA indicate a preference for disclosure but, if the IASB was to decide to develop an accounting requirement that would lead to recognition, they would prefer an intangible asset approach.

If IASB would follow one of the approaches proposed in section 5 of DP applicable only to entities that do not fall within the scope of IFRIC 12, we consider that a possible solution for the recognition of any package of rights and obligations established by the regulatory agreement could be the intangible asset model, as we think that this approach is consistent with IFRIC 12 intangible model and it is particularly suited to those situations in which the rate-regulation mechanisms provide tariff recoveries/adjustments on medium-long term period, and the RDA is positive. In the case in which the balance is negative (a decrease in prices) the regulated entity could recognise a provision, to be subsequently re-measured as at each financial statement closing date.

56. However, other respondents highlight a possible conflict or overlapping between any possible intangible asset model for rate regulation and the existing model in IFRIC 12 *Service Concession Arrangements*. Many respondents highlight a need to carefully consider the existing requirements of IFRIC 12 and the interaction with the effects of rate regulation on the ongoing operating activities of the concession arrangement, as well as the construction and upgrade activities.

Adopting the accounting requirements established by the rate regulation

57. There is almost no support for this approach.
58. Many respondents note the loss of comparability that would arise from this approach. Others note that the objective of general purpose financial statements is different from that of special purpose financial statements, such as those prepared for rate-regulatory purposes. Consequently, any modifications to existing IFRS requirements should focus on providing investors, lenders and other users of general purpose financial statements with the information that they need to make investing and lending decisions.
59. Many respondents do not want items recognised in IFRS financial statements that are inconsistent with the *Conceptual Framework* and established accounting conventions. Consequently, many suggest that the IASB should focus on how to apply the principles of existing Standards, rather than look to the requirements of various rate regulators, with different objectives. For example:

ESMA believes that any approach the IASB decides to develop in a future ED should first fully consider the interaction with the [revised] *Conceptual Framework* and existing standards (notably IFRS 15 *Revenue from Contracts with Customers*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 12 *Service Concession Arrangements*).

60. Some respondents note that in some jurisdictions, the rate regulation requires that, in the absence of any specific accounting requirements contained in the rate regulation itself, the entity should use the accounting policies that it applies in its general purpose financial statements for rate-regulatory reporting purposes. Creating an exception to IFRS to require application of rate-regulatory accounting policies could potentially result in a void in the accounting framework required for rate-regulated activities.

Recognising the impact of the rate regulation through specific IFRS requirements

61. This approach is strongly supported. The strongest support is for a focus on adjusting the timing of recognition of revenue or a combination of revenue and costs. Views are mixed as to whether this needs to be done through a separate Standard or whether it can be achieved by developing an Interpretation of, or amendment to, IFRS 15. There is little support for focusing on adjusting the timing of recognition of costs only.
62. The most common suggestion made for how to develop an accounting approach is to develop specific IFRS requirements using the principles contained in IFRS 15 *Revenue from Contracts with Customers*. Several respondents note that the rate-setting mechanism and adjustments to the revenue requirement focus primarily on determining the amount of consideration to which the entity is entitled in exchange for performing its rate-regulated activities (see paragraphs 72-75). Consequently, it seems logical to focus any accounting requirements on revenue recognition and measurement.
63. Several respondents note, in addition, that the combination of an adjustment to the timing of revenue recognition and the deferral of cost recognition are not incompatible with the principles of IFRS 15. Using the requirements of IFRS 15, an entity recognises particular contract costs as an asset if specified conditions are met.
64. IFRS 15, as with its predecessors IAS 18 *Revenue* and IAS 11 *Construction Contracts*, focuses on the individual contracts between the supplier and its customers. This, some suggest, would more naturally lead to a conclusion that revenue should be recognised at the contracted rate per unit when the distinct or contractually explicit goods or services, which are measured at that rate, are delivered to each customer. This leads some to suggest that the right or obligation to increase or decrease the future rate is at best a contingent asset or liability, the existence of which will be determined by future sales of the goods or services.
65. A few respondents suggest that it should already be possible to recognise regulatory deferral account balances by using IFRS 15. However, it is not clear which paragraphs in IFRS 15 are being relied on to support this view.

66. A much more common view is that some specific requirements do need to be developed before IFRS 15 could be used to modify the existing predominant practice in which regulatory deferral account balances are not recognised in IFRS financial statements.
67. A common suggestion is for the IASB to designate the customer-base as the unit of account for the purpose of applying IFRS 15 to rate-regulated activities. Many suggest that using the customer base as the unit of account may provide support for the classification of some regulatory deferral account balances as assets and liabilities, as defined in the existing and/or developing *Conceptual Framework*. This is because it would allow a supplier to combine its individual contracts with customers to treat the portfolio of contracts in a similar way to a long-term contract with a single customer.
68. For example, PricewaterhouseCoopers note
- Any accounting model should focus on the rights and obligations arising from the provision of goods or services by the regulated entity to a group of customers. The regulator establishes the conditions under which those goods or services are delivered and acts as an 'agent' to establish and enforce an implicit contractual relationship between the entity and a group of customers. Regulation provides a basis to look at a group of customers as a single unit of account. It also supports the enforceability of rights and obligations to or from the group of customers rather than any individual customer.
69. BDO and the Asian-Oceanian Standard-Setters Group (AOSSG) highlight a similar point about looking at the contracts with the customer-base on a combined basis:
- adjustments to billings to a single customer under a long term contract could simply be accrued or deferred at the end of each reporting period (BDO);
- a multi-period contract (covering both 'low' and 'high' prices) [combined] under paragraph 17 of IFRS 15, might give rise to assets and liabilities (AOSSG).

70. However, the AOSSG also note that:

the contracts contemplated in paragraph 17 of IFRS 15 (which may result in the recognition of assets and liabilities) are between the supplier and customer (not a regulator).

71. Consequently, merely changing the unit of account from individual customers to the customer-base may not be sufficient. Instead, many respondents suggest focusing on the rights and obligations created by the individual contracts with customers, combined with the rights and obligations created by the rate regulation. In effect, this suggests treating, as a unit of account, the combination of the supplier's 'contract with the customer-base' (that is, the portfolio of contracts with individual customers) together with the supplier's 'contract with the rate regulator' (that is, the rate regulation).

72. However, this approach will require further analysis to identify what is meant by 'the customers' and what are the supplier's 'performance obligations' to those customers. In particular, is the rate regulator considered a customer?

73. Several respondents refer to this problem, some of them indirectly, but EFRAG address it explicitly:

50 As explained in paragraph 4.14 of the DP, an entity must satisfy certain activities to be entitled to the revenue requirement. These activities can be both direct and indirect obligations (for example satisfying government/rate regulator objectives such as changes to the infrastructure network) related to rate-regulated activities. These activities give rise to rights and obligations within the rate-setting framework and affect the amount of the revenue requirement through the adjusting mechanism.

51 In our view, direct and indirect activities, as described in the DP, can create different types of obligations, some of which involve performance to a customer (for example, delivered electricity); and others involve satisfying an obligation required by a rate regulator or a government (for example, availability of certain infrastructures). Some argue that performing towards the

customers is not what creates the current right to the revenue requirement; an entity is already entitled to earn because they have met the obligations set in the rate-setting framework (regulatory agreement). EFRAG does not support this view because we believe that revenue should not be recognised until the performance obligations associated with the delivery of goods and services have been fulfilled.

[. . .]

53 We therefore believe it is important to understand the link between the performance of rate-regulated activities and the customer in the description of defined rate regulation. This is particularly important when assessing if revenue should be recognised only for services or goods delivered to the customer or whether there are other situations where revenue should also be recognised. Indirect activities as described in the DP are not directly linked to the satisfaction of the performance obligations with the customers, and may therefore not result in the recognition of revenue even if they directly affect an entity's current right to the earn the revenue requirement (e.g. maintaining the availability of infrastructures).

74. Some respondents raise other issues about the identification of the performance obligations. In particular, several note that it is common for the rate regulation to 'de-couple' volume risk from the amount of revenue to which the supplier is entitled, that is, the revenue requirement. The Autorité des Normes Comptables (ANC) suggest that this may be because the service performed is not directly related to the volume of activity, even though the rate-regulation determines a rate per unit using estimated volumes.

This Authorized Revenue is a pre-determined revenue. Under such a mechanism, the entity has the right to recover the pre-determined level of revenue, independently of actually delivered goods or services (for example: higher

or lower actual volumes of energy transport than the estimates used for setting the tariff per unit).

. . . For an energy distribution company, under DRR [defined rate regulation], the key service promised is the availability of the network. Thus the revenue requirement is based on the estimated volumes, but if the billed amounts (based on actual volumes) do not equal the revenue requirement, the entity is entitled to an adjustment.

75. The identification of which regulatory deferral account balances represent differences between the time at which the entity satisfies its ‘performance obligations’ and when it bills customers for the consideration related to that performance seems critical to the project. The strongest support is for the recognition of these types of regulatory deferral account balances.
76. Several respondents note that there are other types of regulatory deferral account balances that are less clearly related to delivery of goods or services to customers and, instead, may be more closely related to policy decisions of the rate regulator. For example, differences in the types of costs that are permitted or required to be capitalised in the carrying amount of property, plant and equipment. Another example is differences between the accrual basis required by IFRS and the cash basis for which rate regulation is sometimes required for particular items, such as pension costs.
77. Consequently, many respondents suggest that a more detailed analysis of the combination of rights and obligations created by the rate regulation, particularly an analysis of how the revenue requirement is calculated and reflected in the rate-setting mechanism, could help to identify regulatory deferral account balances that are different in nature. This may be able to lead to a principle-based approach to recognition.
78. Another feature of IFRS 15 that some respondents note is the inclusion of a ‘highly probable’ threshold for the recognition of amounts of variable consideration. Views are mixed about whether regulatory deferral account balances that relate to volume or price variances do represent amounts of variable consideration. However, several respondents support the principle that the recognition of regulatory deferral account balances should be subject to some

probability criteria or assessment. Some respondents note that the maturity of the rate regulation and past experience of its operation is an important factor to consider. Reliance Infrastructure Limited suggest a number of other factors for consideration:

- (a) statutes or regulations that specifically provide for the recovery of the cost in rates;
- (b) formal approvals from the regulator specifically authorizing recovery of the cost in rates;
- (c) previous formal approvals from the regulator allowing recovery for substantially similar costs (precedents) for a specific entity or other entities in the same jurisdiction;
- (d) written approval from the regulator (although not a formal approval) approving future recovery in rates;
- (e) uniform regulatory guidance providing for the treatment of various costs that the regulator typically follows in setting rates;
- (f) opinions of independent experts regarding recoverability of the cost on the basis of regulations and past practice.
- (g) any additional evidence provided by events after the balance sheet date, where appropriate as per the applicable Accounting Standard

79. Other respondents suggest that the IASB should also consider requiring a routine impairment assessment, using the principles in IAS 36 *Impairment of Assets*.

Prohibiting the recognition of regulatory deferral account balances

80. There was some support for this approach but the reasons for support were mixed.

81. Some respondents, particularly those with less experience of utilities or other rate-regulated entities, prefer disclosure-only requirements because they are unclear about the financial effects of rate regulation and how they interact with the

Conceptual Framework and application of IFRS. This concern is reflected by the Institute of Chartered Accountants in England and Wales (ICAEW):

This project is at an embryonic stage and much further investigation, outreach with users and analysis of rate-regulated activities will be necessary before the IASB develops a firm set of proposals. We are not yet convinced that this can or should lead to recognition of regulatory deferral assets and liabilities. We note that many rate-regulated entities already provide information to investors, tailored to their needs and to the local regulatory environment and we are still inclined at this early stage to favour a disclosure-only model for the reporting of rate-regulated activities. However, we remain open to considering the merits of alternative approaches, subject to the principles outlined in this letter.

82. Others are not convinced that regulatory deferral account balances can meet the definitions of assets and liabilities in either the current or developing *Conceptual Framework*. Some of these are concerned that the recognition of regulatory deferral account balances provides an opportunity for artificial smoothing of results. For example, the China Accounting Standards Committee note:

Second, if the entities are permitted to recognize regulatory deferral account balances, there might be arbitrage opportunity of earning management. In our view, recognition will not be able to prevent business to use rate regulated activities to accomplish earning management to smooth out their annual revenue, which is deadly to the users.

83. Such comments underline the importance of analysing further the combination of rights and obligations created by rate-regulatory frameworks and how they interact with the rate-setting mechanism to determine when to recognise revenue.
84. Many respondents who support the recognition of regulatory deferral account balances acknowledge that, if the IASB decide to prohibit the recognition of such balances, it should instead develop disclosure-only requirements. The support for disclosure-only as a ‘fall-back’ position is based mainly on the view that an

understanding and knowledge of the financial effects of rate regulation, together with quantitative information about the amount and timing of reversal of regulatory deferral account balances is essential. Many respondents indicate that users of the financial statements need this information to make informed investment and lending decisions.

85. However, some respondents disagree with a disclosure-only approach. For example, the European Securities and Markets Authority (ESMA) noted:

the disclosure-only approach for defined rate regulation would retain the existing situation that is not satisfactory as it fails to provide relevant information to users in the primary financial statements for many issuers with activities subject to defined rate regulation. This is consistent with ESMA's views on the recognition of all leases in the statement of financial position under the Leases project³. Furthermore, as the results of academic research⁴ clearly demonstrate that information provided in the primary financial statements is the primary focus of users and increases transparency.

Presentation and disclosure

Presentation

86. There is strong support for developing principle-based, specific accounting requirements that will lead to the recognition of at least some regulatory deferral account balances in the statement of financial position, with movements recognised in the income statement. There is strong support for the amounts recognised to be identified separately within the financial statements. Views are mixed about whether the amounts should be disclosed separately only in the notes to the financial statements or also in the statement of financial position and income statement. If presented separately in the statement of financial position

³ Comment Letter, The IASB's Exposure Draft Leases, ESMA, Paris, September 2013, ESMA/2013/1244

⁴ E.g., Ahmed, A.S., Kilic, E., Lobo, G.J., 2006. Does Recognition versus Disclosure Matter? Evidence from Value-Relevance of Banks' Recognized and Disclosed Derivative Financial Instruments. *The Accounting Review*, Vol. 81, No. 3, pp. 567-58.

and income statement, most of those who commented prefer to keep the separate items adjacent to the ‘related’ line items presented in accordance with other Standards. For example, adjacent to revenue or within the categories of current and non-current assets and liabilities.

87. The presentation requirements of IFRS 14 result, through the use of sub-totals, in the isolation of regulatory deferral account balances from assets and liabilities recognised in accordance with other Standards. Similarly, in the income statement, the net movement in regulatory deferral account balances is isolated below a sub-total for the profit for the year. Respondents recognise that, to aid comparability, the presentation requirements of IFRS 14 are appropriate in a temporary Standard that is applicable to only a small population of entities. However, there is little support for those requirements to continue if the IASB develops specific accounting requirements that result in the recognition of regulatory deferral account balances in a wider population of entities.
88. Few respondents express support for aggregating particular regulatory deferral account balances within other items such as property, plant and equipment. This approach is used in US GAAP and other Local GAAPs. One respondent, AltaLink LP supports such an approach and comments on the usefulness of this information in its particular circumstances:

With respect to the accounting for property, plant and equipment, we believe that recognising the initial cost of PP&E, including all amounts capitalisable and recoverable through the regulatory process provides users with relevant and meaningful information. Applying approved depreciation rates results in a net book value equal to the recoverable amount.

We have first-hand experience of users seeking information on balances that are recoverable through the regulatory process when purchasing a utility. Our company has recently been sold and the buyer requested this type of information as it provided them with meaningful and predictive information for calculating our true value. We also note that when calculating the goodwill on their

acquisition, they determined that the value of the regulatory deferral accounts is equal to their fair value.

89. Other respondents focused more on disclosing the regulatory carrying amount of property, plant and equipment or the ‘regulatory asset base’ (the RAB) more generally. In most cases, the carrying amount of the RAB is different from the carrying amount required by IFRS. In some case, this can be reconciled relatively easily because the differences mainly relate to differences in the amounts that can be capitalised initially into the carrying amount and the rate of depreciation. However, in other cases, there are a wide variety of adjustments made to the RAB, such as inflation uplifts, that could make reconciliation problematic.

Disclosure

90. There is strong support to use the disclosure requirements in IFRS 14 as a basis for any disclosure requirements that may be developed as a result of this project. In particular, the IFRS 14 requirements to disclose a reconciliation of opening to closing balances of the recognised regulatory referral account balances is considered by many to be critical. IFRS 14 also requires disclosure of the remaining period over which recognised balances are expected to reverse. Some respondents suggest that this should be supplemented by more detailed information, such as a maturity schedule and information about any adjustments to the amounts recognised. For example, the Canadian Accounting Standards Board (AcSB) suggest:

Adjustments made to regulatory deferral account balances after their recognition as a result of the rate regulator subsequently prohibiting all or part of a balance after a prudency review, or to correct over/under recognition by the entity. Ideally, this information would be disclosed for the current annual period and a number of preceding annual periods in order to enable users to better assess the level of historical uncertainty associated with regulatory balances.

91. This suggestion complements comments made by several respondents who suggest including some sort of probability criteria for the recognition of regulatory deferral account balances (see paragraph x).
92. Some respondents caution that any disclosure should be proportionate and avoid the risk of ‘information overload’. Others suggest keeping repetition of information to a minimum by allowing some information, particularly about the nature of the rate regulation, to be included in the management commentary. Some noted that this sort of information is commonly available on the entity’s website or on the website of the rate regulator. Consequently, they suggest that it should be sufficient to provide a high-level outline in the financial statements and allow people to go to the alternative sources for the detail.
93. For entities that are subject to rate regulation in several jurisdictions, some respondents note that there is a risk that the disclosures could become too lengthy and, as a result, lose understandability and relevance. Consequently, some suggest using similar principles to those in IFRS 8 *Operating Segments* to determine an appropriate level of aggregation or disaggregation. For example, National Grid plc note:
- We do not believe that disclosure requirements should be required by regulatory jurisdiction or necessarily by rate regulated activity. This can result in a significant amount of information for entities such as National Grid and would lead to disclosures that are many pages long without benefit to users. Rather the disclosure requirements should require the disaggregation of information based on principals of risk and/or differences in the underlying nature of the assets and liabilities. Any disclosures should be made with regard to the segment disclosures made in accordance with IFRS 8 'Operating Segments'. This principles based approach will allow preparers to better assess what information is meaningful to users based on the nature of their activities and regulatory agreements.
94. During outreach activities, we heard that analysts would particularly value segment information to help more clearly identify the financial effects of rate regulation. Although much information is currently disclosed voluntarily by

many entities in their management commentary or other investor communications, the lack of formal disclosure requirements leads to a lack of comparability and completeness in the information that analysis value.

95. Some respondents also prefer information to be disclosed within the financial statements because it provides the added assurance of being subject to external audit.

Questions for the IASB

96. The feedback from outreach activities and responses from comment letters will be considered by the Consultative Group at its meeting to be held on 4 March 2015.
97. At this meeting we are not asking the IASB to make any tentative technical decisions. Instead, we ask if the IASB has any particular issues that it would like us to raise with the Consultative Group about the feedback or any specific questions for us to consider and respond to at a future IASB meeting.

Question 1

Are there any particular issues raised in the feedback that you would like the Consultative Group to focus on in its analysis of the feedback received?

Question 2

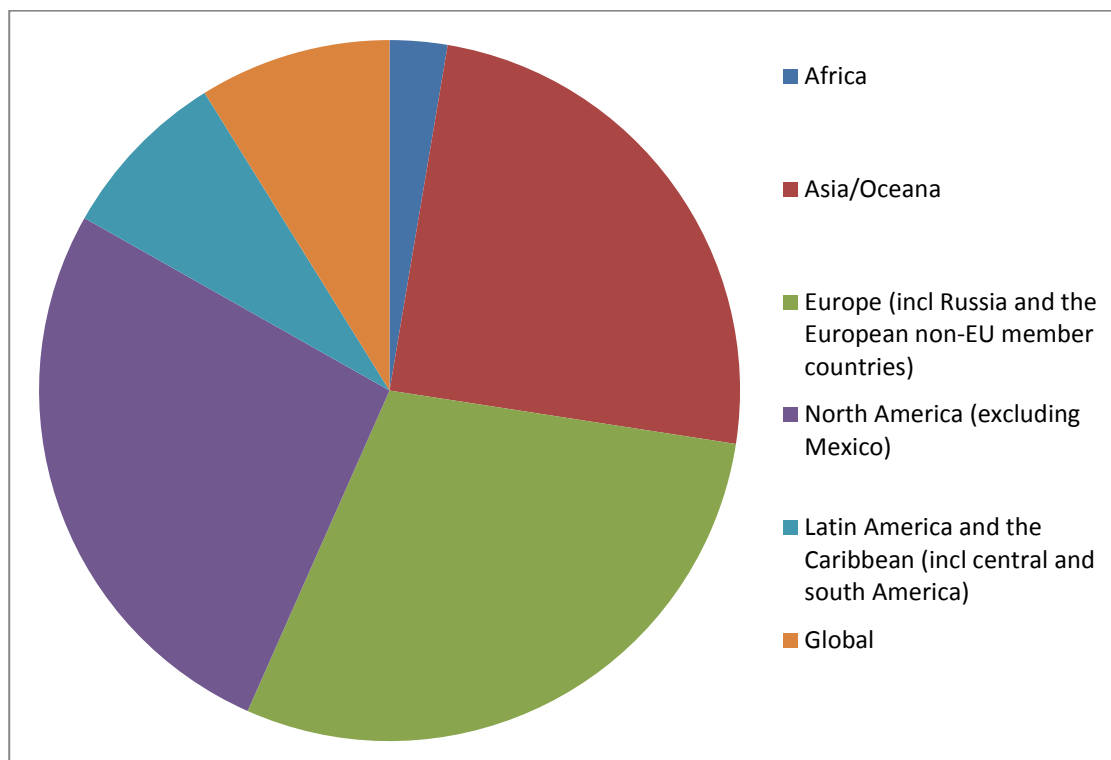
Do you have any specific questions that you would like the staff to consider and respond to at a future IASB meeting?

Appendix 1: Demographic analysis of responses to the Discussion Paper

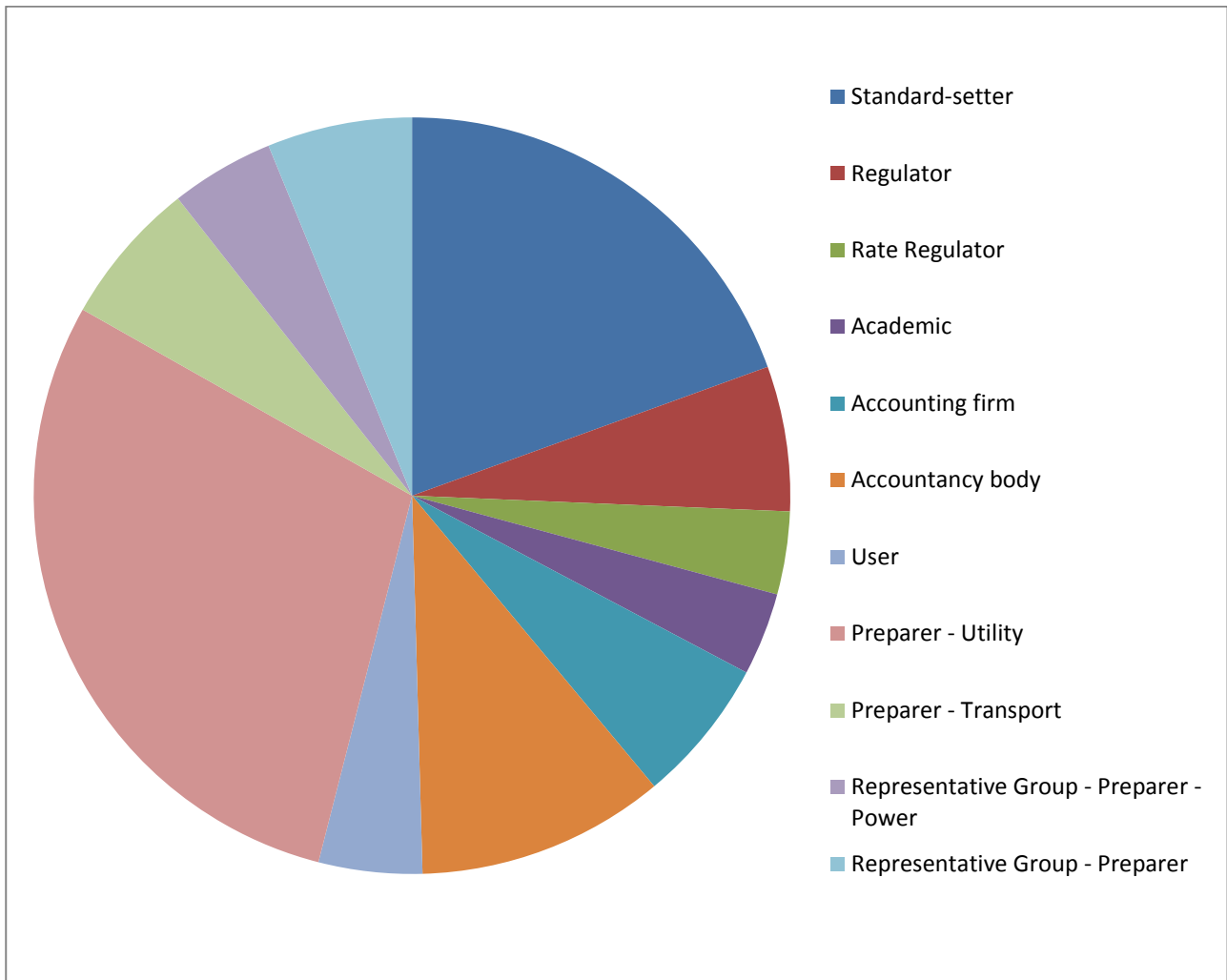
The following table and graphs outline the number of comment letters received up to 30 January 2015 by respondent type and geography.

Respondent type	Africa	Asia-Oceania	Europe	North America	Latin America	Global	Total
Accountancy Body	3	5	3	-	-	1	12
Accounting Firm	-	-	-	1	-	6	7
Academic	-	-	-	4	-	-	4
Securities Regulator	-	2	1	2	1	1	7
Standard Setter	-	9	10	1	2	-	22
User	-	1	2	2	-	-	5
Sub-total Non-Rate-Regulated	3	17	16	10	3	8	57
Rate Regulator	-	-	-	3	1	-	4
Preparer (Representative Body)	-	2	4	2	2	2	12
Preparer (Transportation)	-	1	5	1	-	-	7
Preparer (Utilities)	-	8	8	14	3	-	33
Sub-total Rate-Regulated	0	11	17	20	6	2	56
Total	3	28	33	30	9	10	113

Comment letter distribution by geography



Comment letter distribution by type of respondent



Appendix 2: External Consultation and outreach activities

- A1. The project's formal consultative group met in July 2013 and again in November 2013 and provided input to the staff during 2014 in developing the content of the Discussion Paper. The Consultative Group provides a variety of expert perspectives, including those of preparers, auditors and users of financial statements, and regulators.
- A2. The Accounting Standards Advisory Forum (ASAF) provided input to the project at its meetings in December 2013 and March 2014. In addition, it provided preliminary views on the Discussion Paper at its meeting in December 2014.
- A3. IASB staff also received input from the IASB's Capital Markets Advisory Committee (CMAC) at its meeting in October 2014.
- A4. IASB staff and Board members also gathered views at outreach events during November and December 2014 in Brazil, USA, Canada and Belgium, and by video conference with Malaysia. Participants in these events included preparers, auditors and users of financial statements, regulators and standard-setters. The event in Belgium focused primarily on the views of users of the financial statements.
- A5. In addition, IASB staff have participated in a number of consultation and outreach events lead by the European Financial Reporting Advisory Group (EFRAG). This includes attending meetings of the EFRAG Rate-regulated Activities Working Group, which was established in March 2013 to advise and provide input to EFRAG Technical Expert Group (TEG) and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) discussions in developing positions on Rate-regulated Activities specific matters and their application within Europe through technical analysis and consultation.
- A6. Further details of these external consultations and outreach events can be found on the IASB's website at <http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Pages/Rate-regulated-activities-oct.aspx>. Further details about the EFRAG Rate-regulated Activities work are available on their website at <http://www.efrag.org/Front/p273-4-272/Rate-regulated-Activities---Comprehensive-Project.aspx>.

Appendix 3: Questions contained in the Discussion Paper *Reporting the Financial Effects of Rate Regulation*

Question 1

- (a) What information about the entity's rate-regulated activities and the rate-regulatory environment do you think preparers of financial statements need to include in their financial statements or accompanying documents such as management commentary?

Please specify what information should be provided in:

- (i) the statement of financial position;
 - (ii) the statement(s) of profit or loss and other comprehensive income;
 - (iii) the statement of cash flows;
 - (iv) the note disclosures; or
 - (v) the management commentary.
- (b) How do you think that information would be used by investors and lenders in making investment and lending decisions?

Question 2

Are you familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities, for example, in accordance with US generally accepted accounting principles (GAAP) or other local GAAP or in accordance with IFRS 14? If so, what problems, if any, does the recognition of such balances cause users of financial statements when evaluating investment or lending decisions in rate-regulated entities that recognise such balances compared to:

- (a) non-rate-regulated entities; and
- (b) rate-regulated entities that do not recognise such balances?

Question 3

Do you agree that, to progress this project, the IASB should focus on a defined type of rate regulation (see Section 4) in order to provide a common starting point for a more focused discussion about whether rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might need to be developed (see paragraphs 3.6–3.7)? If not, how do you suggest that the IASB should address the diversity in the types of rate regulation summarised in Section 3?

Question 4

Paragraph 2.11 notes that the IASB has not received requests for it to develop special accounting requirements for the form of limited or 'market' rate regulation that is used to supplement the inefficient competitive forces in the market (see paragraphs 3.30–3.33).

- (a) Do you agree that this type of rate regulation does not create a significantly different economic environment and, therefore, does not require any specific accounting requirements to be developed? If not, why not?
- (b) If you agree that this type of rate regulation does not require any specific accounting requirements, do you think that the IASB should, alternatively, consider developing specific disclosure requirements? If so, what would you propose and why?

Question 5

Paragraphs 4.4–4.6 summarise the key features of defined rate regulation. These features have been the focus of the IASB’s exploration of whether defined rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might be developed in order to provide relevant information to users of general purpose financial statements.

- (a) Do you think that the description of defined rate regulation captures an appropriate population of rate-regulatory schemes within its scope? If so, why? If not, why not?
- (b) Do you think that any of the features described should be modified in order to include or exclude particular types of rate-regulatory schemes or rate-regulated activities included within the scope of defined rate regulation? Please specify and give reasons to support any modifications to the features that you suggest, with particular reference to why the features may or may not give rise to circumstances that result in particular information needs for users of the financial statements.
- (c) Are there any additional features that you think should be included to establish the scope of defined rate regulation or would you omit any of the features described? Please specify and give reasons to support any features that you would add or omit.

Question 6

Paragraphs 4.62–4.72 contain an analysis of the rights and obligations that arise from the features of defined rate regulation.

- (a) Are there any additional rights or obligations that you think the IASB should consider? Please specify and give reasons.
- (b) Do you think that the IASB should develop specific accounting guidance or requirements to account for the combination of rights and obligations described? Why or why not?

Question 7

Section 5 outlines a number of possible approaches that the IASB could consider developing further, depending on the feedback received from this Discussion Paper. It highlights some advantages and disadvantages of each approach.

- (a) Which approach, if any, do you think would best portray the financial effects of defined rate regulation in IFRS financial statements and is most likely to provide the information that investors and lenders consider is most relevant to help them make their investing and lending decisions? Please give reasons for your answer?
- (b) Is there any other approach that the IASB should consider? If so, please specify and explain how such an approach could provide investors and lenders with relevant information about the financial effects of rate regulation.
- (c) Are there any additional advantages or disadvantages that the IASB should consider before it decides whether to develop any of these approaches further? If so, please describe them.

If commenting on the asset/liability approach, please specify, if it is relevant, whether your comments reflect the existing definitions of an asset and a liability in the *Conceptual Framework* or the proposed definitions suggested in the *Conceptual Framework* Discussion Paper, published in July 2013.

Question 8

Does your organisation carry out activities that are subject to defined rate regulation? If so, what operational issues should the IASB consider if it decides to develop any specific accounting guidance or requirements?

Question 9

If, after considering the feedback from this Discussion Paper and the *Conceptual Framework* project, the IASB decides to prohibit the recognition of regulatory deferral account balances in IFRS financial statements, do you think that the IASB should consider developing specific disclosure-only requirements? If not, why not? If so, please specify what type of information you think would be relevant to investors and lenders in making their investing or lending decisions and why.

Question 10

Sections 2 and 6 discuss some of the information needs of users of general purpose financial statements. The IASB will seek to balance the needs of users of financial statements for information about the financial effects of rate regulation on an entity's operations with concerns about obscuring the understandability of financial statements and the high preparation costs that can result from lengthy disclosures (see paragraph 2.27).

- (a) If the IASB decides to develop specific accounting requirements for all entities that are subject to defined rate regulation, to what extent do you think the requirements of IFRS 14 meet the information needs of investors and lenders? Is there any additional information that you think should be required? If so, please specify and explain how investors or lenders are likely to use that information.
- (b) Do you think that any of the disclosure requirements of IFRS 14 could be omitted or modified in order to reduce the cost of compliance with the requirements, without omitting information that helps users of financial statements to make informed investing or lending decisions? If so, please specify and explain the reasons for your answer.

Question 11

IFRS 14 requires any regulatory deferral account balances that have been recognised to be presented separately from the assets and liabilities recognised in the statement of financial position in accordance with other Standards. Similarly, the net movements in regulatory deferral account balances are required to be presented separately from the items of income and expense recognised in the statement(s) of profit or loss and other comprehensive income.

If the IASB develops specific accounting requirements that would apply to both existing IFRS preparers and first-time adopters of IFRS, and those requirements resulted in the recognition of regulatory balances in the statement of financial position, what advantages or disadvantages do you envisage if the separate presentation required by IFRS 14 was to be applied?

Question 12

Section 4 describes the distinguishing features of defined rate regulation. This description is intended to provide a common starting point for a more focused discussion about whether this type of rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements should be developed.

Paragraph 4.73 suggests that the existence of a rate regulator whose role and authority is established in legislation or other formal regulations is an important feature of defined rate regulation. Do you think that this is a necessary condition in order to create enforceable rights or obligations, or do you think that co-operatives or similar entities, which operate under self-imposed rate regulation with the same features as defined rate regulation (see paragraphs 7.6–7.9), should also be included within defined rate regulation? If not, why not? If so, do you think that such co-operatives should be included within the scope of defined rate regulation only if they are subject to formal oversight from a government department or other authorised body?

Question 13

Paragraphs 7.11–7.22 highlight some of the issues that the IASB may consider if it continues to progress this project. Do you have any comments or suggestions on these or any other issues that may or may not have been raised in this Discussion Paper that you think the IASB should consider if it decides to develop proposals for any specific accounting requirements for rate-regulated activities?