

## STAFF PAPER

4 March 2015

**Rate-regulated Activities  
Consultative Group meeting**

<b>Project</b>	<b>Rate-regulated Activities: Research project</b>		
<b>Paper topic</b>	Overview of papers and the planned discussions at this meeting		
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**Purpose of discussions at this meeting**

1. At its meeting in February 2015, the IASB discussed Agenda Paper 9  
*Research project: Initial analysis of responses to the Discussion Paper*  
(reproduced in Agenda Paper 2 for this meeting). The IASB did not make any decisions at that meeting. The purpose of the IASB's discussion was to highlight issues that the IASB consider the staff should initially concentrate their efforts on exploring further. The following issues were highlighted (as reported in the *IASB Update* report for the February meeting):
  - (a) how to define the scope for the proposed Standard, based on the description of rate regulation;
  - (b) the meaning and use of 'the customer base', in particular within the context of the 3-way relationship between a rate-regulated entity, the rate regulator and the end customer;
  - (c) the consistency of the approach taken in this project compared with approaches used in other Standards and ongoing projects in accounting for the net effect of the rights and obligations;
  - (d) the interaction of this project with the *Conceptual Framework* project and its definitions of assets and liabilities; and

- (e) how the principles of IFRS 15, in particular relating to the identification of performance obligations, could be adapted to rate-regulated activities.
2. The issues highlighted by the IASB in paragraph 1 of this paper will require a more detailed analysis of the rights and obligations imposed by a variety of rate-regulatory schemes. The purpose of the discussions in this meeting of the Consultative group is not intended to address directly the issues raised by the IASB. Instead, the purpose is to investigate some of the issues raised in the responses to the Discussion Paper that will feed in to the analyses that will be developed for the IASB's future deliberations.
  3. At this meeting, the staff are looking to the Consultative Group for some initial input to the analysis, based on your practical experience. During the course of the discussions, we will also seek guidance and support about how best to gather the factual evidence needed to provide the analysis that the IASB is seeking.
  4. The meeting will provide an opportunity for Consultative Group members to provide a brief response to the feedback contained in the initial summary presented to the IASB. We will then consider some of the requests for information about the financial effects of rate regulation, to help us to identify the main areas of concern. This will help us to understand more clearly the objective of any accounting requirements that may be developed as a result of this project.
  5. We will then discuss issues related to the revenue requirement and the regulatory adjustment mechanism. These discussions are intended to explore what types of activities involve the transfer of goods or services to customers, and which activities are a necessary part of the rate-regulated activities but do not involve a transfer to customers. This will help us to explore the nature of the regulatory deferral account balances that arise from the rate regulation, which will help us to better understand what financial effects they represent.
  6. A specific issue that will need further investigation in due course is the interaction of rate regulation with the requirements of IFRIC 12 *Service Concession Arrangements*. We will provide a brief overview of the existing requirements of IFRIC 12 at this meeting to help identify what issues are of particular concern and what aspects of the requirements we should focus our analysis on.

## Papers for this meeting

7. The remaining papers for this meeting are as follows:

- (a) Agenda Paper 2 **Overview of feedback received.** This paper reproduces the initial analysis of the responses received through outreach and comment letters to the *Discussion Paper Reporting the Financial Effects of Rate Regulation*. The analysis was discussed by the IASB at its recent meeting and is contained in IASB Agenda Paper 9 *Research project: Initial analysis of responses to the Discussion Paper*, February 2015.
- (b) Agenda Paper 3 **Disclosure requirements.** IFRS 14 *Regulatory Deferral Accounts* contains both qualitative and quantitative disclosure requirements. Although there was some concern expressed that the amount of disclosure could be excessive, several respondents asked for more detailed information to be disclosed—in particular about the regulatory asset base and the ‘allowed rate of return’. Some respondents suggested that quantitative disclosures should be provided that reconcile regulatory amounts with the amounts presented for IFRS purposes, together with a schedule indicating the timing of reversals of the reconciling items. We are looking to explore the practical issues arising from these suggestions to identify whether disclosure of the information suggested is feasible.
- (c) Agenda Paper 4 **What is performance?** Many of the responses suggested that we should analyse further the rights and obligations created by rate regulation. In particular, some respondents suggested that we should consider which rate-regulated activities could be identified as revenue-generating activities (that is, they can be described as ‘performance’), compared to activities that support future performance. This will involve a more detailed analysis of the obligations imposed by the rate regulation.
- (d) Agenda Paper 5 **What types of regulatory deferral account balances are there?** Some of the responses suggested that we should analyse further the different types of regulatory deferral account balances and

how they arise. The purpose of that analysis would be to identify whether those different types merely reflect differences in accounting policy between the rate regulation and IFRS requirements (eg pension costs recognised on a cash vs accruals basis), or whether they instead arise due to timing differences between ‘performance’ of activities and when revenue is recognised in accordance with IFRS 15. We are looking to explore what types of regulatory deferral account balances Consultative Group members have seen in practice.

- (e) **Agenda Paper 6 Service Concession Arrangements.** Many respondents suggest that we should consider the interactions between IFRIC 12 *Service Concession Arrangements* and rate regulation. However, they do not specify what particular aspects of IFRIC 12 require analysis. We acknowledge that some members of the Consultative Group will be less familiar with the requirements of IFRIC 12. We will, therefore, provide a brief overview of IFRIC 12 and invite members with more experience of IFRIC 12 to share their views. We expect to consult the Consultative Group on the interactions with IFRIC 12 at a later date.