

## STAFF PAPER

July 2017

## ASAF Meeting

Project	Rate-regulated Activities		
Paper topic	Cover note		
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This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum. The views expressed in this paper do not represent the views of the International Accounting Standards Board (the Board) or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Purpose of the session**

1. The purpose of this session is to update ASAF members on the International Accounting Standards Board (the Board) discussions to develop the underlying basis for a new accounting model (the model) for rate-regulated activities.
2. The update covers the Board's discussion since the last ASAF meeting (March 2017).
3. The papers for this meeting, which should be read in conjunction with each other, include:
  - (a) **Agenda Paper 8A—Update of the Board's discussions:** This paper summarises the topics discussed at the April and May 2017 Board meetings, together with a summary of the research that underpins the descriptions of 'defined rate regulation'.
  - (b) **Agenda Paper 8B—Rate adjustment examples:** This paper uses numerical examples to illustrate how the model would recognise, as regulatory assets and liabilities, the rights and obligations arising from the rate-adjustment mechanism. The paper also illustrates how the model would derecognise those assets and liabilities as the rights are consumed and the obligations are fulfilled.

## Summary

4. Since the Board's February 2017 meeting, we have revised the description of the principles underpinning the model. In addition, we have clarified how the terms of the regulatory agreement, specifically the rate-adjustment mechanism, create rights and obligations for the entity. Those rights and obligations arise because the rate-adjustment mechanism causes temporary differences that arise when the regulated rate in one period includes amounts relating to required activities carried out by the entity in a different period.
5. At the May 2017 Board meeting, we clarified that the model does not aim to account for the whole of the rate-setting mechanism. Instead, the model aims to account only for the rights and obligations created by the rate-adjustment mechanism. We also presented an analysis of those rights and obligations, together with the characteristics of defined rate regulation. That analysis suggested that the rights or obligations created by the rate-adjustment mechanism are assets or liabilities, as those terms are expected to be defined in the forthcoming revised *Conceptual Framework for Financial Reporting*.<sup>1</sup>
6. In Agenda Paper 9B for the Board's June meeting, we present five illustrative examples. The purpose of these examples is to show how the rate-adjustment mechanism contained in a regulatory agreement creates rights and obligations that the model seeks to recognise as regulatory assets and regulatory liabilities. Through these examples, we also show how the model could derecognise the regulatory assets and regulatory liabilities as the rights are consumed and the obligations are fulfilled.
7. We also show how an entity would account for the regulated rate adjustment component of the regulated rate, both using existing IFRS Standards and using the proposed model.

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<sup>1</sup> When referring to the definitions of assets and liabilities throughout this paper, we have used the proposals in the Exposure Draft *Conceptual Framework for Financial Reporting* (the Conceptual Framework ED), updated when applicable for the Board's tentative decisions in subsequent discussions.

## Questions for ASAF members

8. When responding to the following questions, please consider Agenda Papers 8A and 8B together.

### Questions for ASAF members

- 1) Do you consider the explanations in Agenda Paper 8A to be clear on how the regulatory agreement creates rights and obligations for the entity?
- 2) Do you consider the explanations in Agenda Paper 8A to be clear on how the characteristics of defined rate regulation support the conclusion that the rights and obligations created by the rate adjustment mechanism meet the definitions of assets and liabilities in the forthcoming *Conceptual Framework*?
- 3) For each example presented in Agenda Paper 8B, do you agree with our conclusions about:
  - the timing and amount of the originating regulated rate adjustments recognised?
  - the pattern and timing of the reversal of the regulated rate adjustments recognised?
- 4) Do you have any preliminary views or suggestions about how the regulated rate adjustment could be presented in profit or loss (paragraph 19 of Agenda Paper 8B)?