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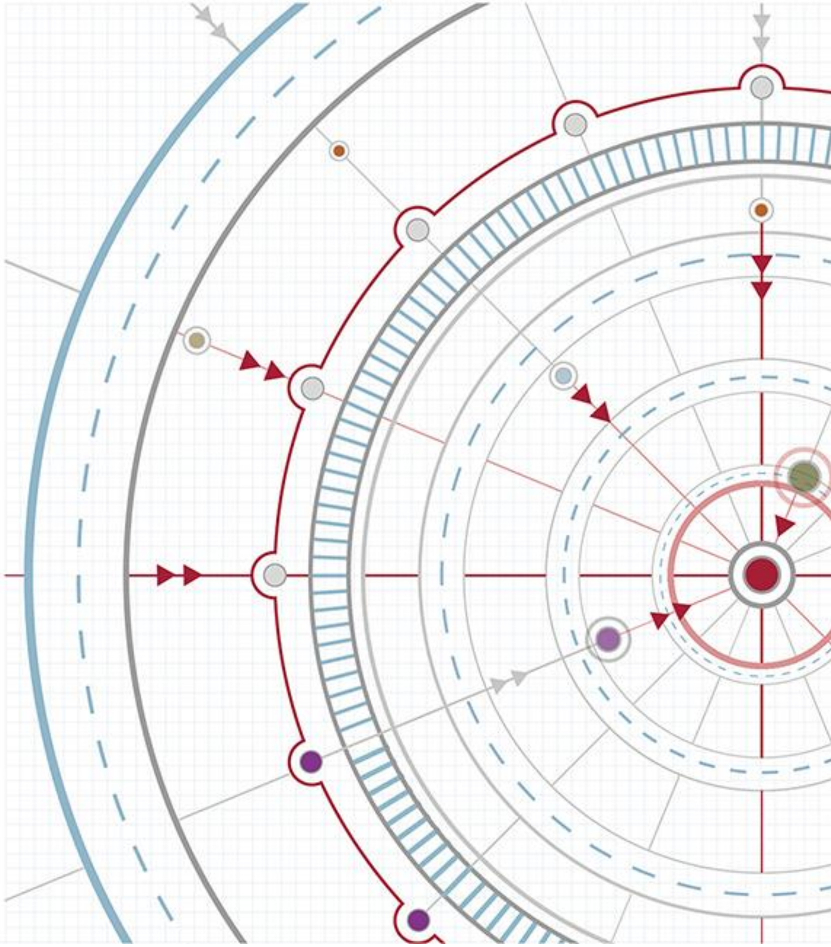

Rate-regulated Activities

Accounting Standards Advisory Forum meeting
March 2017

ASAF agenda paper 1

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

Purpose of the session

The purpose of the session is to provide an update on the Board’s recent discussions regarding the Rate-regulated Activities project.

Background

- At the December 2016 ASAF meeting, many ASAF members supported the staff's approach and preliminary proposals for the core principle and key features of the model.
- The Board discussed an overview of the model at an education session in December 2016.
- At its February 2017 Board meeting, the Board will discuss:
  - The model's general approach;
  - The scope of the model; and
  - Criteria for recognition of regulatory assets/ liabilities.

Question for ASAF members

- We outline the proposals for each of these topics in slides 6-10. We will orally update ASAF members on the outcome of the Board’s February 2017 discussions.

Do ASAF members have any questions or comments on the proposals outlined in slides 6-10?

Messages from stakeholders

- The model should improve financial reporting for the distinguishable rights and obligations created by defined rate regulation by:
  - recognising as regulatory assets and regulatory liabilities only those regulatory adjustments that are consistent with the definitions of assets and liabilities in the *Conceptual Framework*;
  - using the principles of IFRS 15 *Revenue from Contracts with Customers* to provide a principle-based framework for recognising regulatory adjustments; and
  - providing transparent and understandable information about the effects of the rate regulator’s intervention on the entity’s financial position, performance and cash flows.

The model's general approach—core principle

Proposed **core principle**:

- an entity recognises 'regulatory performance adjustments' to depict the transfer of rate-regulated goods or services to the customer base in an amount that reflects the compensation to which the entity expects to be entitled in exchange for those goods or services.

Proposed **premise** of the model:

- at the start of the regulatory agreement, neither the entity nor the customer base has performed and so the regulatory agreement is executory.

The model’s general approach—transfer model

- We propose a ‘**transfer model**’, consistent with that of IFRS 15.
- Paragraph BC20 of the Basis for Conclusions on IFRS 15 explains how the transfer model is consistent with the executory contract concept:

> ‘. . . when an entity transfers a promised good or service to a customer, thereby satisfying a performance obligation in the contract. . . an entity no longer has that obligation to provide the good or service. Consequently, its position in the contract increases—either its contract asset increases or its contract liability decreases—and that increase leads to revenue recognition.’

The model's supplementary approach

We propose that the model supplements, but does not override, existing IFRS Standards. This means that:

- an entity will apply the requirements of other IFRS Standards, including IFRS 15, before applying the model; and
- a regulatory asset or regulatory liability will be recognised only to the extent that the entity's rights and obligations arsing from its rate-regulated activities are not already recognised by applying other IFRS Standards.

Scope of the model

We propose that the model include scope criteria that require:

- the entity to carry out activities that are subject to a formal regulatory pricing (ie rate-setting) framework that is binding on both the entity and the rate regulator; and
- the regulatory pricing framework to include a rate-setting mechanism that:
  - establishes how the regulated rate is calculated;
  - identifies how the rate reflects the satisfaction of the entity's regulatory obligations; and
  - adjusts the future regulated rate for the effects of imbalances in performance between the entity and its customer-base.

Recognition of regulatory assets/ liabilities

We propose that the model include criteria that results in an entity recognising a regulatory asset or regulatory liability only when:

- the regulatory adjustment represents a right or obligation arising from the extent to which the performance of the entity exceeds, or has been exceeded by, the performance of the customer base, ie the extent to which the regulatory agreement is no longer executory;
- the resulting regulatory asset or regulatory liability has not already been recognised as an asset or a liability by applying other IFRS Standards; and
- it is highly probable that a significant reversal in the amount of cumulative compensation recognised will not occur.

Future topics to discuss with the Board

- Measurement, impairment and derecognition;
- Presentation and disclosure;
- Interaction with other IFRS Standards, including IFRS 3 *Business Combinations* and IFRIC 12 *Service Concession Arrangements*;
- Assessment of the model's consistency with the [revised] *Conceptual Framework*;
- Comparison with Topic 980 *Regulated Operations* (Topic 980) in the FASB Accounting Standards Codification®;
- The form of the next consultation document; and
- Transition and withdrawal of IFRS 14 *Regulatory Deferral Accounts*.

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Background papers

Details of the issues outlined in slides 5-10 are contained in the following staff papers to be discussed in the Board's February 2017 meeting:

- Agenda Paper 9 *Cover note and summary of the model*—the appendix contains a high level summary of the new accounting model.
- Agenda Paper 9A *The model's general approach*.
- Agenda Paper 9B *Scope of the model*.
- Agenda Paper 9C *Recognition of regulatory assets and regulatory liabilities*.
- Agenda Paper 9D *Illustrative examples*—this paper analyses several examples to illustrate the application of the recognition criteria described in Agenda Paper 9C.

The papers are available for download at:
http://www.ifrs.org/Meetings/Pages/IASB-Meeting-February-2017.aspx

Next steps

- We will continue Board discussions to develop further the details of the model.
- We will seek ASAF members’ views on the model in the July ASAF meeting.

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