

STAFF PAPER

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Consultative Group for Rate Regulation Meeting

Project	Rate-regulated Activities		
Paper topic	Presentation and disclosure		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board's (the Board's) Consultative Group for Rate Regulation and does not represent the views of 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 paper

1. We ask Consultative group members to provide information about how feasible it is to disaggregate information about individual rate-adjustment account balances and to track when the balances are included in amounts billed to customers. This information will inform the Board's decisions about what presentation and disclosure requirements would provide relevant information to users of financial statements.

Summary of the Board's discussions so far

2. The Board tentatively decided that an entity will apply the requirements of other IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), before applying the model. Consequently, the model aims to account only for the rights and obligations arising from the rate-adjustment mechanism that are not already covered by other IFRS Standards.
3. In making this tentative decision, the Board identified that IFRS 15 requires the presentation of information about an entity's contracts with customers, which provides useful information to users of financial statements. Presenting

regulatory assets, regulatory liabilities and the related income or expense adjustments to profit or loss separately from the amounts recognised using IFRS 15 would provide users of financial statements with additional relevant information.

4. Consequently, some Board members have indicated a preference for presenting regulatory assets and regulatory liabilities, and related movements on those items, as separate line items in the statements of financial position and of financial performance.
5. The Board has yet to discuss disclosure requirements but is expected to use the existing disclosure requirements in IFRS 14 *Regulatory Deferral Accounts* (IFRS 14) as a starting point. The disclosure requirements in IFRS 14 are reproduced in the appendix for ease of reference.

Questions for Consultative Group members

Presentation and disclosure
<p>We ask Consultative group members to provide information about how feasible it is to disaggregate information about individual rate-adjustment account balances and to track when the balances are included in amounts billed to customers.</p> <p>This information will inform the Board’s decisions about what presentation and disclosure requirements would provide relevant information to users of financial statements.</p>

6. When gathering and reporting the information we are seeking, Consultative Group members may find it helpful to consider the following questions:
 - (a) In your experience:
 - (i) as a user of financial statements—what information do you find most useful to help you assess the financial performance and financial position of entities subject to rate regulation and to predict the effect of regulatory adjustments on the timing and certainty of future cash flows?

- (ii) as a preparer of financial statements—what information do you provide to users of your financial statements to inform them about the financial performance and financial position of your business?
- (b) How feasible is it to identify the timing of when regulatory assets and regulatory liabilities will be reflected in amounts billed to customers to provide a split between current and non-current amounts?
- (c) What level and type of disaggregation do users find helpful to identify, and distinguish between, regulatory assets or regulatory liabilities arising from different transactions or other events (eg by location, current vs non-current regulatory assets/ regulatory liabilities, by maturity)?
- (d) What level and type of disaggregation do preparers provide in financial statements (both primary financial statements and supporting disclosure notes) or in the management commentary or other documents provided to users of financial statements?

Appendix: Disclosure requirements in IFRS 14 *Regulatory Deferral Accounts*

- A1. As a starting point for its future discussions about disclosure requirements, the Board is expected to use the existing disclosure requirements in IFRS 14 *Regulatory Deferral Accounts* (see paragraph 5). The disclosure requirements in IFRS 14, together with an extract from an illustrative example accompanying IFRS 14, are reproduced in this appendix for ease of reference.

International Financial Reporting Standard 14 *Regulatory Deferral Accounts* [Extract]

Disclosure

Objective

- 27 **An entity that elects to apply this Standard shall disclose information that enables users to assess:**
- (a) **the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides; and**
 - (b) **the effects of that rate regulation on its financial position, financial performance and cash flows.**
- 28 If any of the disclosures set out in paragraphs 30–36 are not considered relevant to meet the objective in paragraph 27, they may be omitted from the financial statements. If the disclosures provided in accordance with paragraphs 30–36 are insufficient to meet the objective in paragraph 27, an entity shall disclose additional information that is necessary to meet that objective.
- 29 To meet the disclosure objective in paragraph 27, an entity shall consider all of the following:
- (a) the level of detail that is necessary to satisfy the disclosure requirements;
 - (b) how much emphasis to place on each of the various requirements;
 - (c) how much aggregation or disaggregation to undertake; and
 - (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

Explanation of activities subject to rate regulation

- 30 To help a user of the financial statements assess the nature of, and the risks associated with, the entity's rate-regulated activities, an entity shall, for each type of rate-regulated activity, disclose:
- (a) a brief description of the nature and extent of the rate-regulated activity and the nature of the regulatory rate-setting process;
 - (b) the identity of the rate regulator(s). If the rate regulator is a related party (as defined in IAS 24 *Related Party Disclosures*), the entity shall disclose that fact, together with an explanation of how it is related;
 - (c) how the future recovery of each class (ie each type of cost or income) of regulatory deferral account debit balance or reversal of each class of regulatory deferral account credit balance is affected by risks and uncertainty, for example:
 - (i) demand risk (for example, changes in consumer attitudes, the availability of alternative sources of supply or the level of competition);

- (ii) regulatory risk (for example, the submission or approval of a rate-setting application or the entity's assessment of the expected future regulatory actions); and
- (iii) other risks (for example, currency or other market risks).

31 The disclosures required by paragraph 30 shall be given in the financial statements either directly in the notes or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. If the information is not included in the financial statements directly or incorporated by cross-reference, the financial statements are incomplete.

Explanation of recognised amounts

32 An entity shall disclose the basis on which regulatory deferral account balances are recognised and derecognised, and how they are measured initially and subsequently, including how regulatory deferral account balances are assessed for recoverability and how any impairment loss is allocated.

33 For each type of rate-regulated activity, an entity shall disclose the following information for each class of regulatory deferral account balance:

- (a) a reconciliation of the carrying amount at the beginning and the end of the period, in a table unless another format is more appropriate. The entity shall apply judgement in deciding the level of detail necessary (see paragraphs 28–29), but the following components would usually be relevant:
 - (i) the amounts that have been recognised in the current period in the statement of financial position as regulatory deferral account balances;
 - (ii) the amounts that have been recognised in the statement(s) of profit or loss and other comprehensive income relating to balances that have been recovered (sometimes described as amortised) or reversed in the current period; and
 - (iii) other amounts, separately identified, that affected the regulatory deferral account balances, such as impairments, items acquired or assumed in a business combination, items disposed of, or the effects of changes in foreign exchange rates or discount rates;
- (b) the rate of return or discount rate (including a zero rate or a range of rates, when applicable) used to reflect the time value of money that is applicable to each class of regulatory deferral account balance; and
- (c) the remaining periods over which the entity expects to recover (or amortise) the carrying amount of each class of regulatory deferral account debit balance or to reverse each class of regulatory deferral account credit balance.

34 When rate regulation affects the amount and timing of an entity's income tax expense (income), the entity shall disclose the impact of the rate regulation on the amounts of current and deferred tax recognised. In addition, the entity shall separately disclose any regulatory deferral account balance that relates to taxation and the related movement in that balance.

35 When an entity provides disclosures in accordance with IFRS 12 *Disclosure of Interests in Other Entities* for an interest in a subsidiary, associate or joint venture that has rate-regulated activities and for which regulatory deferral account balances are recognised in accordance with this Standard, the entity shall disclose the amounts that are included for the regulatory deferral account debit and credit balances and the net movement in those balances for the interests disclosed (see paragraphs B25–B28).

36 When an entity concludes that a regulatory deferral account balance is no longer fully recoverable or reversible, it shall disclose that fact, the reason why it is not recoverable or reversible and the amount by which the regulatory deferral account balance has been reduced.

IFRS 14 *Regulatory Deferral Accounts* Illustrative examples [Extract]

These examples accompany, but are not part of, IFRS 14.

Regulatory deferral account balances

Example 1—Illustrative presentation of financial statements

IE1 . . .

IE2 For each type of rate-regulated activity, paragraph 33 requires an entity to present, for each class of regulatory deferral account balance, a reconciliation of the carrying amount at the beginning and the end of the period. This example illustrates how that requirement may be met for an entity with two types of rate-regulated activity (electricity distribution and gas distribution), but is not intended to illustrate all aspects of this Standard or IFRS more generally.

Regulatory deferral account balances

Regulatory deferral account debit balances	20X6	Balances arising in the period	Recovery/reversal	20X7	Remaining recovery/reversal period (years)
<i>Electricity distribution</i>					
Construction costs ⁽¹⁾	18,720	5,440	(80)	24,080	4–10
Storm damage	64,410	–	(12,060)	52,350	4
Other regulatory accounts ⁽²⁾	6,270	2,320	(950)	7,640	4–10
<i>Gas distribution</i>					
Pension costs	5,130	10,120	(2,980)	12,270	N/A
Gas cost variances	7,800	–	(3,900)	3,900	1
	102,330	17,880	(19,970)	100,240	

Regulatory deferral account credit balances

<i>Electricity distribution</i>					
Land disposal	–	19,000	–	19,000	10
Income tax	6,360	3,207	(1,093)	8,474	1–10
<i>Gas distribution</i>					
Gas cost variances	600	4,000	(200)	4,400	2–3
Income tax	3,180	1,603	(547)	4,236	1–10
Decommissioning costs	66,330	(2,030)	(2,450)	61,850	3–20
	76,470	25,780	(4,290)	97,960	

Notes:

- (1) Construction costs consist of costs that are not permitted to be included in the cost of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.
- (2) Other regulatory accounts include regulatory deferral account debit balances that are individually immaterial.