STAFF PAPER

June 2019

IASB® Meeting

Project	**Comprehensive Review of the *IFRS for SMEs*® Standard**		
Paper topic	New IFRS Standards—IFRS 14 *Regulatory Deferral Accounts*		
CONTACT(S)	Matt Tilling	mtilling@ifrs.org	+44 (0) 20 7246 6438
	Michelle Sansom	msansom@ifrs.org	+44 (0) 20 7246 6963

Purpose

1. At this meeting we are asking Board members if the Request for Information, that will be issued as part of the 2019 Comprehensive Review of the *IFRS for SMEs* Standard, should seek views on not aligning the requirements of the *IFRS for SMEs* Standard with IFRS 14 *Regulatory Deferral Accounts*.

2. The objective of the Request for Information is to obtain evidence that will assist the Board in deciding whether and how to develop an Exposure Draft of amendments to the *IFRS for SMEs* Standard.

Summary of staff recommendations

3. The staff recommends that the Board seek views in the Request for Information, on not aligning the *IFRS for SMEs* Standard with IFRS 14.

Structure of this paper

4. This paper is structured as follows:

   (a) background (paragraphs 5–10);

      (i) overview of IFRS 14 *Regulatory Deferral Accounts* (paragraphs 5–8);

   (ii) regulatory deferral accounts in the *IFRS for SMEs* Standard (paragraph 9);

   (iii) the 2012 Comprehensive Review of the *IFRS for SMEs* Standard (2012 Review) (paragraph 10);

(b) applying the alignment principles (paragraphs 11–23);

   (i) principle 1—relevance (paragraphs 13–20);

   (ii) principle 2—simplicity (paragraphs 21–22);

   (iii) principle 3—faithful representation (paragraph 23);

(c) stakeholder views (paragraphs 24–25); and

(d) question for the Board.

Background

Overview of IFRS 14 Regulatory Deferral Accounts

5. IFRS 14 addresses regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

6. The scope of IFRS 14 is limited—the Standard can only be applied by an entity that:

   (a) is a first-time adopter of IFRS Standards;

   (b) conducts rate-regulated activities;[1] and

   (c) recognises amounts that qualify as regulatory deferral account balances in its financial statements in accordance with the generally accepted accounting principles (GAAP) it used previously.

[1] In IFRS 14 Appendix A, rate-regulated activities are defined as activities subject to a ‘framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator’.

7. A regulatory deferral account balance is the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other IFRS Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator for establishing the rate(s) that can be charged to customers.[2]

8. IFRS 14 permits an entity within its scope to continue to account for regulatory deferral account balances in its financial statements in accordance with the GAAP it used previously when it adopts IFRS Standards, subject to specific requirements related to the presentation of those balances.

Regulatory deferral accounts in the IFRS for SMEs *Standard*

9. There is no section in the *IFRS for SMEs* Standard equivalent to IFRS 14. Entities applying the *IFRS for SMEs* Standard cannot recognise regulatory deferral account balances, even if they had recognised them prior to adoption of the *IFRS for SMEs* Standard.

The 2012 Comprehensive Review of the IFRS for SMEs Standard (2012 Review)

10. The Board issued IFRS 14 in January 2014, and therefore it was not considered during the 2012 Review.

Applying the alignment principles

11. At its May 2019 meeting (Agenda Paper 30A), the Board decided that to determine whether to align the *IFRS for SMEs* Standard with new and amended IFRS Standards, it would apply three principles:

    (a) relevance;

    (b) simplicity; and

[2] IFRS 14 Appendix A.

(c) faithful representation.

12. The following paragraphs apply the alignment principles to assist the Board in determining whether to align the *IFRS for SMEs* Standard with IFRS 14.

Principle 1—Relevance

Do entities within the scope of the IFRS for SMEs *Standard conduct rate-regulated activities?*

13. The Board, in the Basis for Conclusions on the *IFRS for SMEs* Standard, noted that in many jurisdictions entities that provide public services such as refuse collection, water supply and even local power generation or distribution, can be very small[3] and fall within the scope of the *IFRS for SMEs* Standard. These entities could be subject to rate regulation as it is not uncommon for rate regulation to apply to public services such as water or electricity supply.

Scope of IFRS 14

14. As noted above, IFRS 14 can only be applied by entities adopting IFRS Standards for the first time. If the Board were to amend the *IFRS for SMEs* Standard to align it with IFRS 14, the amendments would only apply to recognised regulatory deferral account balances recognised in accordance with the GAAP used previously at the time of adoption.

15. The *IFRS for SMEs* Standard is applied in 86 jurisdictions worldwide, with a further nine jurisdictions considering adoption.

16. When issuing IFRS 14 the Board expressed the view that it would:[4]

    (a) remove a major barrier to the adoption of full IFRS Standards by entities for which regulatory deferral account balances represent a significant proportion of net assets; and

---

[3] *IFRS for SMEs* Standard, paragraph BC61.

[4] Basis for Conclusions on IFRS 14, paragraph BC20.

(b) reduce the risk of entities adopting locally developed carve-ins or carve-outs.

17. Although entities within the scope of the *IFRS for SMEs* Standard may engage in rate-regulated activities, to the knowledge of the staff, the absence of accounting requirements for such activities is not a barrier to entities adopting the *IFRS for SMEs* Standard.

The Board's project on Rate-regulated Activities

18. The Board has an active project on rate-regulated activities that is likely to result in IFRS 14 being replaced. The Board expects to develop a Standard that will require rate-regulated entities to provide information about rights to add amounts, and obligations to deduct amounts, in determining the future rates to be charged to customers as a result of goods or services already supplied. That information will supplement the information provided by applying IFRS 15 *Revenue from Contracts with Customers*. It will provide users of financial statements with clearer and more complete information about the financial performance, financial position and prospects for future cash flows of such companies.

Staff analysis

19. While entities subject to rate-regulation may be within the scope of the *IFRS for SMEs* Standard and hence the topic may be relevant, the staff thinks other factors outweigh any benefits of alignment. The staff takes the view that:

(a) IFRS 14 may be replaced as a result of the Board's current project on rate-regulated activities. Therefore, any change to the *IFRS for SMEs* Standard might apply for only a limited time. The Board has previously stated the *IFRS for SMEs* Standard should provide a stable platform.

(b) IFRS 14 only applies to entities applying full IFRS Standards for the first time. If this scope is adopted in the *IFRS for SMEs* Standard, the number of entities affected by the amendments is likely to be limited.

(c) IFRS 14 permits deferred regulatory balances to be carried forward—it does not itself prescribe accounting requirements. The staff is concerned that allowing an entity applying the *IFRS for SMEs* Standard to carry forward requirements from the GAAP it previously applied could erode the benefits of using a single, concise accounting standard.

(d) choosing not to align the Standards would not harm users of financial statements since IFRS 14 applies only to first-time adopters.

20. Consequently, the staff does not recommend aligning the *IFRS for SMEs* Standard with IFRS 14. The Request for Information provides the Board with an opportunity to seek stakeholders' views on this position.

Principle 2—Simplicity

21. Should the Board disagree with the staff and conclude that IFRS 14 is relevant, the staff do not believe simplification would apply.

22. IFRS 14 permits an entity to continue applying the accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances it used in accordance with the GAAP it applied previously.[5] Consequently, the staff's view is that simplifications would not be possible.

Principle 3—Faithful representation

23. The staff does not recommend aligning the *IFRS for SMEs* Standard with IFRS 14. The staff believes that this will not impede the usefulness of information in the financial statements prepared in accordance with the *IFRS for SMEs* Standard given the vast majority of entities will not transitioning to the *IFRS for SMEs* Standard.

[5] IFRS 14 paragraph 11.

Stakeholder views

24. We have received no feedback recommending aligning IFRS 14 with the *IFRS for SMEs* Standard.

25. Neither the Asian-Oceanian Standard-Setters Group (AOSSG) survey on the *IFRS for SMEs* Standard[6] nor the UK Financial Reporting Council's triennial review[7] of FRS 102[8] considered IFRS 14.

Question for the Board
Board members are asked if they agree with the recommendation to seek views, in the Request for Information, on: (a) not aligning the *IFRS for SMEs* Standard with IFRS 14.

[6] AOSSG, *Report of AOSSG Survey on the IFRS for SMEs Standard*, 2018.

[7] FRC, *Feedback Statement: Consultation Document—Triennial review of UK and Ireland accounting standards—Approach to changes in IFRS*, June 2017.

[8] FRS 102 is a Standard based on the *IFRS for SMEs* Standard.