IFRS

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STAFF PAPER

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IASB® meeting

Project	**Rate-regulated Activities**		
Paper topic	Amendments to other IFRS® Standards		
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Purpose of this paper

1. The purpose of this paper is to analyse the relationship between the requirements of the accounting model for regulatory assets and regulatory liabilities (model) and the requirements of other IFRS Standards, and summarise the staff's conclusions as to whether:
   (a) any amendments are required to these other Standards; or
   (b) application guidance should be developed to provide clarity on how the model would be applied alongside the requirements of these other Standards.
2. This paper does not address IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which is addressed in Agenda Paper 9C *Transition*.

Summary

3. The staff have concluded that no further amendments to other Standards or additional application guidance are needed, beyond those which the Board has already tentatively decided to propose.

Structure of this paper

4. This paper is structured as follows:

   (a) Background (paragraphs 5-6);

   (b) The Board's tentative decisions (paragraphs 7-10); and

   (c) Further analysis (paragraphs 11-32).

Background

5. The Board discussed the relationship between the model and other IFRS Standards at its meetings in:

   (a) July 2018—two specific presentation issues were discussed (government grants and transfers of assets from customers)[1]; and

   (b) November 2018—staff presented an analysis assessing whether the requirements or guidance for the interactions between IFRS 14 *Regulatory Deferral Accounts* and other Standards should be carried forward into the model.[2]

6. However, both analyses were somewhat targeted in their scope and did not consider, more generally, the need for amendments to other IFRS Standards as a result of decisions made by the Board in the development of the model, or for application guidance on how the model is applied alongside the requirements of other Standards. Therefore, staff committed to bringing back a more comprehensive analysis on whether amendments or application guidance are required—this paper sets out this analysis.

The Board's tentative decisions

7. In its development of the model, the Board has made tentative decisions that will require amendments to other IFRS Standards (paragraphs 8-9) and has identified one

[1] Agenda Paper 9C July 2018
[2] Agenda Paper 9B November 2018

area requiring application guidance on the application of the model alongside the requirements of another Standard (paragraph 10).

Amendments to other IFRS Standards

8. In order to reflect the decisions made by the Board in developing the model, amendments will be required to the following Standards**:**

   (a) IFRS 3 *Business Combinations*—at its July 2019 meeting, the Board tentatively decided that, as an exception to the recognition and measurement principles of IFRS 3, an entity should recognise and measure regulatory assets acquired and regulatory liabilities assumed in a business combination in accordance with the recognition and measurement requirements of the model;

   (b) IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*—in November 2018, the Board tentatively decided that the measurement requirements of IFRS 5 should not be applied to regulatory assets;

   (c) IAS 1 *Presentation of Financial Statements*—in November 2018 the Board tentatively decided to require presentation of regulatory assets, regulatory liabilities and regulatory income or regulatory expense as separate line items in the statements of financial position and financial performance respectively, in addition to the line items required by IAS 1[3]; and

   (d) IAS 36 *Impairment of Assets*—in November 2018, the Board also tentatively decided that the measurement requirements of IAS 36 should not be applied to regulatory assets because the measurement requirements of the model eliminate the need for a specific impairment test.

9. The staff see no reason to revisit these tentative decisions made by the Board.

Application guidance

10. In November 2018, the Board tentatively decided that the model should include application guidance about its interaction with IAS 12 *Income Taxes*, similar to that

[3] We do not expect the Primary Financial Statements Project to affect this decision.

provided by paragraph B10 of IFRS 14.[4,5] The staff conclude that the need for this application guidance remains and will be important to avoid diversity in practice—therefore we do not propose revisiting this decision.

Other items for which neither amendments nor application guidance are required

11. For all other Standards not explicitly discussed in *The Board's tentative decisions* section above, staff have concluded that the overlap between the model and these other Standards will be limited in complexity and frequency, and therefore **we have not identified a need for amendments to other Standards or for application guidance** on how the requirements of the model are applied alongside the requirements of these other Standards.

12. Four specific areas where staff considered, but ultimately rejected, the need for amendments or application guidance were:

    (a) IFRS 12 *Service Concessions Arrangements* (paragraphs 13-19);

    (b) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (paragraphs 20-25);

    (c) IAS 34 *Interim Financial Reporting* (paragraphs 26-28); and

    (d) IAS 19 *Employee Benefits* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (paragraphs 29-32).

IFRIC 12 Service Concession Arrangements

13. IFRIC 12 *Service Concession Arrangements* addresses the accounting by operators for public-to-private service concession arrangements in which the grantor controls any

[4] Paragraph 14 of IFRS 14 *Regulatory Deferral Accounts* states: '*In some rate-regulatory schemes, the rate regulator permits or requires an entity to increase its future rates in order to recover some or all of the entity's income tax expense. In such circumstances, this might result in the entity recognising a regulatory deferral account balance in the statement of financial position related to income tax, in accordance with its accounting policies established in accordance with paragraphs 11–12. The recognition of this regulatory deferral account balance that relates to income tax might itself create an additional temporary difference for which a further deferred tax amount would be recognised.*'

[5] Refer to paragraphs 54-59 of Agenda Paper 9B for that meeting for this discussion.

significant residual interest in the infrastructure at the end of the contract and regulates:

(a) what services the operator provides with the infrastructure;

(b) to whom services must be provided; and

(c) the price to be charged for the services.

14. The revenue for all services provided by the operator of a service concession arrangement is accounted for in accordance with IFRS 15 *Revenue from Contracts with Customers*. The consideration received in exchange for construction or upgrade services may be rights to:

(a) a financial asset if there is an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor (financial asset model); or

(b) an intangible asset if there is a right to charge users of the public service that is not an unconditional right to receive cash (intangible asset model).

15. Revisiting the requirements of IFRIC 12 is beyond the scope of this project.

16. All service concession arrangements within the scope of IFRIC 12 are subject to some form of rate regulation, as the grantor regulates the price to be charged for the services. Thus, many stakeholders have asked how the requirements of IFRIC 12 would interact with the model; however, these questions were largely raised before the model was developed. Subsequently, the model has been developed as a *supplementary* model—that is, an entity applies other IFRS Standards, including IFRIC 12, without modification first before applying the model.

17. A service concession arrangement where consideration for the construction or upgrade services is accounted for as a right to a financial asset will not result in regulatory assets or regulatory liabilities, as any right(s) to future cash flows will already be recognised as part of the financial asset.

18. However, we understand that some service concession arrangements may be within the scope of the model if consideration for the construction or upgrade services is accounted for as a right to an intangible asset.

19. Determining whether the terms of a service concession arrangement give rise to rights or obligations meeting the definitions of regulatory assets or regulatory liabilities will be highly dependent on the contractual terms of the particular arrangement as well as other facts and circumstances. However, making that determination will not involve considering factors significantly different from those that will need to be considered by other entities applying the model, and as a result, staff conclude that no specific application guidance is required on how to apply the model to a service concession arrangement.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

20. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* permits an entity to choose, when accounting for grants related to assets:

    (a) a net presentation approach; ie to deduct the grant in arriving at the carrying amount of the asset; or

    (b) a gross presentation approach; ie to recognise the asset at its full cost in accordance with IAS 16 *Property, Plant and Equipment* and recognise a grant liability.

21. When a regulated entity receives a government grant to (partly) fund the construction of an asset (eg plant) that will be used to supply regulated goods or services, the regulatory agreement deducts the grant from the regulatory carrying amount of the asset. This means that the entity cannot include (fully) the depreciation of the plant in the future rate(s) charged to customers when it delivers regulated goods or services using the plant. Some entities may prefer to use the net presentation approach in IAS 20 to be consistent with the regulatory accounting treatment.

22. When a regulated entity receives funding from customers in advance for the construction of an asset (eg plant), the regulatory agreement deducts the prefunded customer income from the regulatory carrying amount of the asset, in the same way as it deducts government grant income. On the other hand, applying the model, an entity would measure the plant initially at its construction cost in accordance with IAS 16 and would recognise a regulatory liability for the prefunding from customers, leading to a presentation similar to the gross presentation approach in IAS 20.

23. In July 2018, the staff presented an analysis to the Board (Agenda Paper ref 9C) indicating our view that it may be undesirable to have different approaches to presenting assets such as plant, particularly when construction of a single asset may be funded partly from a government grant and partly by payments in advance from customers. We considered that in such situations, presentation of government grants on a gross basis might result in more comparable or useful financial information.

24. However, as the model has evolved since this time, the Board has confirmed its *supplementary* nature—that is, the model is generally applied only after an entity has applied other IFRS Standards, without modification and in line with its existing accounting policies.

25. Therefore, the staff now conclude that it is beyond the scope of this project to impose a requirement on how an entity should apply IAS 20 before it applies the model, merely to enable consistency with one of the outcomes of the model. Thus, we do not recommend an amendment to IAS 20, or specific application guidance, for this item.

IAS 34 Interim Financial Reporting

26. Some respondents to the exposure draft preceding IFRS 14 requested additional guidance on the application of IAS 34 *Interim Financial Reporting*, specifying the need for separate line items for regulatory deferral account balances and movements in them in a condensed set of interim financial statements.

27. At that time, the Board was not persuaded that additional guidance was necessary.[6] Paragraph 10 of IAS 34 requires that condensed interim financial statements 'shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard.' In addition, paragraphs 15-15A of IAS 34 require that an entity shall include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity.

28. The staff conclude that the existing requirements of IAS 34, combined with the presentation and disclosure requirements of the model, are sufficient to provide users

[6] Paragraph BC60 of IFRS 14.

with relevant information to understand the regulatory assets, regulatory liabilities and regulatory income or regulatory expense recognised.

IAS 19 Employee Benefits *and IAS 37* Provisions, Contingent Liabilities and Contingent Assets

29. Paragraph 116(a) of IAS 19 *Employee Benefits* specifies that when it is 'virtually certain' that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset measured at fair value.

30. Similarly, paragraph 54 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specifies that when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, and it is 'virtually certain' that reimbursement will be received if the entity settles the obligation, the reimbursement shall be recognised as a separate asset and the expense related to the provision may be presented net of the amount recognised for a reimbursement.

31. The staff considered whether there is a need for further application guidance on whether such rights to reimbursement by another party are within the scope of the model, and thus could lead to conflicts with the model's measurement requirements. The staff conclude that there is no need for such guidance. This is because, in the same way the model does not characterise an entity's right to make an adjustment to the future rate(s) as a right to receive cash, the model does not characterise that right as a right to reimbursement.[7]

32. Therefore, a right to reimbursement which is virtually certain, if present, would be recognised in accordance with the requirements of IAS 19 or IAS 37, prior to the application of the model. There would be no conflict between the measurement and presentation requirements of those Standards and those of the model.

[7] See paragraph 20 of AP9A discussed at the June 2019 Board meeting.

Question for the Board

Other items for which neither amendments nor application guidance are required
1. Do Board members agree with the staff's conclusion that no further amendments or application guidance are needed?