



## Rate-regulated Activities

Accounting Standards Advisory Forum  
6 December 2013

22. Sitzung IFRS-FA am 04.12.2013  
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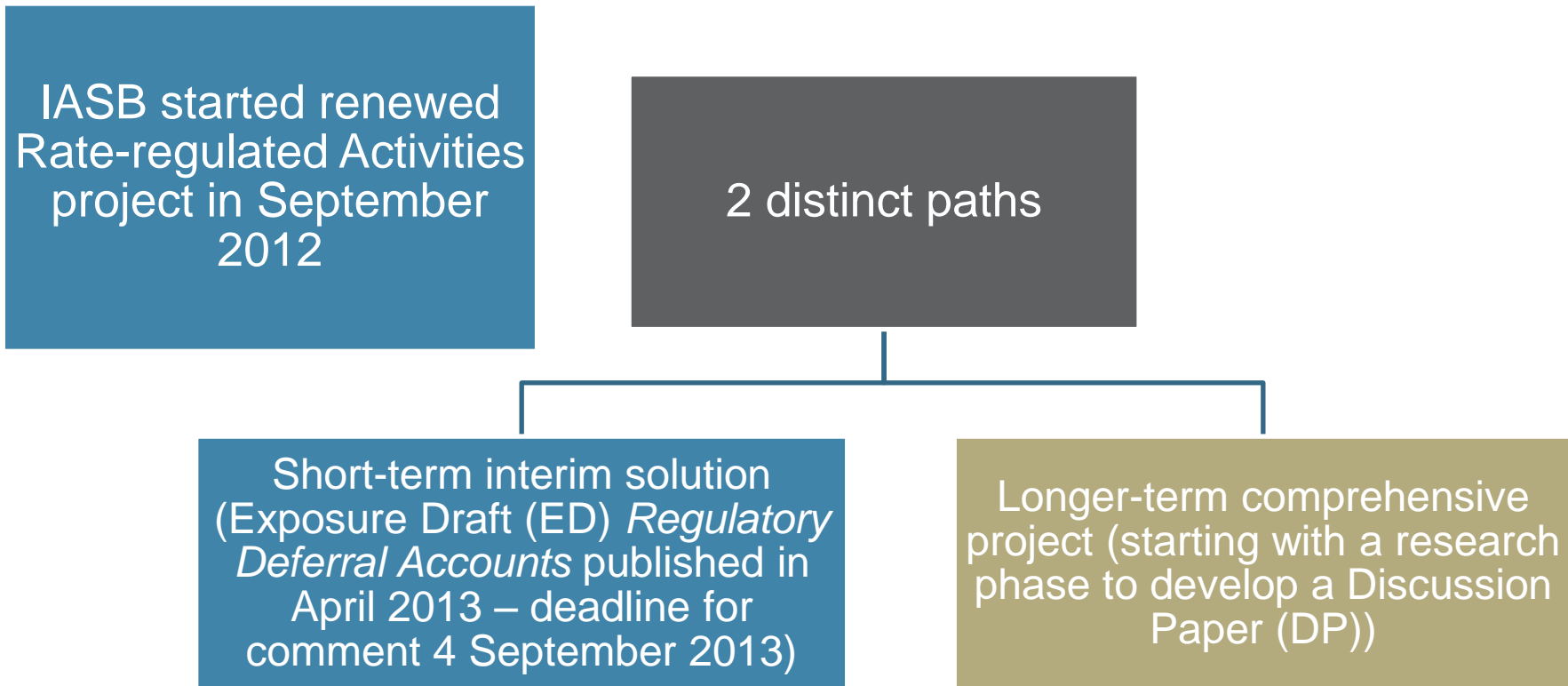
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- The IASB's Rate-regulated Activities projects
- Issues to be addressed in the Discussion Paper
- Preliminary analysis of assets and liabilities
  - Features of rate regulation
  - Focusing on the primary feature
- Q&A

# Previous Rate-regulated Activities project

- 2009 ED proposed that regulatory balances should be recognised as assets and liabilities for certain (cost-of-service) types of rate regulation
  - Responses split between:
    - Large majority of responses from utilities industry expressed support in principle for recognition but disagreement with the scope and measurement proposals
    - Other responses were split evenly between support and opposition
- Opponents argued that regulatory balances do not meet the IFRS definitions of assets/liabilities
- IASB could not reach consensus on fundamental issues so suspended the project in September 2010
- Responses to 2011 Agenda Consultation recommended restarting the project to try to find a solution

# The new Rate-regulated Activities project



# Interim solution: ED Regulatory Deferral Accounts

Interim solution  
proposes:

- to permit first-time adopters of IFRS to continue to recognise regulatory balances in accordance with their existing local GAAP (recognition and measurement)
- to require the impact of recognising regulatory balances to be isolated in order to allow direct comparison with rate-regulated entities that do not recognise regulatory balances (presentation and disclosure)

**Interim IFRS to be issued in  
Q1 2014**

More research is needed on the nature of different types of rate regulation

- Request for Information-*Rate Regulation* (issued in March 2013)
- IASB Consultative Group established (first meeting July 2013)

Responses will feed into the DP:

- what information about the effects of rate regulation are most useful to users
- does rate regulation create assets/liabilities (links to restarted Conceptual Framework project)

# Issues to be addressed in the DP\*

- What do we mean by “rate regulation” and should we define it?
- What should be the scope of any guidance on Rate-regulated Activities?
- **Do any of the rights and obligations created by rate regulation meet the definitions of assets and liabilities in the IFRS *Conceptual Framework*?**
- If so, what type of asset, liability or combination of assets and liabilities are created?

\*These issues were identified by the IASB in the December 2012 meeting (see Agenda Paper 6A).

# Issues to be addressed in the DP

(Continued:)

- For any assets or liabilities identified, what are the relative advantages and disadvantages of alternative accounting models for recognition and measurement?
- How should any regulatory assets and regulatory liabilities recognised be presented in the financial statements?
- What disclosures are needed to help users understand the impact of rate regulation on the financial position, performance and cash flows of the rate-regulated entity?
- If the conclusion is that rate regulation does not create additional assets and liabilities to be recognised, what information about the rate regulation needs to be presented, and how should this be done?



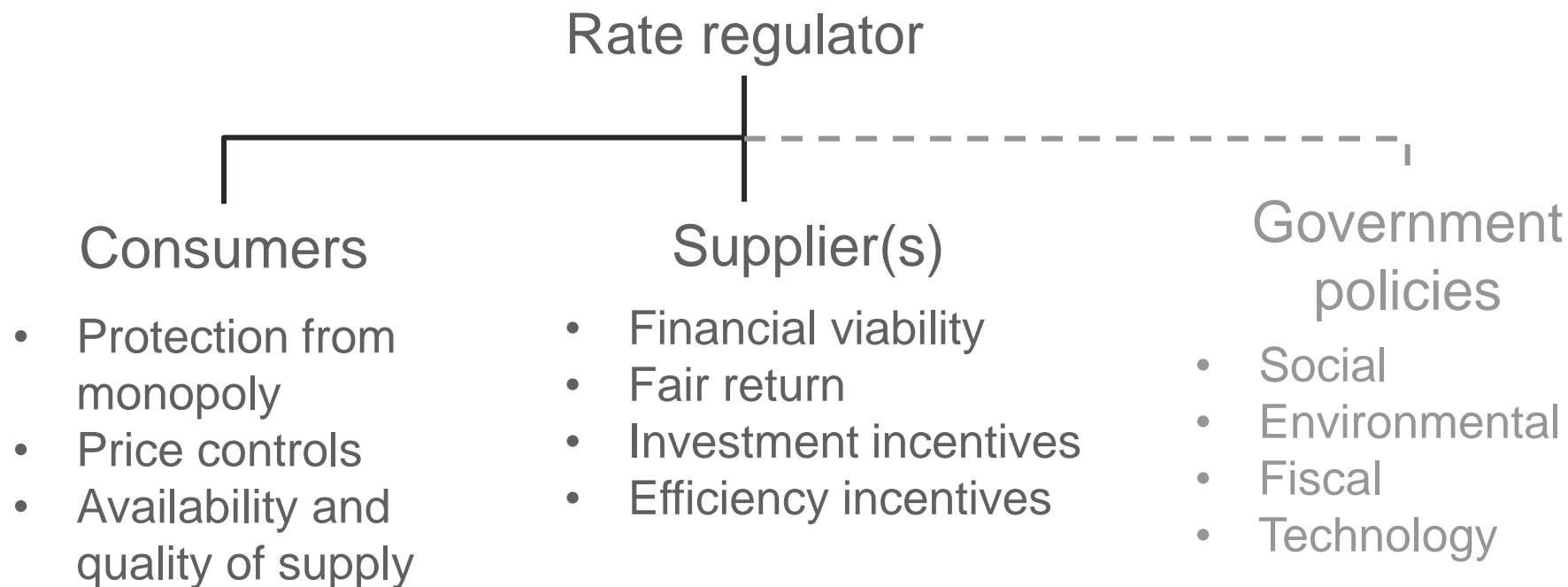
# Preliminary analysis of assets and liabilities

Do any of the rights and obligations created by rate regulation  
meet the definitions of assets and liabilities in the IFRS  
Conceptual Framework?

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# Objectives of rate regulation

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# Common features (1)

- Authority of rate regulator is established by statute
- Rates must balance interests of consumers and supplier
- Rights and obligations of supplier are enforceable
- Rate regulation supports monopoly supplier
  - explicit licence
  - other barriers to competition
- Supplier has obligations to maintain supply
  - “essential” goods/services
  - quality and availability of supply
  - supply to all on demand

# Common features (2)

- Rate regulation establishes prices (rates)
  - limits negotiation with customers
  - prices require approval of rate regulator
  - price reflects “**revenue requirement**”
- Rate-regulatory mechanism provides strong assurance about certainty of future cash flows that relate to past events
  - objective mechanism
  - ‘true-up’ adjustment
  - price inelasticity
  - low demand risk

## Primary feature

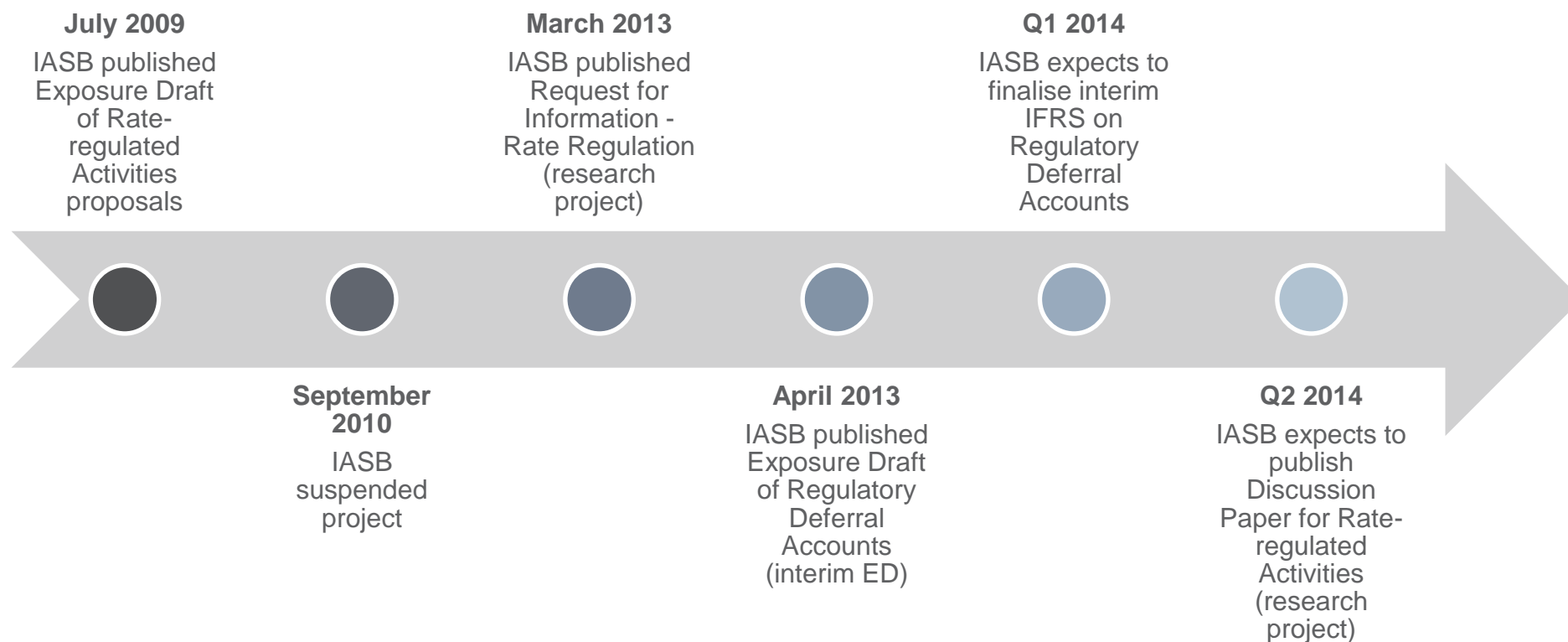
- “revenue requirement” – ie the right to earn a determinable amount of revenue during the regulatory period
  - reflected through the use of a ‘true-up’ adjustment

## Supporting features

- authorised rate regulator
  - supported by statute or other regulations
- obligations to maintain availability and quality of supply
- exclusive or near-exclusive right to supply
- essential or near-essential goods/services

- The staff's preliminary view is that the “**revenue requirement**”, ie the right to earn a determinable amount of revenue during the regulatory period, reflected through the use of a ‘true-up’ adjustment, does represent a right or obligation of the entity that is capable of resulting in the transfer of economic benefits to or from the entity.
- Consequently, we think that:
  - when the regulatory ‘true-up’ adjustment is positive, an asset exists; and
  - when the regulatory ‘true-up’ adjustment is negative, a liability exists.

# Rate-regulated activities project timeline



# Where to go for more information

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- Rate-regulated Activities project page on the IFRS website
  - <http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Pages/Rate-regulated-activities-landing.aspx>

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# Thank you

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