

Project ***Rate-regulated Activities***

Topic **Other matters**

Purpose of this agenda paper

1. This agenda paper provides information on other matters (not separately discussed in other agenda papers) related to the RRA project for the Board's consideration.
2. This paper should be read in conjunction with the other agenda papers 11–11H of the July 2010 Board meeting to assist the Board in its deliberations of the *Rate-regulated Activities* project.
3. This paper includes:
 - (a) requests for an interim standard; and
 - (b) next steps.

Requests for an interim standard

Current guidance

4. The August 2005 IFRIC Agenda Decision makes clear that an entity with activities subject to rate regulation should recognise only assets that qualify for recognition in accordance with the Framework and other IFRSs. That Agenda Decision states (emphasis added):

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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IAS 38 Regulatory asset

The IFRIC considered a request for guidance for operations subject to price regulation. The request concerned situations in which a regulatory agreement allowed the entity to increase its prices in future years to recover outflows of economic resources during the current or previous years. The IFRIC was asked whether US SFAS 71 *Accounting for the Effects of Certain Types of Regulation* could be applied under the hierarchy in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for selection of an accounting policy in the absence of specific guidance in IFRSs.

The IFRIC observed that it had previously discussed whether a regulatory asset should be recognised in the context of service concession arrangements, either as deferred costs or as an intangible asset to reflect an expectation that the entity will recover these costs as part of the price charged in future periods. It had concluded that entities applying IFRSs should recognise only assets that qualified for recognition in accordance with the IASB's Framework for the Preparation and Presentation of Financial Statements and relevant accounting standards, such as IAS 11 Construction Contracts, IAS 18 Revenue, IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets.

The IFRIC had noted that SFAS 71 required entities to recognise regulatory assets when certain conditions were met. However, the IFRIC had concluded that the recognition criteria in SFAS 71 were not fully consistent with recognition criteria in IFRSs, and would require the recognition of assets under certain circumstances which would not meet the recognition criteria of relevant IFRSs. Thus the requirements of SFAS 71 were not indicative of the requirements of IFRSs.

Since it already had concluded that the special regulatory asset model of SFAS 71 could not be used without modification, the IFRIC noted that expenses incurred in performing price-regulated activities should be recognised in accordance with applicable IFRSs and decided not to add a project on regulatory assets to its agenda.

5. Since that time, all four of the largest international accounting firms have published firm guidance taking into consideration the IFRIC Agenda Decision published in August 2005. [Some of this guidance was previously provided in Appendix F to Paper 7 of the February 2010 Board meeting. The staff notes that all of this referenced guidance was published prior to the Board's addition of the RRA project onto its active agenda in December 2008. As noted in the February 2010 Board meeting, the comment letters received from each of these international accounting firms provides direct views on the Board's active RRA project.]
6. Despite this guidance from the IASB and other sources and the fact that 'divergence does not seem to be significant in practice' as specified in the March 2009 IFRIC Agenda Decision, some constituents have requested the Board

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consider changing current IFRS requirements. These constituents believe that the current IFRS requirements do not accurately represent the financial position and performance of entities with activities subject to rate regulation.

Background to requests

7. As of the posting of this paper, in addition to the numerous comment letters received on the RRA ED, the staff has received several additional formal and informal forms of correspondence.
8. The IASB organisation directly (or indirectly through letters addressed to the Director of Implementation Activities or the Practice Fellow responsible for this project) has received several formal and informal forms of correspondence requesting either the timely finalisation of the comprehensive RRA project or the finalisation of an interim standard addressing rate-regulated activities until the comprehensive project may be finalised.
9. These constituents note that an interim standard that will permit entities adopting IFRSs to continue to apply their previous national GAAP that requires, subject to certain criteria, the recognition of regulatory assets and liabilities for entities that are subject to rate regulation until the Board is able to reach a consensus on this RRA project. Specifically, these requests reference the adoption of IFRSs in Canada starting 1 January 2011 for entities with a calendar year end (who therefore have an opening statement of financial position as at 1 January 2010). Many of these entities have interim reporting requirements and will therefore present their first (interim) financial statements prepared in accordance with IFRSs for the period ended 31 March 2011.
10. Many of these requests acknowledge the Board's significant commitments to complete the projects included in the Memorandum of Understanding. In light of these significant commitments and Canada's impending adoption of IFRSs, many of these requests provide an interim solution for consideration by the Board. References to IFRS 4 *Insurance Contracts* have been made as precedence when the Board has issued an 'interim standard' until the related comprehensive project could be finalised.

Issues for consideration

11. Issues for consideration by the Board in determining if an interim standard is appropriate in these circumstances include:
- (a) the timing of an interim standard including:
 - (i) the deliberation of the issue for publication as an exposure draft;
 - (ii) the appropriate length of the comment letter period;
 - (iii) the analysis and deliberation of comments received on the exposure draft of an interim standard; and
 - (iv) finalisation, balloting and issue of a final interim standard;
 - (b) the Board and staff resources required to finalise an interim standard as compared to committing the same resources towards progressing the comprehensive RRA project;
 - (c) concluding on the technical merits supporting the key issue of the appropriateness of the recognition of regulatory assets and liabilities in financial statements prepared in accordance with IFRSs; and
 - (d) concluding on the appropriate transition provisions including whether entities currently applying IFRSs would be permitted to use the last version of their previous/ national GAAP that existed prior to the adoption of IFRSs or whether only first-time adopters making a comprehensive change in accounting standards would be permitted to continue the use of previous GAAP for the accounting treatment of regulatory assets and liabilities. For example, would German entities be permitted or required to apply the 2004 German GAAP in their 2010 IFRS financial statements?

Staff recommendation

12. In the staff's opinion, prior to issuing a final 'interim' standard, the Board would need to deliberate and conclude on several issues that are all related to the key issue for the comprehensive RRA project. The staff are also aware of the Board's overall work plan. Given the timing and effort involved, the staff

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believes it is more efficient for the Board to continue working on the comprehensive RRA project

Next steps

Short-term focus

13. The next steps for this project depend on the conclusions reached during this Board meeting and the Board’s requests of the staff. The staff propose to either focus on:
- (a) preparing an analysis of the issues required to publish an exposure draft of an interim standard, or
 - (b) preparing an analysis of additional aspects of the current RRA ED with a focus based on the decisions taken by the Board at this meeting on the key issue of recognition of regulatory assets and liabilities. The additional issues to be redeliberated include: recognition, measurement, presentation, disclosure, transition and effective date.

Project timetable

14. The staff’s current estimate of the project timetable to complete the comprehensive RRA project, assuming the project proceeds and taking account of the logistical considerations described above:

Q3 2010–Q4 2010	Redeliberation of individual technical issues based on comment letters received.
Q4 2010–Q1 2011	If necessary, re-exposure period of exposure draft.
Q2 2011–Q3 2011	If necessary, redeliberation of comment letters received on re-exposed exposure draft.
Q3/Q4 2011	Issue of final standard.