
Project ***Rate-regulated Activities***

Topic **Cover note**

Purpose of this agenda paper

1. This paper is a cover note and introduces the analysis provided by the Board on the *Rate-regulated Activities* project to address the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current Framework for the Preparation and Presentation of Financial Statements (Framework) and whether they are consistent with other current IFRSs. This paper provides:
 - (a) **background information** for the Board; and
 - (b) the **layout of agenda papers** on this topic.

Background information

Background

2. The *Rate-regulated Activities* project was added to the Board's agenda in December 2008 as a result of the staff's request of the Board to consider whether it was appropriate to recognise regulatory assets and liabilities in financial statements prepared in accordance with IFRSs. Prior to the Board adding this project to its agenda, the IFRS Interpretations Committee (the Committee) had deliberated related issues on two separate occasions:
 - (a) **August 2005 IFRIC Agenda Decision** 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

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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circumstances which would not meet the recognition criteria of relevant IFRSs’.

- (b) **March 2009 IFRIC Agenda Decision** [November 2008 Tentative Agenda Decision tentatively] concluded that ‘currently, divergence does not seem to be significant in practice’ and ‘resolving the issue would require interpreting the definitions of assets and liabilities set out in the *Framework* and their interaction with one or more IFRSs.’
3. The Board’s deliberations occurred in the first half of 2009 and concluded with the publication of an exposure draft in July 2009:
 - (a) December 2008 – Board agenda proposal [[Paper 12](#)]
 - (b) February 2009 – Scope [[Paper 9](#)]
 - (c) April 2009 – Recognition and measurement; presentation and disclosures [[Paper 9](#), [Paper 9A](#), [Paper 9B](#), [Paper 9C](#)]
 - (d) May 2009 – Measurement; costs of self-constructed assets; disclosures [[Paper 9](#), [Paper 9A](#), [Paper 9B](#)]
 - (e) June 2009 – First-time adoption; recoverability and impairment of regulatory assets [[Paper 12](#)]
 4. The comment letter deadline on the exposure draft was November 2009. In February 2010, the Board reviewed a summary comment letter analysis of the 155 comment letters received. [[Paper 7](#)]
 5. At the February 2010 meeting, the Board directed the staff to focus on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current *Framework for the Preparation and Presentation of Financial Statements* (Framework) and whether they are consistent with other current IFRSs.
 6. These papers for the July 2010 Board meeting provide the Board with additional information and analyses to assist the Board in answering that key issue.

Material amounts

7. As a consequence of the application of FAS 71 and its related guidance, ‘The US investor owned utility industry estimates that the combined balances of

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regulatory assets and regulatory liabilities in the US are \$675 and \$475 billion, respectively.¹ This results in a net regulatory asset balance of approximately \$200 billion. Given the recognition and measurement criteria in FAS 71, this means that approximately \$200 billion of net costs have been incurred in prior periods, but have been deferred and removed from the statement of comprehensive income as the entities have determined their respective regulators will permit an increase in future rates to recover these costs.

8. In summary, the decisions made by the Board to either require or preclude recognition of regulatory assets and liabilities will have a material impact to the financial statements of many entities.

Layout of agenda papers

9. These papers (in agenda paper topic 11 of the July 2010 Board meeting) provide information requested by the Board at its February 2010 meeting regarding the *Rate-regulated Activities* project (RRA). Specifically, these papers provide information to permit the Board to analyse the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current *Framework for the Preparation and Presentation of Financial Statements* (Framework) and whether they are consistent with other current IFRSs.

¹ Edison Electric Institute (as referenced in the ‘Application of IFRS to rate regulations in North American utilities companies’ available at http://www.pwc.com/en_US/us/utilities/assets/2008_utilities_ifrs_north_america.pdf)

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10. This analysis is divided into several papers as follows:
 - (a) Paper 11 (this paper) – Cover note;
 - (b) Paper 11A – Staff summary and questions for the Board;
 - (c) Paper 11B – Analysis of regulatory environments;
 - (d) Paper 11C – Analysis of scope (unit of account);
 - (e) Paper 11D – Comparison of RRA project to current IFRSs;
 - (f) Paper 11E – Comparison of RRA project to other current IASB projects;
 - (g) Paper 11F – Results of outreach efforts;
 - (h) Paper 11G – Analysis of scope (required application of RRA to non-utility entities); and
 - (i) Paper 11H – Other project matters.
11. The individual papers attempt to segregate individual issues for more precise analysis. However, the staff acknowledges the significant level of interaction among the individual technical issues and the staff advise that the papers within this Topic 11 of the July Board meeting should be read as one comprehensive analysis.