

## STAFF PAPER

April 2018

## Accounting Standards Advisory Forum

| Project     | Rate-regulated Activities |                 |                     |
|-------------|---------------------------|-----------------|---------------------|
| Paper topic | Cover note                |                 |                     |
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This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum. The views expressed in this paper do not represent the views of the International Accounting Standards Board (the Board) or any individual member of the Board. Comments on the application of IFRS<sup>®</sup> Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB<sup>®</sup> *Update*.

**Purpose of the session**

1. The purpose of this session is to:
  - (a) update ASAF members on the Board's tentative decisions to date for the new accounting model we are developing for defined rate regulation (the model); and
  - (b) outline the rationale for those decisions and obtain your views about how we can best communicate that rationale.

**Structure of the session**

2. At this session we would like to discuss with ASAF members the following papers and matters:
  - (a) Agenda Paper 1A—Unit of account and asset/liability definitions (paragraphs 3–5);
  - (b) Agenda Paper 1B—Scope (paragraphs 6–7); and
  - (c) Communicating the model's rationale (paragraphs 8–9)

## Agenda Paper 1A—Unit of account and asset/liability definitions

3. The content of this paper substantially reproduces Agenda Paper 9A *Unit of account and asset/ liability definitions* from the Board’s February 2018 meeting. Changes to the content have been restricted to:
  - (a) replacing slide 2 (objectives of Board session) with a new contents list;
  - (b) updating the note to slide 8 to confirm the Board will discuss scope criteria in its March 2018 meeting; and
  - (c) removing the questions to the Board from slides 16, 21 and 25.
4. The Board used the paper to discuss the following matters:
  - (a) the model’s focus on the incremental rights and obligations arising from a regulatory agreement of the type under discussion. The incremental rights and obligations are those created when an entity fulfils regulatory service requirements in a period different from that in which those service requirements are charged to customers through the regulated rate (slides 3–11);
  - (b) what unit of account would provide the most useful information to users of financial statements about the incremental rights and obligations arising from the regulatory agreement (slides 12–16); and
  - (c) whether the incremental rights and obligations meet the definitions of an asset and a liability in the forthcoming revised *Conceptual Framework for Financial Reporting (Conceptual Framework)* (slides 17–25).
5. The Board tentatively decided that:
  - (a) the accounting model will use as its unit of account the individual timing differences that create the incremental rights and obligations arising from the regulatory agreement.
  - (b) the present regulatory right—to charge a rate increased by an amount as a result of past events—meets the definition of an asset in the *Conceptual Framework*.

- (c) the present regulatory obligation—to provide goods or services at a rate reduced by an amount as a result of past events—meets the definition of a liability in the *Conceptual Framework*.

## Agenda Paper 1B—Scope

6. ASAF members have commented on how the scope of the model could be defined. In particular, some have expressed concerns about whether the scope could be defined in a way that would prevent unregulated or self-regulated entities from using the model for earnings management. Agenda Paper 1B shows how the scope definition has evolved from the publication of the Exposure Draft *Rate-regulated Activities* in 2009; the publication of the Discussion Paper *Reporting the Financial Effects of Rate Regulation* in 2014; and the most recent discussions with the Board in March 2018.<sup>1</sup>
7. At the time this paper was finalised, the Board had not discussed the staff's proposals for the scope of the model. We will update ASAF members orally about any tentative decisions made by the Board resulting from that discussion.

## Communicating the model's rationale

8. During the World Standard-setters conference held in September 2017, we gathered feedback on various aspects of the model. This highlighted questions and concerns that some participants raised, which were summarised in an 'IASB to do list'.<sup>2</sup> The list is reproduced in the left-hand column of the table below. We are looking to incorporate responses to those questions and concerns as we develop the rationale for the model. The right-hand column of the table provides comments or references to Agenda Papers 1A and 1B that address these questions or concerns.

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<sup>1</sup> The Board will discuss Agenda Paper 9B *Scope of the model*. This paper can be found at: <http://www.ifrs.org/-/media/feature/meetings/2018/march/iasb/ap9b-rate-regulated-activities.pdf>

<sup>2</sup> The feedback received at the World Standard-setters conference was presented to the Board in its October 2017 meeting. The feedback is contained in Agenda Paper 9A *Reporting case study feedback*, which can be found at: <http://www.ifrs.org/-/media/feature/meetings/2017/october/iasb/rate-regulated-activities/ap9a-reporting-case-study-feedback.pdf>

| IASB To do list   | Comments  |
|---|---|
| <ul style="list-style-type: none"> <li>• Be clear on <b>why different</b> from similar contracts</li> </ul>   | See slides 4–9 of Agenda Paper 1A   |
| <ul style="list-style-type: none"> <li>• Be clear on <b>why IFRS 15 does not apply</b></li> </ul>   | See slides 10–11 of Agenda Paper 1A   |
| <ul style="list-style-type: none"> <li>• Be clear on what the <b>asset and liability actually are:</b> <ul style="list-style-type: none"> <li>– <b>right to charge</b> more, and the <b>obligation to charge</b> less, as opposed to</li> <li>– the <b>customer base</b>, an <b>onerous contract</b>, or an <b>obligation to deliver</b> a product</li> </ul> </li> </ul> | See slides 14–16, 18 and 22 of Agenda Paper 1A  |
| <ul style="list-style-type: none"> <li>• Be cautious of <b>perception</b> (outcome versus concepts)</li> </ul>  | We are using the <i>Conceptual Framework</i> to develop proposals/ conclusions for each aspect of the model—see, for example, slides 14, 20–21, and 24–25 of Agenda Paper 1A  |
| <ul style="list-style-type: none"> <li>• Be clear on <b>what performance is</b></li> </ul>  | This is covered in part by the identification of incremental rights and obligations linked to fulfilment of regulatory service requirements in Agenda Paper 1A. It will be considered further when the Board discusses measurement.         |
| <ul style="list-style-type: none"> <li>• Highlight effect of <b>changes in Concepts</b></li> </ul>  | The Board is not looking to the existing Framework but is instead focusing on using the revised <i>Conceptual Framework</i> .   |
| <ul style="list-style-type: none"> <li>• <b>Executory contract and timing</b></li> </ul>  | The contents of Agenda Paper 1A clarify that the model is not accounting for an executory contract to exchange economic resources. The incremental rights and obligations arise only when a past transaction or event has already occurred. |

| IASB To do list  | Comments   |
|--|--|
| <ul style="list-style-type: none"> <li>• <b>Presentation considerations</b></li> </ul> | The Board will consider presentation and disclosure in the future. |
| <ul style="list-style-type: none"> <li>• <b>Scoping is important</b></li> </ul>        | See Agenda Paper 1B  |

9. As the development of the model progresses, we are considering preparing communication materials to help stakeholders understand the main aspects of the model, including the conceptual basis supporting them.

### Questions for ASAF members

#### Questions for ASAF members

1. Agenda Paper AP1A provides the rationale for the Board's tentative decisions about unit of account and origination of regulatory assets and regulatory liabilities (paragraph 5). Are there other aspects to include either in a Discussion Paper or in the Basis for Conclusions on an Exposure Draft for the model?
2. Is the definition of 'defined rate regulation' in slide 7 of Agenda Paper 1B sufficiently clear to enable entities to identify whether they have activities within the scope of the model?  
  
If not, are there matters in this definition that need further clarification?
3. Given the rationale in Agenda Paper 1A and the scoping definition in Agenda Paper 1B, what type of communication materials would you advise us to develop to support stakeholders?  
  
In those materials, what specific aspects of the model would you advise we focus on?

### Next steps

10. The Board will discuss proposals for the measurement requirements of the model before deciding whether to publish an Exposure Draft or a Discussion Paper as the next consultation document for the project.