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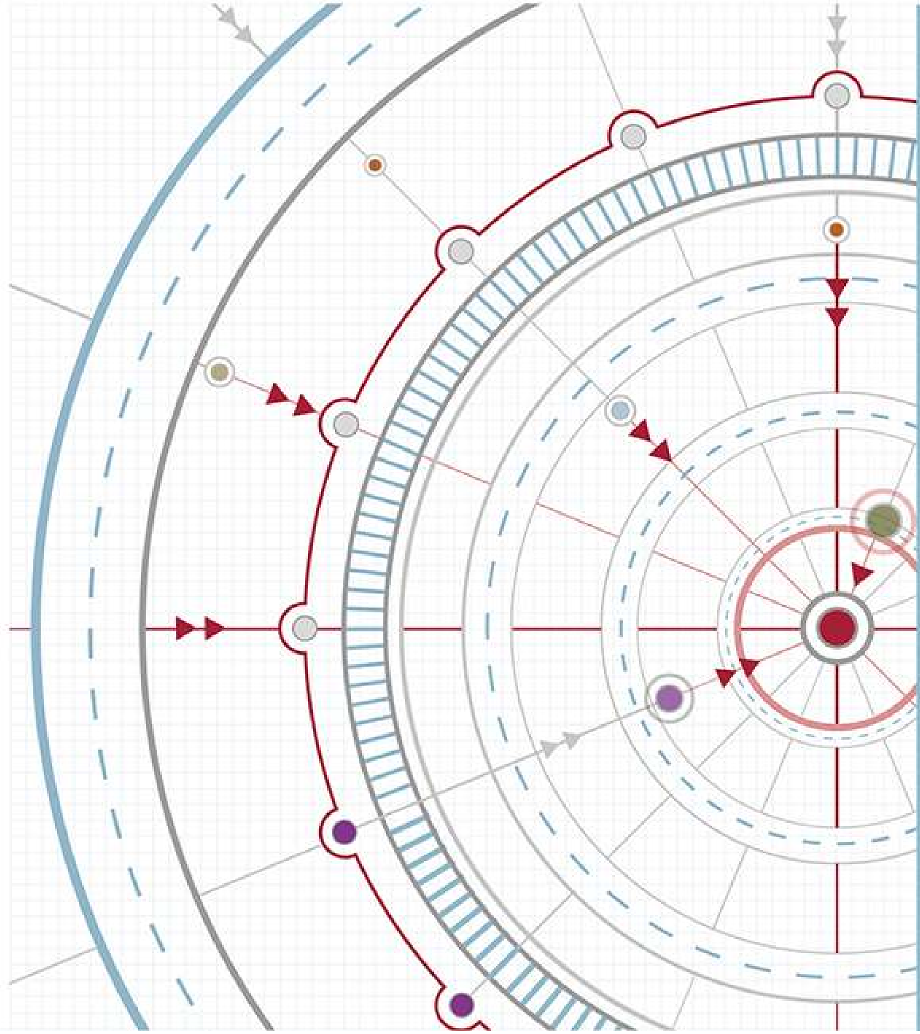
AP 9F



IASB Meeting—June 2019

Rate-regulated Activities US GAAP Comparison

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

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Purpose of this document

- Many entities that currently recognise regulatory balances in their general purpose financial statements prepared using IFRS Standards do so by applying US GAAP or GAAP based on US GAAP.
- The proposed IFRS accounting model for rate-regulated activities is similar in many ways to US GAAP, but differs in some key respects.
- The purpose of this slide deck is to provide a high-level summary of these key differences.

Contents

Overall model

Proposed IFRS model

- Focus on rights and obligations incremental to those reported using IFRS 15
- Supplementary approach—other standards apply without modification

US GAAP

- Overrides some other standards to align financial accounting with regulatory accounting
- Primarily a cost deferral approach

- Both attempt to reflect the economic effects on financial reporting of timing differences caused by rate regulation

Scope

Proposed IFRS model

- Focus on the total allowed compensation an entity becomes entitled to for goods or services supplied in the period as a result of a binding regulatory agreement

US GAAP

- Rates must be designed to recover costs of service
- Focus on *ability* to recover costs in order to apply the model (the proposed IFRS model considers this in its recognition and measurement criteria)

- Uncertainty regarding recovery can call into question whether an entity should apply either model
- Both require the presence of a binding regulatory agreement

Recognition

Proposed IFRS model

- Recognise if right or obligation exists
  - When existence is uncertain, recognise if 'more likely than not' that right or obligation exists

US GAAP

- Capitalise incurred costs as a regulatory asset if they are 'probable' of recovery through rates
- Generally only considers 'incurred costs' (those paid or payable in cash) with some specific exceptions as noted on the following slide
- Goodwill allowable in rates accounted for as a regulatory asset and amortised

- In both models, regulatory assets are consumed as the amounts are recovered through the rates; if recovery is no longer probable the amount is written-off

Recognition (continued)

US GAAP (exceptions to incurred costs criteria)

- Specific exceptions provided by US GAAP to only recognising ‘incurred costs’ include:
  - Capitalisation of allowance for funds used during construction (AFUDC) during the construction period*
  - Alternate revenue (eg incentive) programs recognised only in restrictive circumstances
  - Recognises intragroup profits on sales from unregulated to regulated entities

** AFUDC includes an equity component, equity costs do not meet the definition of an incurred cost.*

Measurement

Proposed IFRS model	US GAAP
• Measure at discounted estimate of future cash flows (including any regulatory interest or return provided) • Update at each reporting date • No need for separate requirements on impairment—covered by cash flow estimation and update process	• Measure at amount of incurred costs – with, in most scenarios, no resulting regulatory interest and no discounting • Specific guidance for discounting in limited circumstances (eg abandoned plants) • Delayed recovery as a result of phase-in plans generally not recognised as a regulatory asset

- In both models, explicit and implicit disallowances are recognised immediately

Other items

Proposed IFRS model	US GAAP
• Recognises incentive (bonus or penalty) amounts when earned or incurred	• Specific guidance around discontinuation and reapplication of regulatory accounting • Regulatory offset for pension liabilities if certain conditions are met

- Similar outcomes for decommissioning and environmental liabilities if Board accept staff recommendation for measurement exception in Agenda Paper 9C
- Advance billings presented as a liability

Presentation and disclosure comparison

Proposed IFRS model

- Presentation as a separate line item below revenue (regulatory income / expense)*
- Does not adjust revenue or expenses
- Specified disclosure requirements

* *June 2019 Agenda Paper 9F discusses two potential presentations for items impacting OCI*

US GAAP

- Net presentation in profit or loss (ie allowable expenses entitled to be included in future rates are netted off respective line item)
- Adjustments can be made to revenue (eg revenue subject to refund, advance billings)
- Presentation of items in OCI also follows the netting approach
- Limited disclosure requirements

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