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Re: DP/2014/2 Reporting the Financial Effects of Rate Regulation

Dear Françoise,

We are pleased to have the opportunity to provide our comments to the Discussion Paper, *DP/2014/2 Reporting the Financial Effects of Rate Regulation*.

We welcome that the IASB is taking into consideration the matter of the rate-regulated activities (RRA), and believe that the DP is a good starting point to progress the debate on whether developing specific guidance for the accounting for rate-regulated activities into IFRS Financial Statements. The DP may result useful in solving the difference in views among those who believe that a regulatory asset (liability) does not meet the definition of asset (liability) in the current Framework, because the regulatory asset does not represent a resource controlled by the entity since the regulator cannot ensure the demand and those who are convinced that there is a consistency between the Framework and the recognition of regulatory assets/liabilities. To this end we believe that it is fundamental that the IASB complete the Conceptual Framework before finalizing the project on Rate Regulations.

We support the focus on a particular type of rate regulation referred to as 'defined rate regulation' as defined in the DP. We agree that narrowing the scope of this project may help the IASB to understand whether the economic impacts of rate regulation on a limited range of entities may trigger the development of specific accounting guidance to produce financial information that users need.

We also agree that ‘defined rate regulation’ forms a good basis to identify which features of rate-regulatory schemes distinguish rate-regulated activities from other commercial activities and create a combination of rights and obligations. Accordingly, in our view, what is relevant in further developing the project is the focus on rights and obligations that entities running rate-regulated activities have because of the rate-setting mechanism in force.

In the developments of the project we believe that the IASB should consider the following points:

- The accounting standard should establish the unit of account for the recognition of regulated asset and liabilities. This may be identified either on the single contract with a customer or on the entire contractual relationship with the users of the service;

- It should be clear that recognition of regulated assets or liabilities is only possible if they meet the relevant definitions established by the Conceptual Framework. To this regard we note that the IASB is currently reviewing the Conceptual Framework, therefore we do not expect that the issue of accounting for rate regulated activities can be defined before the new Conceptual Framework is finalized;

- Any accounting principle developed should move from consistency with existing standards, in particular IFRS 15, IAS 37 and IAS 38, considering how the determination of the unit of account affects the application of these standards;

- The accounting standard should necessarily evaluate interactions with other existing standards and interpretations. This is especially valid for IFRIC 12, which establishes accounting standard for the Service Concession Arrangements that may meet the definition of rate regulation under the DP. We understand that although IFRIC 12 determines how to recognize right to charge users of the public service and a potential standard on rate regulation would establish how to recognize a right (obligation) to increase (decrease) the tariffs, there may be areas of overlapping. In determining, in accordance with IFRIC 12, the fair value of the right to charge users of the public service as a consequence construction or upgrade services provided, an entity may consider the consequential increase or decrease of future tariffs. In these circumstances if the entity, according to the potential standard on rate regulations, recognises separately the right (obligation) to increase (decrease) the tariffs risks either to account for the same rights twice in the financial statement or to have a day one impairment on the intangible asset recognized under IFRIC 12. For these reasons we suggest the IASB to carefully evaluate if there may be set limit to apply any forthcoming standard on rate regulation for entities that fall within the scope of IFRIC 12.

OIC supports a principle-based approach that arises from the application of concepts defined in the IFRS Framework. In case specific recognition criteria for rate regulated activities could be established, because it would give rise to the recognition of unreliable values in the financial statements, the outcome of the project could be limited to enhance disclosures related to rights and obligations arising from the regulated activities.

In relation to the other alternative approaches illustrated in the DP, we believe that it is not appropriate assimilate a regulated asset to a right of license, because it does not represent a right to operate but a right to increase rates in the future. In addition we do not support an accounting approach that would generally prohibit the recognition of regulatory assets and liabilities, given that in some circumstances the definition of assets and liabilities of the framework may be satisfied. Moreover we agree that reporting using regulatory accounting requirements would imply that the IASB provides an exemption to the general requirements of IFRS to enable rate-regulated entities to apply regulatory accounting requirements that would otherwise conflict with IFRS. Such a conflict would be not acceptable.

Finally OIC supports IASB observations that some disclosure requirements could be developed in order to solicit more feedback about their usefulness to users of IFRS financial statements. However, we appreciate that a balance needs to be achieved between the needs of users for information about the financial effects of rate regulation on an entity's operations with concerns about obscuring the understandability of financial statements and high preparation costs that can result from excessive disclosures.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)