

STAFF PAPER

13–14 November 2012

IFRS Interpretations Committee Meeting

Project	IAS 18 Revenue, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and IAS 39 Financial Instruments: Recognition and Measurement		
Paper topic	Regulatory assets and liabilities		
CONTACT(S)	Kenichi Yoshimura	kyoshimura@ifrs.org	+44 (0)20 7246 6905

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. 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. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction

1. In March 2012, the IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether a regulatory asset or regulatory liability should be recognised in a particular situation in which a regulated entity is permitted to recover costs, or required to refund some amounts, independently of the delivery of future services.
2. In the May 2012 and July 2012 meetings, the Interpretations Committee discussed this issue. In the meetings, the Interpretations Committee did not address technical questions described in the submission. However, it tentatively decided not to add this issue to its agenda, primarily because:
 - (a) This issue is too broad for the Interpretations Committee to address within the confines of existing IFRSs and the Conceptual Framework, taking into consideration the fact that in the previous IASB project for Rate-regulated Activities, the IASB had concluded that the issue could not be resolved quickly; and
 - (b) In May 2012, in its deliberation related to standards-level projects for the near future, the IASB unanimously supported giving priority to developing a standards-level proposal for Rate-regulated Activities.

3. The objective of this Agenda Paper is to provide the Interpretations Committee with the staff's analysis on the comment letters received on the tentative agenda decision reached by the Interpretations Committee in the July 2012 meeting and to provide the Interpretations Committee with updates on the recent developments in the IASB's standards-level project for Rate-regulated Activities. This Agenda Paper also includes the staff's recommendation for the Interpretations Committee to finalise its agenda decision, with some proposed changes to the wording of the tentative agenda decision.

Summary of comment letters

4. The comment period for the tentative agenda decision ended on 17 September 2012 and two responses¹ were received. Both of the respondents support the tentative agenda decision for the reasons provided in the decision. However, one respondent² states that their support is subject to the IASB actually giving priority to developing standards-level proposals for rate-regulated activities in accordance with the decision at the May 2012 IASB meeting.
5. Consequently, we analyse in the following paragraphs developments in the IASB's project for Rate-regulated Activities after the May 2012 meeting.

Updates on the Rate-regulated Activities project of the IASB

6. In the September 2012 meeting, the IASB discussed its initial views on developing a plan for a standards-level project for Rate-regulated activities. The IASB considered whether the project should include the publication of a Discussion Paper. The IASB also discussed whether an interim IFRS should be developed in the shorter term, including different options for such an interim IFRS if the IASB were to decide to develop one. As a result of the deliberations, the IASB decided to restart the project with aiming to develop a Discussion Paper

¹ AcSB and Deloitte

² Deloitte

in the second half of 2013. At that meeting, the IASB was not asked to make a decision on whether to develop an interim IFRS.

7. The IASB expects to continue to discuss the Rate-regulated Activities project plan later in the year when it will make a decision on whether or not to develop an interim IFRS.

Staff recommendation

8. Taking into consideration the views received on the tentative agenda decision and the status of the ongoing IASB project for Rate-regulated activities, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda. However, we propose changes to the wording of the tentative agenda decision as illustrated in Appendix A to this Agenda Paper, to reflect the current developments in the IASB's project.

Question to the Interpretations Committee

Question for the interpretations Committee

1. Does the Interpretations Committee agree with the staff recommendation in paragraph 8?
2. If the Interpretations Committee agrees with the staff recommendation, does the Interpretations Committee agree with the proposed changes to the rejection wording in Appendix A?

Appendix A—Proposed wording for final agenda decision

A1. The staff propose the following wording for the final agenda decision (new text is underlined and deleted text is ~~struck through~~):

IAS 18 Revenue, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 39 Financial Instruments: Recognition and Measurement—Regulatory assets and liabilities

The IFRS Interpretations Committee received a request seeking clarification on whether a regulatory asset or regulatory liability should be recognised in a particular situation in which a regulated entity is permitted to recover costs, or required to refund some amounts, independently of the delivery of future services. Specifically, the submitter asked two questions for the accounting under this situation:

- Can the population of customers be regarded as a single unit of account?
- If the population is a single unit of account, is it acceptable to recognise an asset or liability?

The Interpretations Committee did not address the two specific questions in the submission. However, regarding the question of the recognition of regulatory assets and liabilities generally, the Interpretations Committee noted that it discussed in 2005 the subject of whether or not it would be appropriate to recognise a regulatory asset. At that time the Interpretations Committee concluded that an entity should recognise only assets that qualify for recognition in accordance with the IASB's conceptual framework and with relevant IFRSs such as IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The Interpretations Committee noted that there have been no major changes made to these IFRSs that warrant revisiting this issue since the Interpretations Committee reached that conclusion.

The Interpretations Committee also noted that, in the IASB's project on Rate-regulated Activities, the IASB had concluded that the issue could not be resolved quickly, and had therefore included requests for views on future plans for this project in its Agenda Consultation published in July 2011. In addition, the Interpretations Committee noted that in September 2012 the IASB started to discuss its plan for the new Rate-regulated Activities project following its decision in May 2012 to give priority to developing a standards-level proposal for Rate-regulated activities. At the September 2012 meeting, the IASB decided to develop a Discussion Paper for this project which it expects to publish in the second half of 2013. even though there is no active IASB project on Rate-regulated Activities, in the IASB's May 2012 meeting, the IASB unanimously supported giving priority to developing a standards-level proposal for Rate-regulated activities in its deliberation related to standards-level projects for the near future.

Given the position reached by the IASB in its last project on this subject, the Interpretations Committee observed that this issue is too broad for the Interpretations Committee to address within the confines of existing IFRSs and the conceptual framework. Consequently, for this reason, and because the IASB has recently resumed a comprehensive project for Rate-regulated Activities in which the IASB expects to publish a Discussion Paper in the second half of 2013~~expressed support for developing a standards-level project for Rate-regulated Activities in the near future~~, the Interpretations Committee ~~[decided]~~ not to add this issue to its agenda.

September 5, 2012

(by e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

**Re: Tentative agenda decision on IAS 18 *Revenue*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 39 *Financial Instruments: Recognition and Measurement*—
Regulatory assets and liabilities**

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on whether a regulatory asset or regulatory liability should be recognised in a particular situation in which a regulated entity is permitted to recover costs, or required to refund some amounts, independently of the delivery of future services. Specifically, the Committee was asked the following two questions for the accounting under this situation:

- Can the population of customers be regarded as a single unit of account?
- If the population is a single unit of account, is it acceptable to recognise an asset or liability?

This tentative agenda decision was published in the July 2012 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda, for the reasons provided in the tentative agenda decision. Further, we applaud the removal of the statement, appearing in the May 2012 IFRIC Update, that recognition of regulatory assets and liabilities would generally not be in accordance with the IASB's conceptual framework. Such a statement preempts the deliberations almost certainly to be undertaken by the International Accounting Standards Board on that issue as part of the standards-level project on rate-regulated activities it hopefully adds to its agenda soon.

Should you have any questions about this letter, please contact me at +1 416 204-3276 (e-mail peter.martin@cica.ca) or Karen Jones, Principal, Accounting Standards, at +1 416 204-3463 (e-mail karen.jones@cica.ca).

Yours truly,

A handwritten signature in black ink that reads "Peter Martin". The signature is written in a cursive, slightly slanted style.

Peter Martin, CA
Director,
Accounting Standards

Copy: Kathryn Ingram

Mr Wayne Upton
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@ifrs.org

5 September 2012

Dear Mr Upton,

Tentative agenda decision: IAS 18 Revenue, IAS 38 Intangible Assets and IAS 39 Financial Instruments: Recognition and Measurement – Regulatory assets and liabilities

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the July 2012 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for interpretation of whether a regulatory asset or regulatory liability should be recognised when a regulated entity is permitted to recover costs or required to refund some amounts, independently of the delivery of future services.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision subject to the Board giving priority to developing standards-level proposals for rate-regulated activities in accordance with the decision at its May 2012 meeting.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,



Veronica Poole
Global IFRS Leader
Technical