



Australian Government

Australian Accounting Standards Board

AASB 23-24 September 2009
Agenda Paper 10.3 (tabled)

IASB Exposure Draft ED/2009/8 RATE-REGULATED ACTIVITIES

Education Session
24 September 2009



Overview

- Background on Project
- Summary of ED
- Comparison to US GAAP
- Effects on Australian Entities
- Comments from Constituents
- Questions for Board



Background on Project

- US GAAP: SFAS 71 *Accounting for the Effects of Certain Types of Regulation*
- Canadian practice = US GAAP
- IFRIC rejections 2005 and 2008
- IASB added RRA to agenda in Dec 2008
- IASB issued ED/2009/8 comment by 20 Nov 2009
- AASB issued ED 185 comment by 9 Oct 2009



Scope

- Narrow scope intended
- The ED specifically addresses RRAs that meet the following two criteria:
 - (a) An authorised body establishes the price the entity must charge and that price binds the customer
 - (b) The price established by regulation is designed to:
 - recover the specific costs the entity incurs in providing the regulated goods or services; and
 - earn a specified return



Recognition

- An entity shall recognise:
 - (a) A **regulatory asset** for its right to recover specific previously incurred costs and to earn a specified return, or
 - (b) A **regulatory liability** for its obligation to refund previously collected amounts and to pay a specified returnwhen it has the right to increase or the obligation to decrease rates in future periods as a result of the actual or expected actions of the regulator



Measurement

- Initial and subsequent Measurement: at expected present value
- Including:
 - Estimate of future cash flows
 - Estimate of the probability of each outcome
 - Time value of money
 - The price for bearing the uncertainty inherent in the regulatory asset/liability



Recoverability

- Determine whether it is reasonable to assume that rates set at levels that will recover the entities costs can be collected from customers
- If not the entity tests the CGU in which the regulatory assets and regulatory liabilities are included for impairment (IAS 36)



Other Proposals

- Each reporting period – assess scope and expected cash flows
- Recognise regulatory assets/liabilities after other IFRSs
- Include in other assets, costs that could be recognised under this ED if highly probable
- Derecognise when scope not met
- Disclose separately
- Offset – only for same regulator for same class asset/liability



Disclosures

- For each set of operating activities subject to a different regulator:
 - If the regulator is a related party
 - An explanation of the approval process
 - Indicators that management considered in scope assessment
 - Significant assumptions used to measure the expected present value
 - The risk and uncertainties affecting the future recovery



Disclosures (Cont...)

- For each category of regulatory asset or liability recognised that is subject to a different regulator:
 - A reconciliation from opening to closing carrying amounts
 - Remaining period over which entity expects to recover regulatory asset or settle regulatory liability
 - The amount of financing costs included in self constructed property that IAS 23 would not have allowed for capitalisation



Basis for Conclusions

- Analogy to IAS 11
- Asset = right to recover costs
- Control
- Liability = obligation to refund
- Analogy IAS 37



Comparison to US GAAP

- **SFAS 71 vs. ED/2009/8**
 - Scope: Additional point in scope re uncertainty (ie uncertainty dealt with by recognition, rather than measurement)
 - 100% costs on balance sheet
 - Derecognition vs. Impairment



Effects on Australian Entities

- Generally Australian entities use ‘building block’ approach to set a price-cap
- Price-cap is not the price the entity **MUST** charge
- Capex included (asset base v forward spend)
- Opex included (historic cost used in forecast)
- Current practice – mixed



Comments from Constituents

- Mixed views on agreeing with conclusions
- Cost burden
- Are our entities in scope?
- Very balance sheet focused – P&L info lost?
- Impairment
- RRA in other assets – which measurement base?
- Argument hinges on certainty over Customer pool
- Monopoly/Essential item
- Contingent asset/liability



Questions for Board

- *Does board agree asset/liability exists under framework?*
- *Is the scope right – should all RRA be caught?*
- *Prefer US GAAP approach to recognition/measurement?*
- *Other questions/points?*