Australian Government
Australian Accounting Standards Board

Memorandum

To:	AASB Members	Date:	2 July 2013
From:	Kala Kandiah	Agenda Item:	15.1 (M132)
Subject:	IASB proposals: Regulatory Deferral Accounts	File:	

Action

Subject to consideration of any further comments that might be received from AASB constituents, form preliminary views on the proposals in IASB ED/2013/5 *Regulatory Deferral Accounts*, and decide on an approach for finalising the AASB's comment letter to the IASB.

Attachments

Agenda paper 15.2 – AASB ED 240 *Regulatory Deferral Accounts*, which incorporates IASB ED/2013/5.

Background

1. The International Accounting Standards Board (IASB) published ED/2013/5 *Regulatory Deferral Accounts* in April 2013, proposing an interim standard to allow entities that currently recognise regulatory assets and regulatory liabilities in accordance with their previous GAAP to continue to recognise the effects of rate regulation under IFRS until the comprehensive Rate-regulated Activities project is completed.

2. The IASB states that the objectives of the proposed interim Standard are to:

   (a) enhance the comparability of financial reporting by reducing barriers to the adoption of IFRS by entities with rate-regulated activities until guidance is developed through the IASB's comprehensive Rate-regulated Activities project; and

   (b) ensure that users of financial statements will be able to identify clearly the amounts of regulatory deferral account balances, and movements in those balances, in order to be able to compare the financial statements of entities that recognise such balances in accordance with the interim Standard against the financial statements of entities that do not recognise such balances

3. AASB ED 240 incorporates IASB ED/2013/5. Comments on ED 240 are due by 5 August 2013. At the time of writing this memo, no submissions have been received on ED 240. AASB staff will provide a verbal update if any submissions are received. Comments

to the IASB on ED/2013/5 are due by 4 September 2013 and therefore the forthcoming July 2013 AASB meeting represents the only practical time for the Board as a whole to consider the ED.

Overview of proposals

4. ED/2013/5 proposes an interim standard that:

   (a) permits (but does not require) an entity that adopts IFRS to continue to use its previous GAAP accounting policies as accepted in their local jurisdiction for the recognition, measurement and impairment of regulatory deferral account balances;

   (b) requires entities that adopt (a) to present regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as a separate line item in the statement of profit of loss and other comprehensive income; and

   (c) requires specific disclosures by the entities that adopt the option in (a) to identify clearly the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances.

Scope

5. If adopted, according to paragraph 7 of the ED, the proposals would only apply to first-time adopters of IFRS that apply IFRS 1 *First-time Adoption of International Financial Reporting Standards* where:

   (a) an authorised body restricts the price that the entity can charge its customers for the goods and services that the entity provides, and that price binds the customers; and

   (b) the price established by the regulation is designed to recover the entity's allowable costs of providing the regulated goods or services.

   Where these criteria are met, an entity is permitted to continue applying its previous GAAP accounting policies for regulatory deferral accounts. The proposals do not permit entities that did not recognise regulatory deferral account balances immediately prior to the application of IFRS 1 to begin to recognise such balances on adoption of IFRS, even if the other criteria are met.

Preliminary staff views

6. Staff do not expect the proposed interim standard, if it were to be incorporated into Australian Accounting Standards, would have an impact on entities in Australia as the standard could conceivably only affect entities that adopt Australian Accounting Standards for the first time and have recognised regulatory deferral account balances under previous GAAP accounting policies. Staff understand that rate-regulated entities in Australia that previously recognised regulatory deferral account balances in their financial statements in accordance with previous GAAP did not continue to recognise such balances when they transitioned to IFRS in 2005.

7. On a conceptual basis, staff are concerned that the proposals allowing rate-regulated entities to recognise regulatory account balances when adopting IFRS would introduce inconsistent accounting treatment into IFRS reporting. Staff are of the view that, if adopted, the proposals would reduce comparability between entities that apply the proposals to use previous GAAP

and entities that already apply IFRS or do not wish to apply the proposals. The proposals would also result in lack of comparability between entities that apply the relief provided in the proposals, as they may follow different previous GAAPs for their regulatory deferral account balances. Although the ED requires entities to isolate the impact of recognising regulatory deferral account balances by presenting them separately, staff are of the view that presentation and disclosure are not sufficient to mitigate the effects of inconsistency in application of IFRS and lack of comparability between entities, consistent with paragraph 82 of the Conceptual Framework.

8. Staff note that one of the objectives of the IASB for proposing the interim standard is to reduce the barriers to the adoption of IFRS for entities with rate-regulated activities until guidance is developed through the IASB's comprehensive Rate-regulated Activities project. Staff do not agree with this approach as this could result in the IASB setting a precedent of:

   (a) introducing additional interim standards for first-time adopters of IFRS to encourage transition to IFRS; and

   (b) implementing a policy of adopting an interim solution whenever a major standard-setting project is activated.

9. Staff acknowledge that the interim standard proposed by the IASB ED is similar to the interim approach taken in IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* that enables entities to continue with their previous GAAP, with limited improvements, pending the development of a comprehensive IFRS. However, the experience with IFRS 4 and IFRS 6 suggests that 'interim' could mean an inappropriate considerable period of time.

10. Staff also acknowledge that IFRS 1 provides relief to first time adopters of IFRS from restating the accounting treatment of certain items (for example borrowing costs) from previous GAAP to IFRS. However staff note that most IFRS 1 reliefs are merely intended to provide a suitable starting point for subsequently accounting for the items in accordance with IFRS. Accordingly, it would appear that the proposed interim standard is inconsistent with most reliefs provided in IFRS 1.

11. Staff would prefer that the IASB maintain its objective of requiring high-quality, transparent and comparable information in financial statements by requiring like transactions and events to be accounted for and reported in a like way rather than provide interim solutions to entities, contrary to the IASB objective, simply to encourage them to adopt IFRS.

12. The staff views noted above are consistent with the Alternative Views of 3 out of 16 IASB members who voted against issuing the ED.

Process for finalising Board submission

13. Although the proposed interim standard is not expected to have an impact on entities in Australia, staff recommend that the AASB write a submission to the IASB conveying its views on the proposals and answering all the questions in the IASB ED. Staff believe that this would help the IASB make a decision as to whether it should proceed with introducing an interim standard for entities with rate-regulated activities. Further, if the IASB decides to proceed with the interim standard, providing comments on the scope, recognition and measurement, disclosure and transition of the proposed interim standard would assist the IASB in developing the standard.

14. Staff recommend, subject to the nature of any responses that might be received from constituents, the submission be finalised out-of-session via the Chairman. If any substantial issues are raised by constituents, staff will bring these to the attention of the Board out-of-session.

Questions to Board members:

1. Do you agree with staff's preliminary views in paragraph 6-12 above on IASB ED/2013/5?

   Are there other issues you think should be raised?

2. Do you agree to finalise AASB's submission to the IASB out-of-session via the Chairman?