



Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@asb.gov.au

4 February 2015

Dear Kris

Re: Exposure draft 254 and Invitation to Comment 32

I am enclosing copies of PricewaterhouseCoopers' response to the following International Accounting Standards Board's documents:

- ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (ED 254)
- DP/2014/2 *Reporting the Financial Effects of Rate Regulation* (ITC 32).

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment – ED 254

We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

We generally agree with the AASB's reasoning regarding the retention of the new disclosures for tier 2 entities, as similar information would be required under the general principles of AASB 108. However, as explained in our response to question 5 in the attached submission, we do not agree with the proposed requirement to require the calculation and disclosure of comparative information in relation to impairment losses. If the IASB should decide to retain this disclosure, then it should at least be excluded for tier 2 entities.



I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 4664 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink that reads 'P. Brunner'.

Paul Brunner
Partner, PricewaterhouseCoopers



International Accounting Standards Board
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15 January 2015

Discussion Paper DP/2014/2 – Reporting the Financial Effects of Rate Regulation

We are pleased to respond, on behalf of PricewaterhouseCoopers, to the invitation by the IASB to comment on the Discussion Paper, Reporting the Financial Effects of Rate Regulation ('DP'). Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms who commented on the DP.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the IASB going forward with a project on reporting the financial effects of rate regulation. We believe that rights and obligations often arise as a result of regulation and that recognition of assets and liabilities is consistent with the Conceptual Framework (the 'Framework') and existing guidance in some circumstances. We also believe that, rate regulation significantly affects the amount, timing and uncertainty of future cash flows in many instances. Any new guidance should focus on ensuring that the financial statements reflect the most relevant information in accordance with the Framework. A disclosure-only standard should not be used to overcome a deficiency in the information provided by the primary financial statements.

Management often uses tools 'outside of IFRS' (for example, alternative performance measures) to explain the effects of rate regulation when assets or liabilities arising from regulation are not recognised in the primary financial statements. The use of these tools indicates that, in some circumstances, there is a gap between the information provided in the financial statements and the information that is relevant for users of financial statements.

We suggest that the IASB focus on developing guidance to determine when rights and obligations exist in the context of a regulated environment, rather than defining a particular type of regulation to determine the scope of any proposed guidance. The nature of regulation varies widely and, therefore, creates different economic environments and different economic relationships between entities and their customer base. It is difficult, in practice, to distinguish between different types of regulation and thus to categorise types of regulation into those that do or do not need specific accounting guidance.

Any accounting model should focus on the rights and obligations arising from the provision of goods or services by the regulated entity to a group of customers. The regulator establishes the conditions under which those goods or services are delivered and acts as an 'agent' to establish and enforce an implicit contractual relationship between the entity and a group of customers. Regulation provides a basis to look at a group of customers as a single unit of account. It also supports the enforceability of rights and obligations to or from the group of customers rather than any individual customer.

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We are concerned that the DP does not fully and accurately describe the rights and obligations that exist in some legislation and regulation. In particular, the rights and obligations of entities to recover or refund amounts in some jurisdictions exist independently of whether products or services are provided in the future. Understanding the relationship between rights to recovery and past or future service is fundamental to the development of an accounting approach.

The Framework has been developed to meet the objective of financial reporting through providing information about economic resources, claims and changes to those claims. The Framework uses accrual accounting to capture such changes in the appropriate periods to communicate an entity's performance rather than provide information solely about cash receipts and payments during a period. The clarifications to the definition of assets and liabilities in the proposed Framework should be considered to determine when rights and obligations exist in a regulated environment (in particular, the reference to benefits received by the entity).

The IASB should evaluate the nature of any rights and obligations that arise from the relationship with the group of customers that is affected by the regulatory regime and then apply the most relevant accounting model. For example, a revenue-based approach could be used when a right arises directly from the provision of a good or service to a group of customers. Other IFRS-based approaches might also be relevant in considering the existence of assets and liabilities. We do not, however, support an exemption that allows regulatory accounts to be used as general purpose financial statements.

We agree that some of the principles used to develop the presentation and disclosure requirements in IFRS 14 might be relevant to the presentation and disclosure considerations in a newly developed accounting model. IFRS 14, however, is an interim standard, and the presentation and disclosure requirements are focused on allowing users to understand diverse accounting practices across jurisdictions. The IASB should revisit the presentation and disclosure requirements, as well as the interaction with other standards, once an accounting model is developed.

Our answers to the specific questions in the DP provide more detail on the views expressed above and are included in the Appendix.

If you have any questions on this letter, please contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322) or Tony de Bell (+44 207 213 5336).

Yours faithfully

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers



APPENDIX

Question 1

(a) What information about the entity's rate-regulated activities and the rate-regulatory environment do you think preparers of financial statements need to include in their financial statements or accompanying documents such as management commentary?

Please specify what information should be provided in:

- (i) the statement of financial position;*
- (ii) the statement(s) of profit or loss and other comprehensive income;*
- (iii) the statement of cash flows;*
- (iv) the note disclosures; or*
- (v) the management commentary.*

(b) How do you think that information would be used by investors and lenders in making investment and lending decisions?

The Framework states that the objective of general purpose financial reporting is 'to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity'. Financial reports should provide information that complements the users' understanding of the business, its risk and future cash flows to achieve their objective.

We believe that rate regulation significantly affects the amount, timing and uncertainty of future cash flows, in many instances. Management currently uses tools 'outside of IFRS' (for example, description in the management commentary and alternative performance measures) to explain these effects when assets or liabilities arising from regulation are not recognised in the primary financial statements. The use of these tools indicates that, in some circumstances, there is a gap between the information provided in the financial statements and the information that is relevant for users of financial statements. This also results in differences between external reporting and business planning, management reporting and regulatory reporting. It also creates an additional reporting burden for preparers.

The Framework has been developed to meet the objective of financial reporting through providing information about economic resources, claims and changes to those claims. The Framework uses accrual accounting to capture such changes in the appropriate periods to communicate an entity's performance rather than providing information solely about cash receipts and payments during a period. We believe that reflecting economic resources (rights) and claims (obligations) arising from rate regulation in the financial statements would be the first step in achieving this objective. See further discussion in our response to Question 7. Any new guidance should focus on the financial statements reflecting the most relevant information in accordance with the Framework.



Question 2

Are you familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities, for example, in accordance with US generally accepted accounting principles (GAAP) or other local GAAP or in accordance with IFRS 14? If so, what problems, if any, does the recognition of such balances cause users of financial statements when evaluating investment or lending decisions in rate-regulated entities that recognise such balances compared to:

- (a) non-rate-regulated entities; and*
- (b) rate-regulated entities that do not recognise such balances?*

We believe that the existence and the effects of regulation are fundamental to the financial position and performance of some entities subject to regulation. Such entities normally operate in particular industries and jurisdictions, which makes them a different lending or investment proposition than non-regulated entities. We suggest that the IASB should determine what information is relevant to users and other capital market participants. See further discussion in our response to Question 1.

Question 3

Do you agree that, to progress this project, the IASB should focus on a defined type of rate regulation (see Section 4) in order to provide a common starting point for a more focused discussion about whether rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might need to be developed (see paragraphs 3.6–3.7)? If not, how do you suggest that the IASB should address the diversity in the types of rate regulation summarised in Section 3?

We agree that the nature of regulation varies widely and, therefore, regulation creates different economic relationships between entities and their customer base. Describing regulation provides context for considering the existence of rights and obligations, because regulation is critical to the economic consequences of an entity providing a service to its customers. The features described in the DP help to provide context, but should not limit the accounting based on a set of factors. See further discussion in our response to Question 5.

We suggest that the IASB focus on developing guidance to determine when rights and obligations exist in the context of a regulated environment rather than defining a particular type of regulation to determine the scope of any proposed guidance. It is difficult, in practice, to distinguish between different types of regulation and thus to categorise types of regulation into those that do or do not need specific accounting requirements. For example, the DP describes the distinction between market- and incentive-based regulation as whether the price cap is based on the recovery of costs; it is difficult for an entity to assess the factors considered by the regulator in establishing the price cap. In practice, the regulator is likely to consider a number of factors. The DP also describes the distinction between cost- and incentive-based regulation as whether costs are actual or estimated; however, entities often negotiate rates based on the extent to which costs were prudently incurred, which might not be different in substance to an incentive-based system.



We do not believe that defining the scope of any proposed guidance based on a type of regulation is necessary. A clear scope is required only if the accounting model developed is an exception to IFRS. We do not believe that the IASB should develop an accounting model based on an exception to the Framework.

Question 4

Paragraph 2.11 notes that the IASB has not received requests for it to develop special accounting requirements for the form of limited or 'market' rate regulation that is used to supplement the inefficient competitive forces in the market (see paragraphs 3.30–3.33).

(a) Do you agree that this type of rate regulation does not create a significantly different economic environment and, therefore, does not require any specific accounting requirements to be developed? If not, why not?

(b) If you agree that this type of rate regulation does not require any specific accounting requirements, do you think that the IASB should, alternatively, consider developing specific disclosure requirements? If so, what would you propose and why?

We agree that, in most cases, 'limited' or 'market' regulation will not support the existence of rights and obligations. This is because such regulation is not likely to create rights or obligations and, if rights or obligations do exist, they generally do not relate to activities that the entity has conducted (or benefits that it has received) in the past. The scope of any guidance should not be limited to a specific type of rate regulation. See further our response to Question 3.

We do not believe that the IASB should develop a disclosure-only standard for any forms of regulation. Disclosures should not be used to overcome a deficiency in the information provided by the primary financial statements. Any disclosure-only solution would still require the IASB to define the scope of the disclosures and provide recognition and measurement guidance for any numerical disclosures. We believe that existing disclosure requirements are adequate if market regulation or any other regulation falls outside the scope of any guidance developed. See further our response to Question 9.

Question 5

Paragraphs 4.4–4.6 summarise the key features of defined rate regulation. These features have been the focus of the IASB's exploration of whether defined rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might be developed in order to provide relevant information to users of general purpose financial statements.

(a) Do you think that the description of defined rate regulation captures an appropriate population of rate-regulatory schemes within its scope? If so, why? If not, why not?

(b) Do you think that any of the features described should be modified in order to include or exclude particular types of rate-regulatory schemes or rate-regulated activities included within the scope of defined rate regulation? Please specify and give reasons to support any modifications to the features that you suggest, with particular reference to why the features may or may not give rise to circumstances that result in particular information needs for users of the financial statements.



(c) Are there any additional features that you think should be included to establish the scope of defined rate regulation or would you omit any of the features described? Please specify and give reasons to support any features that you would add or omit.

We suggest that the IASB focus on developing guidance to determine when rights and obligations exist rather than describing a particular set of features for the purposes of establishing the scope of any proposed guidance. See further discussion in our response to Question 3.

Describing regulation provides a context to determine an approach based on rights and obligations, because regulation is critical to the economic impact of an entity providing services to a group of customers. Many of the features of 'defined rate regulation' described in the DP are common to the regulatory environments that we believe are most likely to create rights and obligations. These features are relevant to determining whether a present right or obligation exists as a result of a past event and the unit of account for assessing such rights and obligations. The features, however, do not create the rights and obligations in their own right. This is considered further below.

Monopoly or near monopoly and essential goods and services

Rate regulation normally arises when there is a natural or 'near' monopoly and when the goods and services are essential. Market forces are generally adequate to control prices in a competitive market or when the goods are non-essential. Rate regulation normally arises in these circumstances, but a monopoly does not create rights and obligations in its own right. It is not clear how this is a criterion for the existence of a right or obligation. The IASB should consider how it interacts with other aspects of any accounting model.

We are also concerned that it will be difficult to clarify the meaning of 'near' monopoly or 'near' essential. For example, distinguishing between natural monopolies and those created by legislation (such as an exclusive licence) might be difficult for the purposes of standard setting, and is not essential to the existence of rights and obligations.

The existence of a monopoly or near monopoly generally helps to define the population that is subject to conditions established by the arrangement between the service provider, the regulator and the end customer. This might be relevant for determining the unit of account on which to apply any guidance. Entities operating as a monopoly and providing essential services generally manage their customers as a single unit of account. They view their customers as the population connected to a network or within a particular geographical area. That is, they do not distinguish individual customers, for example, if a certain customer moves in or out of the jurisdiction.

Parameters established around availability and quality of supply

Parameters established around availability and quality of supply will vary between jurisdictions and are likely to be linked to the existence of a combination of lack of competition and essential goods. Such parameters are, however, not necessary to create rights and obligations. Many arrangements with service requirements that are not subject to regulation have such parameters, and such parameters do not have a direct effect on the existence of contractual rights and obligations with individual customers.

Regulatory agreements that require availability of supply to a particular group of customers might be relevant to determining the unit of account. The requirement to comply with specific parameters should be considered in assessing the recognition and measurement of rights and obligations.



Rates that support both price stability and financial viability for the entity

There are a wide range of mechanisms to set and adjust prices charged to customers in a regulated environment. We are concerned that it would be difficult to distinguish between mechanisms that create or do not create rights and obligations on the basis of the objective or characteristics of the rate-setting mechanism (for example, whether the mechanism is automated and whether the timing of the pricing adjustments varies and is not always relevant to determining the existence or nature of the right or obligation). The rate mechanism might, however, provide evidence about whether the entity has performed a service (that is, the implied contract is no longer executory). This establishes whether there is a 'present' right or obligation that 'arises from a past event', which is fundamental to determining whether an asset or liability exists under the Framework.

We agree that price stability and financial viability are objectives that are considered by regulators when setting rates in a regulated environment. There are, however, other objectives for setting rates. For example, an entity might be able to recover costs associated with a contract to purchase electricity at an above-market price if that contract was entered into with the objective to support construction of 'green' generation by a third party. The objective of such an arrangement is focused on security and balance of supply.

Question 6

Paragraphs 4.62–4.72 contain an analysis of the rights and obligations that arise from the features of defined rate regulation.

(a) Are there any additional rights or obligations that you think the IASB should consider? Please specify and give reasons.

(b) Do you think that the IASB should develop specific accounting guidance or requirements to account for the combination of rights and obligations described? Why or why not?

We believe that any accounting model should focus on the rights and obligations arising from the provision of service to a group of customers. The role of the regulator is to establish the conditions under which that good or service is delivered and to act as an 'agent' to establish and enforce an implicit contractual relationship between the entity and a group of customers. Regulation provides a basis to combine a group of customers into a single unit of account. It also supports the enforceability of rights and obligations to the group of customers rather than any individual customer. The existence of a rate regulator is an essential component of establishing enforceable rights and obligations. See further discussion in our response to Question 12.

The DP is not clear about the relationship between the existence of rights and obligations discussed in Section 4 and the proposed approaches discussed in Section 5. We are particularly concerned that the DP does not fully and accurately describe the rights and obligations that exist in legislation or regulation in some jurisdictions. In particular, the rights and obligations of entities to recover amounts in certain jurisdictions exist independently of whether products or services are provided in the future. Understanding the relationship between rights to recover and past or future service is fundamental to the development of an accounting approach.

IFRS 15 provides guidance on accounting for contracts with an individual customer, but the evaluation of rights and obligations at the individual customer level does not reflect the substance of the arrangement in a regulated environment. We believe, however, that the principles in IFRS 15 are



relevant to accounting for the goods and services delivered in such an environment. The arrangement is the provision of a good or service (for example, for the purchase, delivery, and sale of electricity, gas or water) to a group of customers.

Regulation often creates rights and obligations in addition to those arising directly from the provision of a service to a customer, such as an obligation to repair equipment after storm damage. These obligations, however, are consequential to the rights and obligations that arise directly from the relationship with a group of customers; that is, they only arise from the service commitment to a group of customers. For example, a manufacturing facility with a backlog of purchase orders needs to maintain or repair its facility to continue production. Existing standards provide adequate guidance for such rights and obligations, because they are not exclusive to rate-regulated entities – for example, IAS 16 for the construction of property plant and equipment, and IAS 37 for the recognition of provisions.

Question 7

Section 5 outlines a number of possible approaches that the IASB could consider developing further, depending on the feedback received from this Discussion Paper. It highlights some advantages and disadvantages of each approach.

(a) Which approach, if any, do you think would best portray the financial effects of defined rate regulation in IFRS financial statements and is most likely to provide the information that investors and lenders consider is most relevant to help them make their investing and lending decisions? Please give reasons for your answer?

(b) Is there any other approach that the IASB should consider? If so, please specify and explain how such an approach could provide investors and lenders with relevant information about the financial effects of rate regulation.

(c) Are there any additional advantages or disadvantages that the IASB should consider before it decides whether to develop any of these approaches further? If so, please describe them.

If commenting on the asset/liability approach, please specify, if it is relevant, whether your comments reflect the existing definitions of an asset and a liability in the Conceptual Framework or the proposed definitions suggested in the Conceptual Framework Discussion Paper, published in July 2013.

We believe that the recognition of assets and liabilities is consistent with the Framework and existing guidance in some circumstances, and we support further exploration of an approach based on the existence of rights and obligations. Any proposed guidance should focus on the provision of a service by the entity to a group of customers, with the regulator playing an important role in establishing and enforcing the rights and obligations of the parties. See further discussion in our response to Question 6.

The IASB should first evaluate the nature of any rights and obligations that arise from the relationship with the group of customers and then apply the most relevant accounting model. For example, a revenue-based approach could be used when a right arises directly from the provision of a good or service to the customer. For example, a gas distribution entity that has the right to recover the full cost



of gas commodities might invoice its customers based on estimated costs but have the right to recover or refund any under- or over-recovery, irrespective of whether it provides the service in the future to that customer. A revenue-based approach would allow the entity to recognise revenue for the amount it expects to be entitled to for delivering the service already provided (that is, the actual cost of the commodity). Other IFRS-based approaches might also be relevant in considering the existence of assets and liabilities.

The existence of a right or obligation does not necessarily confirm the existence of an asset or liability at the end of the reporting period. The existence of an asset or liability will depend on whether the right or obligation is 'present' and 'as a result of a past event'. It is important to depict the changes in an entity's rights and obligations in the appropriate period to communicate performance. We believe that the proposed definitions in the Framework provide a structure to support this evaluation at the standards level, in particular the reference to benefits received by the entity in the proposed changes to the asset and liability definition in the Framework. For example, the proposed criteria to determine when a liability exists consider both whether the entity has no practical ability to avoid the transfer and whether the amount of the transfer is determined by reference to benefits that the entity has received, or activities that it has conducted, in the past.

We agree with the advantages and disadvantages explained in the DP related to the other proposed approaches, in particular:

- The intangible asset approach considers the accounting consequences associated with the right to operate. It is difficult to separate this right from the other rights and obligations to the customer and to measure the 'cost' or the 'fair value' of the licence. The application of this model would require fundamental changes to the accounting principles for intangible assets, in particular, the recognition of internally generated intangibles, remeasurement and the unit of account.
- The revenue adjustment approach has merits for some rights and obligations, but we recognise that it might be difficult to apply when those rights and obligations relate directly to the recovery of the costs associated with the infrastructure used in operations. Asset recognition guidance might be more appropriate in such circumstances.
- The cost adjustment approach reflects practice under some existing GAAPs and would minimise the complexities associated with the revenue model, such as measuring the consequences of the time value of money. We suggest that any further development of the approach focuses whether an asset exists.

We do not believe that providing an exemption that allows regulatory accounts to be used as general purpose financial statements is practical or useful, for the reasons discussed in the DP. It is unclear how certain practices in existing GAAPs will fit into the proposed models. For example, many existing GAAPs permit recognition of assets and liabilities to offset 'remeasurements' of assets and liabilities, such as pensions or derivative commodity contracts. Rights and obligations to invoice customers for costs associated with pensions and commodity cost normally arise when cash is paid rather than when accounting remeasurements are recognised. Other challenges could include the capitalisation of the cost of equity (i.e. Allowance for Funds Used During Construction 'AFUDC').



Question 8

Does your organisation carry out activities that are subject to defined rate regulation? If so, what operational issues should the IASB consider if it decides to develop any specific accounting guidance or requirements?

Our organisation does not carry out activities that are subject to defined rate regulation as described in the DP.

Question 9

If, after considering the feedback from this Discussion Paper and the Conceptual Framework project, the IASB decides to prohibit the recognition of regulatory deferral account balances in IFRS financial statements, do you think that the IASB should consider developing specific disclosure-only requirements? If not, why not? If so, please specify what type of information you think would be relevant to investors and lenders in making their investing or lending decisions and why.

We do not support moving forward with a disclosure-only standard. The objective of the notes to the financial statements (according to the proposed Framework) is to supplement the primary financial statements by providing additional useful information about assets, liabilities, equity, income, expenses, changes in equity, and cash flows of the entity, and about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. Disclosures should not be used to overcome a deficiency in the information provided in the primary financial statements.

Question 10

Sections 2 and 6 discuss some of the information needs of users of general purpose financial statements. The IASB will seek to balance the needs of users of financial statements for information about the financial effects of rate regulation on an entity's operations with concerns about obscuring the understandability of financial statements and the high preparation costs that can result from lengthy disclosures (see paragraph 2.27).

(a) If the IASB decides to develop specific accounting requirements for all entities that are subject to defined rate regulation, to what extent do you think the requirements of IFRS 14 meet the information needs of investors and lenders? Is there any additional information that you think should be required? If so, please specify and explain how investors or lenders are likely to use that information.

(b) Do you think that any of the disclosure requirements of IFRS 14 could be omitted or modified in order to reduce the cost of compliance with the requirements, without omitting information that helps users of financial statements to make informed investing or lending decisions? If so, please specify and explain the reasons for your answer.

We support the objective of disclosures described in IFRS 14, which focuses on the nature and risks of rate regulation as well as the effects of that rate regulation on the financial statements. However, IFRS 14 is an interim standard, and the disclosures focus on allowing users to understand diverse



accounting practices across jurisdictions. The IASB should re-evaluate the disclosure requirements once an accounting model is developed.

We support an approach to disclosures that allows for the application of judgement by management to determine the nature and extent of disclosures based on relevance, considering specifically the existing definition of materiality and the disclosure objective. This approach should be consistent with the guidance in the Conceptual Framework and IAS 1.

Question 11

IFRS 14 requires any regulatory deferral account balances that have been recognised to be presented separately from the assets and liabilities recognised in the statement of financial position in accordance with other Standards. Similarly, the net movements in regulatory deferral account balances are required to be presented separately from the items of income and expense recognised in the statement(s) of profit or loss and other comprehensive income.

If the IASB develops specific accounting requirements that would apply to both existing IFRS preparers and first-time adopters of IFRS, and those requirements resulted in the recognition of regulatory balances in the statement of financial position, what advantages or disadvantages do you envisage if the separate presentation required by IFRS 14 was to be applied?

IFRS 14 is an interim standard, and the presentation requirements are focused on providing transparency about the accounting policies applied and the differences between entities that apply IFRS 14 and those that do not. For example, the requirements in IFRS 14 to separately present earnings per share and regulatory balances held for sale or included as part of a discontinued operation do not seem appropriate outside the context of IFRS 14. We suggest that the IASB re-evaluate the presentation requirements once an accounting model is developed.

Any accounting that arises from the application of any specific guidance should be transparent, but also allow management flexibility to present the effects of rate regulation in a manner that provides the most relevant information in the context of any accounting guidance. The IASB should consider the existing principles in IAS 1, which provide adequate guidance about the balances that should be presented separately on the face of the financial statements.

Question 12

Section 4 describes the distinguishing features of defined rate regulation. This description is intended to provide a common starting point for a more focused discussion about whether this type of rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements should be developed.

Paragraph 4.73 suggests that the existence of a rate regulator whose role and authority is established in legislation or other formal regulations is an important feature of defined rate regulation. Do you think that this is a necessary condition in order to create enforceable rights or obligations, or do you think that co-operatives or similar entities, which operate under self-imposed rate regulation with the same features as defined rate regulation (see paragraphs 7.6–7.9), should also be included within defined rate regulation? If not, why not? If so, do you think that such co-



operatives should be included within the scope of defined rate regulation only if they are subject to formal oversight from a government department or other authorised body?

The existence of a regulator is important to support the existence of an enforceable right or obligation and should be incorporated into the criteria for the existence of an asset or liability. This means that the guidance is likely to preclude recognition of rights and obligations that arise in entities that are 'self-regulated'. This is because an entity cannot create enforceable rights and obligations with itself. We do not believe, however, that guidance should specifically allow or prohibit the recognition of assets or liabilities that arise from certain types of rate regulation. See further discussion in our response to Question 3.

The Framework defines assets and liabilities based on the right to (or transfer of) economic resources. Economic resources might include rights that are enforceable by contract or law as well as those that arise from a constructive obligation to another party. We believe that the definition in the Framework should form the basis for any guidance on enforceability.

Contract or legislation is the most common way to support the existence of rights and obligations. In many cases, an independent regulator is established to set rates and to enforce contract or law. However, another authorised body (such as a governing board) might establish rates based on the contract or law, and the contract or law is enforced through other means.

Question 13

Paragraphs 7.11–7.22 highlight some of the issues that the IASB may consider if it continues to progress this project.

Do you have any comments or suggestions on these or any other issues that may or may not have been raised in this Discussion Paper that you think the IASB should consider if it decides to develop proposals for any specific accounting requirements for rate-regulated activities?

The IASB should consider the interaction of any new guidance with other standards as part of developing guidance on the accounting for rate regulation. It is premature to develop a comprehensive list of implications before an accounting model is developed.

We agree that the standards identified in the DP could interact with any guidance developed by the IASB on rate regulation. We suggest that the IASB look at the interactions with other standards as part of developing an accounting model, including other standards that might provide relevant guidance for identifying and accounting for rights and obligations arising from rate regulation, other standards that address the accounting for types of government support, as well as standards that might interact with any new accounting model developed.

Existing standards might provide relevant guidance for identifying and accounting for rights and obligations arising from rate regulation. For example, if rights and obligations are financial assets and liabilities, the principles of IFRS 9 might apply. Other accounting standards mentioned in the DP that might provide insight into the accounting include IFRS 15, IAS 38 and IAS 16. If there is no relevant standard, the IASB should consider the implications of the definition of assets and liabilities and the concept of performance as discussed in the Framework.



There are also existing standards that address other methods by which governments influence an entity's economic circumstances, including regulation, service concessions, grants and taxes. Governments use a variety of methods to influence economics, and the method selected might have different economic effects and thus require different accounting. The IASB should consider arbitrage between any proposed model and existing guidance in IFRS if there are significantly different outcomes.

A new accounting model on rate-regulated activities is also likely to have implications for the application of other standards (for example, the valuation of rights and obligations in a business combination accounting, as highlighted in the DP). New guidance might introduce complexity in the application of other standards (for example, how IAS 12 applies to any assets or liabilities that arise from rate regulation or how to separate assets or liabilities arising from rate regulation from other arrangements such as insurance contracts).

The IASB should specifically consider the implications of, and interactions with, IFRIC 12. There are circumstances in which a regulatory deferral balance might still be relevant to the accounting for a service concession arrangement (for example, where a deferral or variance account is included in the setting of future rates by the grantor).

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15 January 2015

Dear Kris

Discussion Paper DP 2014/2 – Reporting the Financial Effects of Rate Regulation

Thank you for the opportunity to respond to the Australian Accounting Standard Board's Exposure Draft *Reporting the Financial Effects of Rate Regulation* (which incorporates IASB DP/2014/2 of the same name).

I am enclosing a copy of Deloitte Touche Tohmatsu Limited's comment letter to the International Accounting Standards Board's Discussion Paper 2014/2.

This letter reflects the views of the Deloitte Touche Tohmatsu Limited network of the member firms (Deloitte Global) and, therefore, includes our own comments on the Discussion Paper.

Yours sincerely



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Hans Hoogervorst
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15 January 2015

Dear Mr Hoogervorst

Discussion Paper DP 2014/2 – Reporting the Financial Effects of Rate Regulation

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Discussion Paper *Reporting the Financial Effects of Rate Regulation* ('the discussion paper').

Accounting for rate regulation continues to be a significant issue in many jurisdictions including for some existing IFRS preparers who are not able to take advantage of the transitional relief afforded by IFRS 14 *Regulatory Deferral Accounts*. In addition, following the publication of IFRS 15 *Revenue from Contracts with Customers* questions have been raised about the effect of that Standard on the recognition of revenue relating to rate regulated activities. For these reasons, we welcome the Board's progress in addressing this issue. Given the scope of the issue, we also believe it is critical that the output of this project is capable of dealing with the range of regulatory regimes in existence.

We agree that a focus on the rights and obligations arising from rate regulation is necessary to determine whether these give rise to assets and/or liabilities that meet the criteria for recognition per the *Conceptual Framework for Financial Reporting* and that the hybrid scheme described as 'defined rate regulation' in the discussion paper captures many of the features of regulatory regimes encountered in practice.

Consideration of such features should facilitate the identification of any features of rate regulation that, individually or in combination, give rise to separately recognisable assets or liabilities as well as features that might nullify such an asset or liability. Such an approach should also enable the production of guidance that differentiates between regimes based on differences in economic substance rather than in a requirement to apply any specific accounting either in full or not at all depending on whether a regime is 'scoped in'.

We believe that a critical element of the Board's considerations will be analysing the unit of account for recognising revenue arising from the provision of rate regulated goods or services. If that unit of account were identified as the population or customer base (possibly current and future) as a group rather than

each individual within that population then, in view of the role of the regulator (which can be considered as an agent of the state, as enactor of a 'regulatory contract' or as representative of the collective interests of customers), the interaction with the requirements of IFRS 15 on variable consideration would need to be assessed. This will be important in evaluating the view expressed by some that IFRS 15 already requires an adjustment to revenue in respect of certain aspects of rate regulation.

In addition, in circumstances where the outcome of a rate setting exercise is subject to some degree of uncertainty, it will be important to determine the level of confidence required to evidence the existence of a right or obligation.

Following this analysis, we recommend that the next step in the project be an accounting discussion paper preceding the development of any new Standard or amendment to existing standards.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

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

Appendix

Question 1

- (a) *What information about the entity's rate-regulated activities and the rate-regulatory environment do you think preparers of financial statements need to include in their financial statements or accompanying documents such as management commentary?*

Please specify what information should be provided in:

- (i) the statement of financial position;*
- (ii) the statement(s) of profit or loss and other comprehensive income;*
- (iii) the statement of cash flows;*
- (iv) the note disclosures; or*
- (v) the management commentary.*

- (b) *How do you think that information would be used by investors and lenders in making investment and lending decisions?*

Information about rate-regulated activities and a rate-regulatory environment could, along with any other information about governmental influence on an entity's activities, be used in a variety of ways (for example, in assessing the future cash flows of the entity as well as political risk to which an entity is exposed). Users are better placed to comment on how such information is used in practice, although we are aware of views from users of financial statements (particularly in the utilities industries) that they use information on an entity's regulatory deferral account(s) and would value the assurance of its inclusion in audited financial statements.

To ensure comparability between entities in different industries, we believe that, rather than being an exception to established general principles of financial reporting, the reporting of entities operating in a rate-regulatory environment should be based on the same underlying concepts as that of entities in other environments. As such, we recommend that the IASB's consideration of the appropriate financial reporting treatment of rate-regulation commence with an analysis of the rights and obligations arising from such an environment. This should then facilitate identification of which, if any, of these create assets or liabilities as defined in the *Conceptual Framework for Financial Reporting* and the extent to which disclosure is necessary to explain those rights and obligations.

Following this analysis, we recommend that the next step in the project be an accounting discussion paper preceding the development of any new Standard or amendment to existing standards.

Question 2

Are you familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities, for example, in accordance with US generally accepted accounting principles (GAAP) or other local GAAP or in accordance with IFRS 14? If so, what problems, if any, does the recognition of such balances cause users of financial statements when evaluating investment or lending decisions in rate-regulated entities that recognise such balances compared to:

- (a) non-rate-regulated entities; and*
- (b) rate-regulated entities that do not recognise such balances?*

This response is submitted on behalf of member firms of the Deloitte Touche Tohmatsu network. This network includes member firms operating in jurisdictions that permit or require companies to report under a range of accounting frameworks, including IFRSs, US GAAP, other local GAAPs that require the recognition of regulatory deferral account balances and other local GAAPs that prohibit such recognition. In our capacity as auditors of financial statements in those jurisdictions we have been involved in accounting for regulatory deferral account balances under both local GAAPs and IFRS 14 (although we note that, at the current time, application of IFRS 14 is at an early stage for many entities).

While users are better placed to comment on their evaluation of investment or lending decisions, as a general point, application of different accounting requirements to equivalent transactions (for example, recognition or non-recognition of regulatory deferral balances by entities subject to equivalent regulations) will always create a difference that users will need to reconcile if they are to perform a meaningful comparison between entities. However, it should be noted that such a reconciliation might be complicated by differences between the regulatory regimes in different jurisdictions – applying accounting requirements designed for regulation as enacted in one jurisdiction to another jurisdiction’s regime could give the impression of comparability whilst masking real differences in the economic conditions to which different entities are subject.

For this reason, we do not believe that a binary distinction between “rate-regulated” and “non-rate-regulated” entities is an ideal starting point for considerations. Rather, as discussed elsewhere in this letter, we believe the focus should be on the rights and obligations created by the salient features of rate-regulation as this is more likely to result in a model that can be applied in a variety of jurisdictions.

Question 3

Do you agree that, to progress this project, the IASB should focus on a defined type of rate regulation (see Section 4) in order to provide a common starting point for a more focused discussion about whether rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might need to be developed (see paragraphs 3.6–3.7)? If not, how do you suggest that the IASB should address the diversity in the types of rate regulation summarised in Section 3?

We agree that a focus on the rights and obligations arising from rate regulation is necessary to determine whether these give rise to assets and/or liabilities that meet the criteria for recognition per the Conceptual Framework and that the hybrid scheme described as ‘defined rate regulation’ in the discussion paper captures many of the features of regulatory regimes encountered in practice (including those detailed in our response to Question 5 below).

Consideration of such features should facilitate the identification of any features of rate regulation that, individually or in combination, give rise to separately recognisable assets or liabilities as well as features that might nullify such an asset or liability and enable the production of guidance that differentiates between regimes based on differences between the rights and obligations that they create. Such an approach should also enable the production of guidance that differentiates between regimes based on differences in economic substance rather than in a requirement to apply any specific accounting either in full or not at all depending on whether a regime is ‘scoped in’.

In addition, assessment of a wide range of features of rate regulation in developing guidance should assist in avoiding operational difficulties in applying that guidance to regulation as it exists in practice.

Question 4

Paragraph 2.11 notes that the IASB has not received requests for it to develop special accounting requirements for the form of limited or 'market' rate regulation that is used to supplement the inefficient competitive forces in the market (see paragraphs 3.30–3.33).

- (a) Do you agree that this type of rate regulation does not create a significantly different economic environment and, therefore, does not require any specific accounting requirements to be developed? If not, why not?*
- (b) If you agree that this type of rate regulation does not require any specific accounting requirements, do you think that the IASB should, alternatively, consider developing specific disclosure requirements? If so, what would you propose and why?*

We agree that the 'capping' of prices to ensure the affordability of specific goods or services considered to be beneficial to the population as a matter of public policy is a common phenomenon.

Such legislation is generally intended to create a different economic environment, being that of pricing different from that which would result from an entirely unregulated market and in that respect is similar to 'defined rate regulation' as discussed in section 4 of the discussion paper. However, it differs from such regimes in that:

- the permitted pricing is typically not directly affected by the cost of providing the good or service (resulting in no 'under-billing' or 'over-billing' of the type described in the discussion paper);
- 'caps' or 'floors' on prices may exist where there is effective competition for supply and in respect of goods and services that individuals can decide whether, and to what extent, they wish to consume; and
- the enforcement options available for breach of legislation may differ (of the possibilities described in paragraph 4.75 of the discussion paper, only fines or penalties are likely to be possible).

We do not, however, agree that such regimes should simply be excluded from the scope of the project. Rather, we believe that a comprehensive analysis of the rights and obligations arising from rate regulation should result in the establishment of principles that can be applied to determine whether assets and/or liabilities capable of separate recognition arise and, if so, the conditions that are necessary for them to exist. It should then be possible to determine whether distinctions between regimes such as those described properly result in different accounting treatments.

If it is determined that such regimes do not give rise to separately recognisable assets and/or liabilities, then in terms of specific disclosure only requirements, we note that the actions of government can affect entities in many ways. As described in our response to Question 9 below, we believe that management commentary is often the appropriate forum for discussion of these effects.

Question 5

Paragraphs 4.4–4.6 summarise the key features of defined rate regulation. These features have been the focus of the IASB’s exploration of whether defined rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might be developed in order to provide relevant information to users of general purpose financial statements.

- (a) Do you think that the description of defined rate regulation captures an appropriate population of rate-regulatory schemes within its scope? If so, why? If not, why not?*
- (b) Do you think that any of the features described should be modified in order to include or exclude particular types of rate-regulatory schemes or rate-regulated activities included within the scope of defined rate regulation? Please specify and give reasons to support any modifications to the features that you suggest, with particular reference to why the features may or may not give rise to circumstances that result in particular information needs for users of the financial statements.*
- (c) Are there any additional features that you think should be included to establish the scope of defined rate regulation or would you omit any of the features described? Please specify and give reasons to support any features that you would add or omit.*

As discussed in our response to Question 3 above, we believe that consideration of a broad spectrum of the features of rate regulation that exist in practice (many of which are reflected in the ‘defined rate regulation’ described in the discussion paper) should inform a comprehensive consideration of the rights and obligations arising from regulation.

In addition to the features described in paragraphs 4.4-4.6 of the discussion paper, we believe that the analysis should include the following.

- Incentivisation – as acknowledged in the discussion paper most, if not all, rate regulation includes some element of incentivisation for providing goods or services in an efficient manner. We recommend an enhanced analysis of whether incentivisation affects (or, depending on the extent of incentivisation, nullifies) rights and obligations that would otherwise arise from rate regulation or whether it results in other rights and obligations. The ‘incentive based’ element of a permitted rate can arise through a variety of mechanisms such as:
 - measuring the extent to which defined outputs or outcomes are delivered more efficiently or less efficiently than assumed by the regulator; or
 - the provision of financial incentives to encourage non-financial outcomes such as enhanced customer service, reduced complaints, reduced environmental impacts or lower outage rates.Incentives can also be measured over an extended period of time (for example, cumulative customer service improvements over five years). In such circumstances, it will be necessary to determine when any rights or obligations arise.
- Alternative means of recovery of regulatory deferral accounts – distinct from the circumstances described in paragraphs 4.26-4.29 of the discussion paper, which involve the primary form of settlement being directly with the rate regulator, there are regimes under which recovery is intended (and fully expected) to occur through subsequent billings to customers but regulation allows for an alternative means of recovery in the event that this is not achieved (for example, we are aware of a regime in which the government guarantees recovery of regulatory deferral accounts). We recommend an analysis of when, if ever, a ‘secondary’ method of recovery affects the recognition of an asset or liability or their classification (for example, by introducing a financial asset or liability that would not otherwise exist).

- Transferability of regulatory deferral accounts – some regulatory deferral accounts can, in specified circumstances, be transferred to another party. As with recovery through alternative means, this may be possible only in rare circumstances (such as loss of a licence) but still merits consideration in terms of the possible effect on recognition and classification of assets and/or liabilities.

In terms of the features described in paragraphs 4.4-4.6 of the discussion paper, we note the following.

- Essential goods or services – as discussed in paragraph 4.32 of the discussion paper, the identification of whether certain goods or services are 'essential' is to some extent subjective, particularly in identifying goods or services which customers have 'little or no choice' but to purchase. For example, access to high speed internet access may be essential to one person due to the nature of their job whilst to another person in the same community it may be much less important. In other circumstances, there may be an alternative good or service but a significant cost to switching to that alternative (for example, converting a heating system from gas to electricity). The extent of choice available may also differ between an individual and the population as a whole. For example, an individual could choose to travel by car rather than by public transport, but an effective public transport system used by a significant proportion of the population may be essential to a city's economic activity. To address circumstances such as these and the examples described in paragraphs 4.38-4.39 of the discussion paper it will be necessary to determine whether rights and obligations arise as a result of the good or service in question being 'essential' or whether this is simply a driver for the introduction of legislation to regulate prices. If rights and obligations are determined to arise, they should be clearly identified so that the existence of these can be assessed in circumstances where a proportion of the population may find an alternative good or service or decide not to use the good or service at all.
- No effective competition to supply – we agree that a monopolistic environment is economically different from one in which effective competition exists and recommend that this be assessed as part of the consideration of the unit of account referred to in our response to Question 7 below as it is sometimes argued that a monopoly is necessary for the consideration of the customer base as a whole rather than an individual within that population. However, we recommend that this analysis is clear on what is meant by a 'monopoly' as there are circumstances in which an operator has the exclusive right to provide only part of the operations necessary to provide goods or services to the end customer. In addition, there may be more than one operator in the market but effective barriers (either natural or regulatory) to any new entrants. The Board should consider whether rights and obligations that exist in a pure monopoly also exist in such circumstances. A monopoly (or duopoly or oligopoly) may also exist over provision of a good or service to an entire country, or a defined region within a country. Variation in this sense should be considered in determining how 'a market' is defined for the purposes of considering whether a monopoly exists.
- The rate-setting mechanism – paragraphs 4.77-4.79 of the discussion paper describe a stable rate-setting regime with limited discretion available to the rate regulator. We believe that an important element of the project should be considering how any variability in the regime or discretion afforded to the regulator might affect the rights and obligations that would otherwise exist. Similar to incentivisation, the degree of regulatory discretion varies between regimes (and is often subject to various checks and balances) but can be significant in some jurisdictions. For example:
 - a regulatory regime may evolve over time, with items treated differently as the rate regulator applies its discretion differently;

- regulatory regimes may have different mechanisms for dealing with unexpected events, for example some relatively rare events (for example severe weather) may be catered for by the specific terms of the regime but more unexpected events may not have been envisaged in determining the mechanics of the rate-setting mechanism. As such, the government or rate regulator may have significant discretion in determining the effect of an unforeseen event on the permitted rate;
- a regulator might have discretion not only over *whether* a cost can be recovered but also *when* that recovery will be permitted (for example, by addition to permitted billings in the next year or by addition to the permitted cost of an asset to be recovered over a much longer period); and
- in some jurisdictions, a regulator can retrospectively 'disallow' recovery of a past cost through the rate-setting mechanism (if, for example, that expenditure fails to result in promised improvements in the service provided).

It might also be necessary to distinguish between the exercise of regulatory discretion within a regulatory regime and a government decision to amend the terms of that regime or to override those terms to set a rate that is deemed appropriate from a public policy perspective.

Question 6

Paragraphs 4.62–4.72 contain an analysis of the rights and obligations that arise from the features of defined rate regulation.

- (a) *Are there any additional rights or obligations that you think the IASB should consider? Please specify and give reasons.*
- (b) *Do you think that the IASB should develop specific accounting guidance or requirements to account for the combination of rights and obligations described? Why or why not?*

We agree that the rights and obligations typically arising from rate regulation as defined in section 4 of the discussion paper can be allocated to the three categories (exclusive right to supply, obligation to achieve service level and a right to recover revenue requirement using the rate-setting mechanism) identified in paragraphs 4.62-4.72 of the discussion paper. As noted in paragraph 4.72 of the discussion paper, obligations to 'refund revenue' in the event of 'over-billings' are also typically as important a feature of rate regulation as rights to 'recover revenue' arising from 'under-billings'. However, as noted in our responses to Questions 4 and 5 above we recommend that the IASB's project cover a wide range of features of rate regulation and it is possible that this analysis will identify different rights or obligations.

As discussed further in our response to Question 7 below, we think it is premature to conclude on what form the final output of this project should take. We do, however, note that accounting for rate regulation continues to be a significant issue in many jurisdictions including for some existing IFRS preparers who are not able to take advantage of the transitional relief afforded by IFRS 14. In addition, following the publication of IFRS 15 questions have been raised about the effect of that Standard on the recognition of revenue relating to rate regulated activities. For these reasons, we believe it is critical that the output is capable of dealing with the range of regulatory regimes in existence.

Question 7

Section 5 outlines a number of possible approaches that the IASB could consider developing further, depending on the feedback received from this Discussion Paper. It highlights some advantages and disadvantages of each approach.

- (a) Which approach, if any, do you think would best portray the financial effects of defined rate regulation in IFRS financial statements and is most likely to provide the information that investors and lenders consider is most relevant to help them make their investing and lending decisions? Please give reasons for your answer?*
- (b) Is there any other approach that the IASB should consider? If so, please specify and explain how such an approach could provide investors and lenders with relevant information about the financial effects of rate regulation.*
- (c) Are there any additional advantages or disadvantages that the IASB should consider before it decides whether to develop any of these approaches further? If so, please describe them.*

If commenting on the asset/liability approach, please specify, if it is relevant, whether your comments reflect the existing definitions of an asset and a liability in the Conceptual Framework or the proposed definitions suggested in the Conceptual Framework Discussion Paper, published in July 2013.

We recognise that Section 5 of the discussion paper provides a good summary of the arguments made for and against various possible approaches to accounting for rate regulated activities. However, we believe that it would be premature to settle upon an approach prior to completion of a full analysis of the rights and obligations arising from rate regulation and whether they result in assets and/or liabilities as defined in the Conceptual Framework. To ensure that this analysis remains valid for the foreseeable future, we recommend that it be conducted to be consistent with the definitions of assets and liabilities resulting from the Board's current project to revise its Conceptual Framework. As stated in our response to discussion paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*, the necessity for any departure from the Conceptual Framework should be evaluated carefully and identified and justified in the Basis for Conclusions on any resulting Standard or Interpretation.

We recommend that the project also be managed to reflect the outcome of considerations of the 'unit of account' as part of the Conceptual Framework. As noted below, this is likely to be a critical element in the identification of any separately recognisable assets or liabilities arising from rate regulation.

That said, in completing a technical analysis of whether assets and/or liabilities exist, we recommend that the Board also consider the following.

- The Unit of Account – debates around the appropriateness of deferring or accelerating the recognition of revenue (as compared to the billings for goods or services provided to date) often centre around the unit of account for recognising that revenue. If that unit of account were identified as the population or customer base (possibly current and future) as a group rather than each individual within that population then, in view of the role of the regulator (which can be considered as an agent of the state, as enactor of a 'regulatory contract' or as representative of the collective interests of customers), the interaction with the requirements of IFRS 15 on variable consideration would need to be assessed. As stated in our response to Question 13 below, some hold the view that these requirements apply in some rate regulated environments.

- Gradations of probability – the outcome of a rate setting exercise can be subject to varying degrees of uncertainty, leading to questions of what level of confidence is required to evidence the existence of a right or obligation for the purposes of recognition of any asset or liability that is determined to exist.
- Measurement – Measurement may be a challenging issue when there is uncertainty over the amount and/or timing of cash flows arising from rate regulated activities. It will be important for the Board to consider initial and subsequent measurement of any separately recognisable assets or liabilities identified in its analysis of rate regulated environments.

Question 8

Does your organisation carry out activities that are subject to defined rate regulation? If so, what operational issues should the IASB consider if it decides to develop any specific accounting guidance or requirements?

We do not carry out activities subject to rate regulation of the type described in the discussion paper.

Question 9

If, after considering the feedback from this Discussion Paper and the Conceptual Framework project, the IASB decides to prohibit the recognition of regulatory deferral account balances in IFRS financial statements, do you think that the IASB should consider developing specific disclosure-only requirements? If not, why not? If so, please specify what type of information you think would be relevant to investors and lenders in making their investing or lending decisions and why.

We believe it would be premature to rule out any course of action at this stage and agree that information about the regulatory regime(s) to which an entity is subject and the current status of any regulatory deferral accounts would, given the pervasive effect this could have on the entity's future cash flows, be of use in making investing or lending decisions. We also note the general requirement in IAS 1 to disclose significant judgements made in preparing financial statements as the effects of rate regulation may be a significant factor in, for example, an review of an entity's assets for impairment.

However, following the approach set out in our response to Question 3 of the discussion paper, prohibition of the recognition of any balances relating to rate regulation would be the result of a conclusion that rate regulation (however that term is defined) does not result in separately recognisable assets and liabilities as defined in the Conceptual Framework. We note that there are other examples of governmental action that do not, in themselves, give rise to the recognition of assets and liabilities (albeit, they may affect the recognition or measurement of other assets and liabilities) but will, similarly, have an effect on future cash flows (for example, a levy for which the obligating event has not occurred at the reporting date, a decision to grant or deny regulatory approval for a food or drug product or the granting or expiry of a patent). IFRSs do not typically require disclosure of such items and as such, we believe that prior to prescribing disclosure in the financial statements it would be appropriate for the Board to consider whether rate regulation is sufficiently significant to merit this.

In addition we encourage high level narrative reporting and believe that voluntary narrative disclosure on the impact of rate regulation is already typically provided by affected entities.

We also recommend that the necessity for any additional disclosure requirements be considered in the context of the Board's Disclosure Initiative to assist in determining whether inclusion of information on

rate regulation in audited financial statements is necessary or whether narrative reporting on its effects is sufficient.

Question 10

Sections 2 and 6 discuss some of the information needs of users of general purpose financial statements. The IASB will seek to balance the needs of users of financial statements for information about the financial effects of rate regulation on an entity's operations with concerns about obscuring the understandability of financial statements and the high preparation costs that can result from lengthy disclosures (see paragraph 2.27).

- (a) If the IASB decides to develop specific accounting requirements for all entities that are subject to defined rate regulation, to what extent do you think the requirements of IFRS 14 meet the information needs of investors and lenders? Is there any additional information that you think should be required? If so, please specify and explain how investors or lenders are likely to use that information.*
- (b) Do you think that any of the disclosure requirements of IFRS 14 could be omitted or modified in order to reduce the cost of compliance with the requirements, without omitting information that helps users of financial statements to make informed investing or lending decisions? If so, please specify and explain the reasons for your answer.*

In terms of disclosure, we believe that the objective expressed in paragraph 27 of IFRS 14 (to disclose information enabling users to assess the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides and the effects of that rate regulation on its financial position, financial performance and cash flows) is likely to be appropriate in supporting any recognition of assets and liabilities in respect of rate regulation and that disclosures providing information on key judgements made are likely to be particularly valuable.

We would expect the detailed guidance supporting this objective to be determined to a large extent by the nature of the assets and/or liabilities to be recognised.

Question 11

IFRS 14 requires any regulatory deferral account balances that have been recognised to be presented separately from the assets and liabilities recognised in the statement of financial position in accordance with other Standards. Similarly, the net movements in regulatory deferral account balances are required to be presented separately from the items of income and expense recognised in the statement(s) of profit or loss and other comprehensive income.

If the IASB develops specific accounting requirements that would apply to both existing IFRS preparers and first-time adopters of IFRS, and those requirements resulted in the recognition of regulatory balances in the statement of financial position, what advantages or disadvantages do you envisage if the separate presentation required by IFRS 14 was to be applied?

If specific accounting requirements were to apply to all IFRS preparers subject to rate regulation, some of the factors noted in the Basis for Conclusions on IFRS 14 relating to the separate presentation of regulatory deferral account balances would apply (comparability with the property, plant and equipment and intangible assets of non-rate-regulated entities) whilst others would not (comparability with comparable rate-regulated entities that do not recognise regulatory deferral account balances, separate

presentation until the consideration of the more fundamental issues about accounting for rate-regulated activities is completed).

To allow comparison between regulated and non-regulated entities and between entities subject to different regulatory regimes, we believe that a presentation allowing users to identify easily the effect of regulatory deferral account balances on the financial statements might be desirable. However, this would also depend on the nature of any asset or liability recognised. Also, we do not believe that the extreme segregation of regulatory deferral account balances and the movements therein required by IFRS 14 would be necessary in an environment in which all rate-regulated entities (however that population is defined) recognise regulatory deferral accounts on a consistent basis.

In respect of both presentation and disclosure (as discussed in our response to Question 10 above), we recommend that the views of users be sought to determine the information they would find most useful in making lending and investing decisions.

Question 12

Section 4 describes the distinguishing features of defined rate regulation. This description is intended to provide a common starting point for a more focused discussion about whether this type of rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements should be developed.

Paragraph 4.73 suggests that the existence of a rate regulator whose role and authority is established in legislation or other formal regulations is an important feature of defined rate regulation. Do you think that this is a necessary condition in order to create enforceable rights or obligations, or do you think that co-operatives or similar entities, which operate under self-imposed rate regulation with the same features as defined rate regulation (see paragraphs 7.6–7.9), should also be included within defined rate regulation? If not, why not? If so, do you think that such co-operatives should be included within the scope of defined rate regulation only if they are subject to formal oversight from a government department or other authorised body?

We believe that the enforceability of rate regulation is an important feature and is likely to be necessary in determining that any asset or liability (as defined in the Conceptual Framework) exists.

The enforceability of rate regulation can most readily be determined when there is a rate regulator whose role and authority is established in legislation or other formal regulations because, as discussed in paragraph 4.75 of the discussion paper, such a regulator can typically impose a variety of sanctions in the event of a failure to comply with the regulatory regime whilst a co-operative agreement may be more in the nature of a statement of intent. In addition, legislation can provide an effective means of imposing obligations on customers to pay the prescribed rates for the goods or services provided.

However, we do not believe it is appropriate to assume that enforceable rate regulation exists only in these circumstances (to extend the analogy in paragraph 4.73 of the discussion paper, a restructuring provision can be recognised in the absence of legislation requiring a restructuring to be completed) or that regulatory regimes should be differentiated solely on the basis of the identity of the enforcing party as it is clear in other circumstances that enforceable rights and obligations can be imposed by contract as well as by legislation.

For this reason, we do not believe that rate regulation operating other than through legislation should be excluded from the Board's considerations. Rather, we recommend that the consequences of non-

compliance and non-payment by customers (either individually or as a group) be considered in analysing the existence of rights and obligations and in determining how enforceable or otherwise any form of rate regulation might be.

Question 13

Paragraphs 7.11–7.22 highlight some of the issues that the IASB may consider if it continues to progress this project.

Do you have any comments or suggestions on these or any other issues that may or may not have been raised in this Discussion Paper that you think the IASB should consider if it decides to develop proposals for any specific accounting requirements for rate-regulated activities?

We agree that the issues highlighted in paragraph 7.11-7.22 of the discussion paper would require consideration in developing any specific accounting requirements for rate-regulated activities.

In addition.

- As noted in paragraph 7.16 of the discussion paper, some hold the view that IFRS 15 already requires an adjustment to revenue in respect of certain aspects of rate regulation (particularly on the unit of account to be applied in identifying the customer and whether that Standard's requirements on the measurement of variable revenues apply to any adjustments made through billings in subsequent periods). Given this, we recommend that the application of that Standard to the provision of goods or services subject to rate regulation be clarified regardless of whether any special accounting requirements are developed for rate-regulated activities.
- We agree that interaction with IFRIC 12 would be an important consideration as some form of rate regulation is a common feature of activities that are either within the scope of that Interpretation or that share many of the salient features of a Service Concession Arrangement. Due to that commonality, we would be concerned by an approach of simply excluding activities subject to IFRIC 12 from the scope of any specific accounting requirements for rate-regulated activities. If it is determined that assets and/or liabilities as defined in the Conceptual Framework arising from rate regulated activities not within the scope of IFRIC 12 also exist in respect of activities subject to that Interpretation, then in the absence of a substantive difference arising from the terms of Service Concession Arrangements we would consider their recognition to be equally appropriate.
- Interactions with IAS 20 could arise more broadly than as described in paragraphs 7.18-7.19 of the discussion paper, particularly in determining whether any receipt of cash or other assets from or on behalf of government is in the nature of revenue for the provision of goods or services or a government grant.

As noted in our response to Question 1 above, we recommend that the next step in the project be an accounting discussion paper preceding the development of any new Standard or amendment to existing standards.



Submission DP/2014/1: Reporting the financial effects of rate regulation

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Partnership beyond numbers

4 February 2015

The Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom	The Chairperson Australian Accounting Standards Board PO Box 204 Collins Street West Victoria 8007 Australia
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Dear Sir/Madam

Reporting the financial effects of rate regulation (DP/2014/1)

Introduction

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on the Discussion Paper DP/2014/2 *Reporting the Financial Effects of Rate Regulation*. While the IPA recognises the need to provide guidance in relation to reporting the effects of rate regulation to address a diversity of practice, we believe that any proposals should be consistent with the Framework and the existing body of financial reporting standards.

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Executive Summary

We are concerned that the IASB has recently demonstrated a lack of commitment to conceptually consistent standards, for example, the Investment Entities amendment to IFRS 10 “Consolidated Financial Statements” and the impairment amendments to IFRS 9 “Financial Instruments”. Regrettably, a number of the potential methods for accounting options in respect to financial reporting for rate regulated activities continue this trend.

The IPA is of the view any accounting requirements should:

1. Ensure revenue is only recognised when service obligations are discharged. We are concerned there is a pre-disposition to bring forward revenue which may not always be appropriate depending on the method of recovery of under-recoveries from a prior period. The risk of not linking the recognition of revenue to performance obligations will result in profit smoothing.
2. The recognition and measurement criteria of assets and obligations arising from rate regulated activities should be consistent with the Framework.
3. Ensure transparent and separate identification of the rights and obligations arising from rate regulated activities rather than subsume them with a licence intangible or goodwill, particularly in the case of business combinations and privatisations.

We also note that many service concession arrangements exhibit several of the characteristics of rate regulated activities. As such, the impact on IFRIC 12 ‘Service Concession Arrangements’ needs to be considered, particularly, in relation to the recognition and measurement of assets and liabilities impacted by rate regulation. In addition, the IASB should consider IPSAS 32 “Service Concession Arrangements: Grantor”.

Our detailed comments and responses to the questions in the Discussion Paper are set out in Appendix A.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen LaGreca (stephenlagreca@aol.com.) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours faithfully

A handwritten signature in black ink, appearing to read 'V. Stylianou', with a stylized flourish at the end.

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APPENDIX A

Question 1

- (a) *What information about the entity's rate-regulated activities and the rate-regulatory environment do you think preparers of financial statements need to include in their financial statements or accompanying documents such as management commentary?*

Please specify what information should be provided in:

- (i) the statement of financial position;*
- (ii) the statement(s) of profit or loss and other comprehensive income;*
- (iii) the statement of cash flows;*
- (iv) the note disclosures; or*
- (v) the management commentary.*

- (b) *How do you think that information would be used by investors and lenders in making investment and lending decisions?*

IPA response

The IPA believes the financial report should provide information to assess an entity's performance. Information affecting current and future performance arising from the regulatory framework an entity operates in, must be considered relevant information.

For obligations and rights arising from the regulatory framework, assets and liabilities should be recognised on a basis consistent with the Framework and existing accounting standards relating to the recognition of assets (e.g. IFRS 9, IAS 38) and liabilities (e.g. IAS 36, IFRS 9). Guidance should also be provided when a licence is to be recognised and the basis of recognition.

Similarly, the right to charge customers for prior period under-recoveries should be recognised in accordance with the Framework and IFRS 15. Any guidance should ensure revenue should be recognised when the service obligation has been discharged and revenue smoothing should not be possible.

In terms of disclosure, the requirements set out in IFRS 14.30-34 represent a robust starting point. In addition, we recommend the following be disclosed:

- The regulatory asset base, including movements
- A reconciliation between the accounting asset base and the regulatory asset base
- The allowed return on the regulatory asset base, how it is determined, and the reset dates
- All rights and obligations under the regulatory framework, including:
 - o Allowable capital expenditure limits
 - o Prescribed service level conditions including any related commitments in current and future periods
 - o Minimum maintenance requirements
 - o If the rate regulated activity is for a service concession any obligation relating to the condition of the asset to be returned to the grantor at the end of the period, including the extent to which such obligations have been recognised in the financial statements
- Other regulatory requirements that may impact the return of invested capital, such as, a commitment to use a minimum level of renewable energy
- Other licence conditions including licence fees payable and the basis of determination of such fees
- The existence of excess return "dividends" – we are aware in the case of some privatisations the government vendor is due any "excess profits" over a period, and
- The impact of rate regulation on the capital structure of the entity including any structuring decisions to ensure an appropriate level of return to equity investors.

Question 2

Are you familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities, for example, in accordance with US generally accepted accounting principles (GAAP) or other local GAAP or in accordance with IFRS 14? If so, what problems, if any, does the recognition of such balances cause users of financial statements when evaluating investment or lending decisions in rate-regulated entities that recognise such balances compared to:

- (a) non-regulated entities; and*
- (b) rate-regulated entities that do not recognise such balances?*

IPA response

The IPA is not aware of the use of US GAAP or IFRS 14 in financial statements of entities undertaking rate regulated activities.

However in the course of the preparation of this submission, we became aware of diversity in practice where some entities are recognising income and financial receivables arising from the right to charge higher prices in forthcoming periods due to under-recoveries in prior periods. We have concerns in relation to such practices as:

- It is unclear how it can be considered that the service obligation has been met as the mechanism for recovery of prior under-recovery is a higher charge for a new service, and
- The quantum recognised as income and receivables must be a function of not only the higher price but also expected volume or output. The quantification may be difficult to support where there is structural decline in volumes due to:
 - o Reduced economic activity which may extend over the regulatory reset period
 - o Price sensitivity leading to user efficiencies
 - o Product substitution e.g. in the energy sector with alternative energy source e.g. gas for electricity and own use generation, and
 - o The increases in prices may reinforce the above trends.

Question 3

Do you agree that, to progress this project, the IASB should focus on a defined type of rate regulation (see Section 4) in order to provide a common starting point for a more focused discussion about whether rate regulation creates a combination of rights and obligations for which specified accounting guidance or requirements might need to be developed (see paragraphs 3.6-3.7)? If not, how do you suggest that the IASB should address the diversity in the types of rate regulation summarised in Section 3?

IPA response

The IPA agrees “defined rate regulation” forms an appropriate starting point for the development of guidelines. However, we do not believe all rate regulated activities are necessarily captured by the proposed definition. We are aware of instances where concession arrangements provide rate regulation via concession agreements rather than legislation and no specific regulator is identified.

Question 4

Paragraph 2.11 notes that the IASB has not received requests for it to develop special accounting requirements for the form of limited or ‘market’ rate regulation that is used to supplement the inefficient competitive forces in the market (see paragraphs 3.30-3.33).

- (a) Do you agree that this type of rate regulation does not create a significantly different economic environment and, therefore, does not require any specific accounting requirements to be developed? If not, why not?*
- (b) If you agree that this type of rate regulation does not require any specific accounting requirements, do you think that the IASB should, alternatively, consider developing specific disclosure requirements? If so, what would you propose and why?*

IPA response

At this stage, the IPA agrees no specific accounting requirements should be formulated for limited or “market” rate regulation. However, we do support disclosures consistent with those we have recommended in our response to Question 1.

Question 5

Paragraphs 4.4-4.6 summarise the key features of defined rate regulation. These features have been the focus of the IASB’s exploration of whether defined rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might be developed in order to provide relevant information to users of general purpose financial statements.

- (a) Do you think at the description of defined rate regulation captures an appropriate population of rate-regulatory schemes within its scope? If so, why? If not, why not?*
- (b) Do you think that any of the features described should be modified in order to include or exclude particular types of rate-regulatory schemes or rate-regulated activities included within the scope of defined rate regulation? Please specify and give reasons to support any modifications to the features that you suggest, with particular reference to why the features may or may not give rise to circumstances that result in particular information needs for users of the financial statements.*
- (c) Are there any additional features that you think should be included to establish the scope of defined rate regulation or would you omit any of the features described? Please specify and give reasons to support any features that you would add or omit.*

IPA response

The IPA agrees the factors identified by the IASB represent an appropriate starting point for identifying entities subject to rate regulated activities. We recommend that the scope be expanded to include rate regulation arising from contractual obligations arising from service concession arrangements.

Question 6

Paragraphs 4.62-4.72 contain an analysis on the rights and obligations that arise from the features of defined rate regulation.

- (a) Are there any additional rights or obligations that you think the IASB should consider? Please specify and give reasons.*
- (b) Do you think that the IASB should develop specific accounting guidance or requirements to account for the combination of rights and obligations described? Why or why not?*

IPA response

The IPA believes any rights and obligations arising from rate regulated activities should be recognised on a basis consistent with the Framework and existing accounting standards including IFRS 9 & IFRS 15 and IAS 37 & IAS 38. It is possible many of the rights and obligations have netted or embedded into existing intangibles including goodwill (particularly in the event of business combinations or privatisation). The specific identification of rights and obligations would enhance the financial information available in relation to rate regulated activities. Furthermore, specific guidelines on the recognition and measurement of service level requirements, asset maintenance and condition (particularly when assets required to be returned at the end of a service concession period at a specific standard) would reduce the diversity of practice.

Question 7

Section 5 outlines a number of possible approaches that the IASB could consider developing further, depending on the feedback received from this Discussion Paper. It highlights some advantages and disadvantages of each approach.

- (a) Which approach, if any, do you think would best portray the financial effects of defined rate regulation in IFRS financial statements and is most likely to provide the information that*

- investors and lenders consider is most relevant to help them make their investing and lending decisions? Please give reasons for your answer?*
- (b) *Is there any other approach that the IASB should consider? If so, please specify and explain how such an approach could provide investors and lenders with relevant information about the financial effects of rate regulation.*
- (c) *Are there any additional advantages or disadvantages that the IASB should consider before it decides whether to develop any of these approaches further? If so please describe them.*

If commenting on the asset/liability approach, please specify, if it is relevant, whether your comments reflect the existing definitions of an asset and a liability in the Conceptual Framework or the proposed definitions suggested in the Conceptual Framework Discussion Paper, published in July 2013.

IPA response

The IPA believes the recognition and measurement principles for rate regulated activities should be consistent with the Framework and existing accounting standards, including IFRS 9 & 15 and IAS 37 & 38. Please also see our responses to Questions 1 & 6.

The IPA also does not support a unit of account based on a single intangible representing “a package of rights and obligations” (paragraphs 5.35-5.46). Unless sufficient detail is provided in relation to the components of such an intangible the information to users will not be transparent. Furthermore, the cash flows relating to the components of such intangibles are unlikely to occur in the same period and by netting the obligations and assets, useful information is likely to be obscured and information not available to users.

In addition (as mentioned in our response to Question 2), the IPA has reservations as to the “acceleration” of revenue recognition when the regulatory adjustment mechanism is an increase in prices charged to customers in future periods. The IPA believes that a service obligation remains to be performed and, therefore, revenue should only be recognised when the service obligation is discharged i.e. the customer has received the service. The IPA is concerned that the proposals relating to acceleration of revenue recognition is nothing more than income smoothing.

Question 8

Does your organisation carry out activities that are subject to defined rate regulation? If so, what operational issues should the IASB consider if it decides to develop any specific accounting guidance or requirements?

IPA response

The IPA is not subject to defined rate regulation and cannot comment on operational issues in relation to any specific guidance or requirements.

Question 9

If, after considering the feedback from this Discussion Paper and the Conceptual Framework project, the IASB decides to prohibit the recognition of regulatory deferral account balances in IFRS financial statements, do you think that the IASB should consider developing specific disclosure-only requirements? If not, why not? If so, please specify what type of information you think would be relevant to investors and lenders in making their investing or lending decisions and why.

IPA response

The IPA would support specific disclosure requirements as a method to provide useful information on the impact of rate regulation on an entities financial position and performance.

In relation to specific disclosures we would refer you to our response to Question 1.

Question 10

Sections 2 and 6 discuss some of the information needs of users of general purpose financial statements. The IASB will seek to balance the needs of users of financial statements for information about the financial effects of rate regulation on an entity's operations with concerns about obscuring the understandability of financial statements and the high preparation costs that can result from lengthy disclosures (see paragraph 2.27).

- (a) *If the IASB decides to develop specific accounting requirements for all entities that are subject to defined rate regulation, to what extent do you think the requirements of IFRS 14 meet the information needs of investors and lenders? Is there any additional information that you think should be required? If so, please specify and explain how investors or lenders are likely to use that information.*
- (b) *Do you think that any of the disclosure requirements of IFRS 14 could be omitted or modified in order to reduce the cost of compliance with the requirements, without omitting information that helps users of financial statements to make informed investing or lending decisions? If so, please specify and explain the reasons for your answer.*

IPA response

We refer you to our response to Question 1 in which we recommend disclosures in addition to the disclosures of IFRS 14.

Question 11

IFRS 14 requires any regulatory deferral account balances that have been recognised to be presented separately from the assets and liabilities recognised in the statement of financial position in accordance with other Standards. Similarly, the net movements in regulatory deferral account balances are required to be presented separately from the items of income and expense recognised in the statement(s) of profit or loss and other comprehensive income.

If the IASB develops specific accounting requirements that would apply to both existing IFRS preparers and first time adopters of IFRS, and those requirements resulted in the recognition of regulatory balances in the statement of financial position, what advantages do you envisage if the separate presentation required by IFRS 14 was to be applied?

IPA response

If regulatory deferral account balances are recognised, the IPA believes the separate presentation would assist users in understanding the impact on the financial position, cash flows and financial performance of an entity operating in a rate regulated environment.

Question 12

Section 4 describes the distinguishing features of defined rate regulation. This description is intended to provide a common starting point for a more focused discussion about whether this type of rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements should be developed.

Paragraph 4.73 suggests that the existence of a rate regulator whose role and authority is established in legislation or other formal regulations is an important feature of defined rate regulation. Do you think that this is a necessary condition in order to create enforceable rights or obligations, or do you think that co-operatives or similar entities, which operate under self-imposed rate regulation with the same features as defined rate regulation (see paragraphs 7.6-7.9), should also be included within defined rate regulation? If not, why not? If so, do you think that such co-operatives should be included within the scope of defined rate regulation only if they are subject to formal oversight from a government department or other authorised body?

IPA response

The IPA cannot envisage, in the absence of regulatory oversight or contractual obligation, that voluntary rate regulation would exhibit the characteristics of rate regulated activities. However, a self-regulation regulatory requirement of the industry may be imposed by regulation and in such circumstances it may be possible for the activities to meet the characteristics of rate regulation required in the discussion paper.

Question 13

Paragraphs 7.11-7.22 highlight some of the issues that the IASB may consider if it continues to progress this project.

Do you have any comments or suggestion on these or any other issues that may or may not have been raised in this Discussion Paper that you think that IASB should consider if it decides to develop proposals for any specific accounting requirements for rate-regulated activities?

IPA response

As previously mentioned, the IPA believes any accounting requirements for rate regulated activities should be consistent with existing accounting requirements and the Framework.

We also agree the impact on IFRIC 12 “Service Concession Arrangements” should be considered as activities subject to service concessions may include many of the characteristics of rate regulated activities. As such assets and liabilities required to be measured under IFRIC 12 may be impacted as a result of developments in the accounting for rate regulated activities.
