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Accounting for rate-regulated activities

Restarting the project

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IN THE HEADLINES

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> “In some jurisdictions, including North America and India, the lack of specific guidance on accounting for rate-regulated activities is seen as a significant barrier to adoption of IFRS.”

– Phil Dowad,
KPMG’s global IFRS revenue recognition and provisions leader

Accounting for rate-regulated activities

Some national accounting frameworks include specific guidance on accounting for the effects of rate regulation. This guidance requires regulated entities – e.g. electricity distribution companies – to recognise a regulatory asset/(liability) if the regulator effectively grants a right to charge higher/(lower) prices in the future to recover variances in allowable costs arising in prior periods.

There is no equivalent accounting guidance in IFRS. The IASB suspended its previous project on accounting for rate-regulated activities in 2010, noting that there were opposing views on whether it is appropriate to recognise regulatory assets and liabilities. It has now decided to issue an interim standard while it conducts a comprehensive project.

A comprehensive project

The IASB decided in September 2012 to restart its comprehensive project on rate-regulated activities with a discussion paper (DP) rather than an exposure draft (ED). Restarting the comprehensive project with a DP will allow the IASB to conduct a full analysis of the accounting impacts of the various forms of rate regulation. However, it will increase the time required to complete the project.

We are unlikely to see a DP before late 2013 or a comprehensive IFRS before 2016.

An interim standard

Given the time needed to develop a final standard, the IASB decided on 17 December 2012 to develop an interim standard, to provide temporary guidance on accounting for rate-regulated activities for first-time adopters of IFRS.

The IASB plans further discussion of its proposals for an interim standard in January 2013. Approaches considered to date include a ‘grandfathering’ approach. Under this approach, entities that recognised regulatory assets and liabilities under previous accounting regimes would recognise regulatory assets and liabilities under IFRS upon first-time adoption. Entities that take this approach may be required to show the effects of this accounting policy separately, to enable comparison with entities that do not recognise regulatory assets and liabilities. Other matters for the IASB to consider include possible effects on the accounting and/or disclosures for current IFRS users.

Business impacts

Publication of an interim standard on rate-regulated activities would make adoption of IFRS more attractive in some jurisdictions. However, it would lead to an increase in diversity of practice under IFRS in the medium term.

Basic facts

There is no separate standard on accounting for rate-regulated activities under IFRS.

The IASB published an ED *Rate-regulated Activities* in July 2009. This ED proposed that entities conducting rate-regulated activities would recognise regulatory assets and liabilities in some cases. The IASB suspended its previous project on rate-regulated activities in 2010.

Find out more

For more information on options for restarting the project, please go to the IASB website or speak to your usual KPMG contact.

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