pwc

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

via email: standard@aasb.gov.au

4 February 2015

Dear Kris

Re: Exposure draft 254 and Invitation to Comment 32

I am enclosing copies of PricewaterhouseCooopers' 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.

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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,

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

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).