

Straight away

IFRS bulletin from PwC

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IASB issues interim standard on regulatory deferral accounts

What is the issue?

The IASB has issued IFRS 14, 'Regulatory deferral accounts' ('IFRS 14'), an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts').

IFRS 14 is only applicable to entities that apply IFRS 1 as first-time adopters of IFRS. It permits such entities, on adoption of IFRS, to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. The interim standard also provides guidance on selecting and changing accounting policies (on first-time adoption or subsequently) and on presentation and disclosure.

There is currently no standard that specifically addresses rate-regulated activities. The objective of the interim standard is to allow entities adopting IFRS to avoid major changes in accounting policy before completion of the broader IASB project to develop an IFRS on rate-regulated activities. A discussion paper on the project is expected later in 2014.

What are the key provisions?

Scope

IFRS 14 only applies to first-time adopters of IFRS that apply IFRS 1 and conduct rate-regulated activities. Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight

and/or approval by an authorised body. IFRS 14 excludes entities that are self-regulated (for example, if prices are regulated solely by the entity's own governing body).

Entities in the scope of IFRS 14 are permitted to continue applying previous GAAP accounting policies for regulatory deferral accounts. Changes to existing policies are restricted. Any change must make the financial statements more relevant and no less reliable, as described by IAS 8.

Entities are not permitted to change accounting policies to start recognising regulatory deferral account balances that were not recognised under previous GAAP. Entities can, however, recognise new balances that arise as a result of a change in accounting policy (such as on the first-time adoption of IFRS or for changes to IFRS). For example, if a new deferral account arises from the adoption of new IFRS employee benefits guidance, the new account is accounted for consistently with the entity's previous GAAP accounting policies.

Recognition, measurement, impairment and derecognition

An entity is permitted to continue applying its previous GAAP accounting policies for the recognition and measurement of regulatory deferral accounts on first-time adoption. The interim standard does not include any further guidance on recognition, measurement, impairment and derecognition.

Previous GAAP accounting policies are only applied to balances that are not

otherwise covered by specific IFRSs. That is, other specific IFRSs should be applied first, and only any residual balance is accounted for under IFRS 14.

Other standards might also need to be applied to regulatory deferral accounts to reflect them appropriately in the financial statements. For example, the entity would apply its previous GAAP accounting policy to the impairment of regulatory deferral account balances, but it would apply the IFRS impairment guidance to cash generating units that contain such balances.

Judgement will be required to determine what other standards might be applicable and how they might interact with previous GAAP accounting policies.

Presentation

Balances arising from the application of IFRS 14 are presented separately in the balance sheet and the statement of comprehensive income.

A separate line item is presented in the balance sheet for total regulatory deferral debit balances and total regulatory deferral credit balances, following a sub-total of all other assets and liabilities. The distinction between current and non-current balances is not presented on the balance sheet, and offsetting is not permitted, although this information might be disclosed elsewhere.

The total movement in all regulatory deferral accounts is split between other comprehensive income (OCI) and profit and loss. The amount recorded in profit and loss is separately presented as a single line item after a sub-total for profit and loss. The amount recorded in OCI is presented in two line items, based on whether the amount relates to items that will or will not be subsequently reclassified to profit and loss. Movements are classified in OCI where the balances relate to items recognised in OCI. An entity that presents earnings per share (EPS) should present, in the income statement, EPS excluding and including the movement in the regulatory deferral accounts.

Disclosures

The disclosure requirements address information about the nature and risk of the regulation and the effect on the financial statements, including:

- a description of the nature and extent of rate regulation;
- how the future recovery or reversal of each balance is affected by risks and uncertainties;
- the basis on which the regulatory deferral account balances are recognised and measured; and
- a reconciliation of the balances from the beginning to the end of the period.

Am I affected?

IFRS 14 will affect first-time adopters of IFRS that currently recognise balances arising from rate regulation under previous GAAP accounting policies. This is common in the utilities industry, but the interim standard might affect other industries where prices are regulated.

What is next?

IFRS 14 is effective from 1 January 2016. Early adoption is permitted. Application is not compulsory, but entities that will apply the guidance should begin to consider the implications in connection with the adoption of IFRS.

The broader project on rate-regulated activities is ongoing. The IASB is expected to issue a discussion paper on the project later in 2014 to seek initial views on the accounting for rate-regulated activities.