

Applying IFRS

IFRS 14 Regulatory Deferral Accounts

Applying IFRS for IFRS 14 *Regulatory Deferral Accounts*

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What you need to know

- ▶ IFRS 14 is an optional standard made available to first-time adopters of IFRS only. The standard is intended to provide some relief from derecognising rate-regulated assets and liabilities upon adoption of IFRS while the IASB continues to deliberate the comprehensive rate-regulated activities project.
- ▶ Existing IFRS preparers are prohibited from adopting this standard.
- ▶ The standard allows rate-regulated entities to continue recognising regulatory deferral accounts in accordance with their previous generally accepted accounting policies (GAAP), upon their first-time adoption of IFRS.
- ▶ Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statements of profit or loss and other comprehensive income.
- ▶ The standard requires disclosure of the nature of, and risks associated with, the entity's rate regulation and the effects of the rate regulation on its financial statements.
- ▶ The standard is effective for annual periods beginning on or after 1 January 2016. Early application is permitted.
- ▶ The IASB is continuing its comprehensive rate-regulated activities project, which could result in either a standard on rate regulation or a decision not to develop specific requirements. By issuing IFRS 14, the IASB is not anticipating the outcome of the comprehensive project.

1. Introduction

On 30 January 2014, the International Accounting Standards Board (IASB or the Board) issued IFRS 14 *Regulatory Deferral Accounts* (the interim standard or IFRS 14) to ease the adoption of International Financial Reporting Standards (IFRS) for rate-regulated entities. The interim standard provides first-time adopters of IFRS with some relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities has been completed by the IASB.

That said, there are differing views as to whether rate-regulated assets and liabilities meet the current definitions of assets and liabilities set out in the *Conceptual Framework for Financial Reporting* (conceptual framework) or the definitions included in the discussion paper on the IASB's project to revise the conceptual framework. Therefore, it is important for rate-regulated entities to stay tuned to the IASB's progress on both the conceptual framework and comprehensive project. A discussion paper on the comprehensive rate-regulated activities project was issued on 17 September 2014, with the comment period ending on 15 January 2015; re-deliberations on the conceptual framework will continue during 2014.

In this publication, we take a closer look at the requirements of IFRS 14, consider some of the potential benefits for reporting entities and explore some of the practical challenges in implementing it. We believe the insights and examples provided in this publication are particularly relevant for rate-regulated entities that are considering adopting IFRS for the first time.

1.1 Key features of IFRS 14

Below are some of the key features of this interim standard:

- a) It allows (but does not require) an entity whose activities are subject to rate regulation to continue applying most of its existing accounting policies for regulatory deferral account balances upon first-time adoption of IFRS.
- b) Existing IFRS preparers are prohibited from applying this standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.
- c) Entities that adopt this standard must present the regulatory deferral accounts as separate line items in the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income (OCI).
- d) The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.
- e) If the standard is applied, full retrospective application is required.

IFRS 14 is an optional standard that is intended to encourage rate-regulated entities to adopt IFRS while bridging the gap with similar entities that already apply IFRS, but which do not recognise regulatory deferral accounts. This would be achieved by requiring separate presentation of the regulatory deferral account balances (and movements in these balances) in the statement of financial position and statements of profit or loss and other comprehensive income.

IFRS 14 is intended to encourage rate-regulated entities to adopt IFRS while the IASB continues its work on the comprehensive rate-regulated activities project.

1.2 Looking ahead

At the time of issuing IFRS 14, the IASB made it clear that the interim standard is not intended to anticipate the outcome of the comprehensive project. This means that the comprehensive project could result in either a standard on rate regulation or a decision not to develop specific requirements. Therefore, entities that elect to adopt IFRS 14 should be aware that the regulatory deferral account balances may need to be derecognised from their financial statements if the IASB decides not to issue a separate standard upon completion of the comprehensive rate-regulated activities project, or to issue a standard prohibiting recognition of (certain elements of) deferral account balances.

2. Scope of the interim standard

Only first-time adopters can avail themselves of IFRS 14. IFRS 14 must not be adopted by entities that are currently preparing their financial statements under IFRS. Therefore, IFRS 14 is applied exclusively in connection with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

An entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them through the adoption of IFRS 14.

If an entity commences rate-regulated activities after adopting IFRS, the entity would be considered an existing IFRS preparer and, as such, would be prohibited from applying IFRS 14.

This restriction has caused some debate within jurisdictions that had previously adopted IFRS, and were required to write-off their regulatory assets and liabilities in their initial year of IFRS transition. As such, some respondents to the exposure draft on IFRS 14 advocated widening the scope to include existing IFRS reporters. However, the IASB considered the potential risks and costs involved and decided not to permit existing IFRS reporters to adopt IFRS 14 since there is uncertainty that the comprehensive project will result in the same accounting as is now permitted under IFRS 14.

2.1 Entities that conduct rate-regulated activities

The IASB defined the scope of IFRS 14 as follows: "an entity is permitted to apply the requirements of this Standard in its first IFRS financial statements if and only if it:

- a) conducts rate-regulated activities; and
- b) recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP."

The evaluation of whether an entity conducts rate-regulated activities is based on whether an entity's activities are subject to rate regulation, which is defined in IFRS 14 as: "A framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator."

How we see it

Contrary to the Board's proposal in the exposure draft *Regulatory Deferral Accounts* (the ED), the price established by the regulator does not need to be designed to recover the entity's allowable cost of providing the regulated goods or services.

The removal of the scope restriction that required that prices must recover the entity's allowable costs has resulted in a broader definition of rate regulation which will allow more entities to consider the adoption of the new standard.

Extract from IFRS 14: Appendix A Defined terms

Rate regulator

An authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The rate regulator may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.

During re-deliberations, the Board agreed that the existence of an external source of regulation is an important feature that distinguishes rate-regulated activities from other commercial activities. As such, paragraph BC22 of the Basis for Conclusions on IFRS 14 clarifies that an entity that self-regulates the prices charged to the customers, without the involvement of a formal rate regulator, is not allowed to apply the interim standard to its self-regulated activities.

How we see it

In some instances, the rate regulator may also sit on the entity's board of directors. In such cases, entities adopting IFRS 14 will have to assess whether they would still meet the definition of conducting rate-regulated activities.

In our view, the definition of a rate regulator under IFRS 14 acknowledges that the rate regulator may also be the entity's own governing board. Hence, even if it is the board of directors, so long as it is empowered by either statute or regulation to set rates in the interest of both the customer and the entity, it would be deemed a rate regulator within the scope of IFRS 14. Therefore, the fact that the rate regulator is also a director of the entity would not preclude the application of IFRS 14.

3. Recognition and measurement

IFRS 14 allows entities to recognise regulatory deferral account balances in the statement of financial position at amounts that would otherwise be recognised in the statement of profit or loss and other comprehensive income (OCI), if they do not meet the criteria to be recognised as an asset under IFRS.

3.1 Adoption of previous accounting policies applied prior to adoption of IFRS

IFRS 14 provides a temporary exemption from complying with other IFRS standards and requirements as well as the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the IFRS framework.

Under the exemption, entities electing to apply IFRS 14 must develop their accounting policies under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the standard goes on to say that entities must continue applying their accounting policies for recognition, measurement, impairment and derecognition of regulatory deferral account balances under their previous GAAP.

Entities will continue to apply their previous GAAP accounting policies to the recognition, measurement, impairment and derecognition of the regulatory deferral account balances.

IFRS 14 excludes those deferral account balances arising from rate-regulated activities that are assets and liabilities required to be recognised in accordance with other IFRS standards and the conceptual framework. Consequently, for regulatory deferral account balances that are recognised and measured separately from other standards, the application of IFRS 14 would be rather straightforward. For example, for storm damage costs and volume or purchase price variances that will be recovered in future rates are frequently recorded in separate regulatory deferral accounts.

However, where the regulatory balances are included within assets and liabilities that are scoped in other standards, additional data and greater effort will be required to measure the regulatory deferral accounts, especially where, historically, they have not been recorded or tracked separately. For example, rate-regulated property, plant and equipment (PP&E) accounts recognised under an entity's previous GAAP will likely include activity that is unique to a rate-regulated jurisdiction as well as activity that would be recognised under IAS 16 *Property, Plant and Equipment*.

Illustration 3.1 – Implications for regulatory balances that are combined within assets and liabilities from other IFRS standards

Consider a rate-regulated entity that intends to adopt IFRS in its 31 December 2016 year-end financial statements, with one year of comparatives (2015). Therefore, the date of adoption would be 1 January 2015. The entity currently prepares its financial statements under US GAAP for rate-regulated companies and capitalises finance costs and costs of capital for the construction of fixed assets (ASC 980-835-45-1).

Upon adoption of IFRS, the entity is allowed to avail itself of the deemed cost exemption under paragraph D8B of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Consequently, the property, plant and equipment (PP&E) balances prior to the adoption of IFRS 14 will include an allowance for funds used during construction (AFUDC) based on the respective regulatory policies.

If the entity elects to adopt IFRS 14 as at 1 January 2015, any PP&E additions subsequent to 1 January 2015 would include capitalised interest required under IAS 23 *Borrowing Costs*. However, these amounts will differ from the amounts calculated under the entity's previous GAAP (i.e., ASC 980-835-45-1). The difference in the capitalised amounts will be classified as a regulatory deferral account under IFRS 14.

Thus, on adoption of IFRS on 1 January 2015, the entity will likely need to maintain two PP&E ledgers: one under IFRS for the PP&E balances from 1 January 2015 and another for the balances prior to 1 January 2015 under the previous GAAP that are carried forward under the deemed cost exemption available under IFRS 1.

Moreover, a regulator might specify the useful lives and method used in determining depreciation expense for rate-making purposes, which may differ from the requirements of IAS 16. Under IFRS 14, a regulatory deferral debit or credit balance would be recorded for the difference between the carrying amount of PP&E recognised under IAS 16, and as calculated under the applicable regulatory requirements. In this case, the difference between the depreciation charges would be shown on a separate line on the statement of profit or loss.

What does it mean for you?

The two scenarios in illustration 3.1 above essentially highlight that entities would potentially have to maintain additional sets of records and ledgers upon the adoption of IFRS 14. In addition to the existing regulatory and, possibly, tax ledgers, an entity may need to implement a separate ledger to track the differences related to the IFRS 14 regulatory deferral account balances. This is in addition to the separate ledger that an entity needs to maintain under IFRS even without adopting IFRS 14.

We encourage entities to assess how the cost of developing and maintaining additional ledgers might impact their decision to adopt the interim standard.

3.2 Initial recognition and measurement

As the regulatory deferral account balances to be recognised are restricted to the incremental amounts from what would otherwise be recognised as assets and liabilities under IFRS and the conceptual framework, the measurement of these balances effectively entails a two-step process:

- ▶ An entity would first determine the carrying amount of its assets and liabilities under IFRS, excluding IFRS 14.
- ▶ These amounts would then be compared with the assets and liabilities determined under the entity's previous GAAP presentation (i.e., its rate-regulated balances).

The differences would represent the regulatory deferral debit or credit account balances to be recognised by the entity.

The example below illustrates a simple scenario in which the regulatory deferral account balances are recognised and measured separately from other standards.

Illustration 3.2 – Determining the regulatory deferral account balances to be recognised on initial application of IFRS

Assume Entity A is a gas company in Country X that reports under US GAAP and has a December year end. In order to reduce volatility in rates charged to customers, the regulator in Country X requires Entity A to recover the differences between actual and estimated costs over time.

Under US GAAP, the deferred gas costs meet the asset recognition criteria and are presented as "Other assets and deferred costs" on Entity A's balance sheet as at 31 December 20X1. There are no other assets included in this line item on the balance sheet aside from these deferred costs.

The rate regulator permitted Entity A to recover its gas supply costs on the basis of a one-for-one pass through to customers. Under the rate-setting mechanism, it also requires the entity to amortise any net over or under-recovery of gas costs on a straight-line basis over three years.

Entity A decides to adopt IFRS in its 20X3 financial statements.

On the date of IFRS adoption (1 January 20X2), Entity A has a carrying amount of CU117,000 presented as Other assets and deferred costs on its US GAAP balance sheet, which relates to the net under-recovery of gas costs to be deferred over the next three years.

Entity A has assessed that these deferred costs do not meet the requirements to be recognised as assets under IFRS.

Consequently, the regulatory deferral account balances to be recognised under IFRS 14 amount to CU117,000, which is the difference between the deferred costs capitalised and recognised under US GAAP and what would have been recognised under IFRS without the adoption of IFRS 14 (i.e., CUNil). Amortisation expense of CU39,000 (CU117,000/3 years) will be recognised annually during the three year recovery period.

The standard is clear that if an entity had not recognised regulatory deferral account balances under its previous GAAP, it is not allowed to change its accounting policies in order to start recognising regulatory deferral account balances upon initial adoption of IFRS.

3.3 Accounting in subsequent periods

An entity that elects to adopt IFRS 14 must continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. The accounting policies need to be applied consistently in subsequent periods.

Illustration 3.3 – Calculating the regulatory deferral account balances in subsequent periods

Following from Illustration 3.2 above, the table below presents the effects of variations in the cost of gas on Entity A's rate-regulated activities over a three-year period, as at 31 December:

(CU'000)	20x1	20x2	20x3
Amount charged to customers based on regulated rates	917	1,124	1,079
Part of rate that recovers deficit/surplus in prior years	–	(39)	(24)
Net amount charged to customers in respect of current year	917	1,085	1,055
Actual gas supply costs of current year	1,034	1,040	980
Net amount of (under)/over recovery of costs (i.e., regulatory deferral account (debit)/credit balance)	(117)	45	75

As discussed in Illustration 3.2, due to the under-recovery of gas costs, a debit regulatory deferral balance of CU117,000 was recognised as at 1 January 20x2 on application of IFRS 14. This regulatory deferral account debit balance will be amortised over three years, with an annual charge of CU39,000. In year 20x2, the over-recovery of gas costs of CU(45,000) results in a regulatory deferral credit balance which will also be amortised over three years, with an annual credit of CU(15,000). The table below shows the movements in the net regulatory deferral account balances over the three-year period, as at 31 December:

Regulatory deferral account balances, net (CU'000)	20x1	20x2	20x3
Beginning balance	–	117	33
Net under-recovery of gas costs during the year	117	–	–
Net over-recovery of gas costs during the year	–	(45)	(75)
Amortisation of:			
▶ Under-recovery of gas costs incurred in Year 20x1	–	(39)	(39)
▶ Over-recovery of gas costs incurred in Year 20x2	–	–	15
Net movement	117	(84)	(99)
Ending balance	117	33	(66)

Under IFRS 14, the net movement in the debit and credit balances will flow to the statement of profit or loss and OCI.

A similar process would be applied when accounting for the activity in the regulatory deferral account balances for the subsequent years.

An entity may also need to use estimates and assumptions in the recognition and measurement of its regulatory deferral account balances. Therefore, for events that occur between the end of the reporting period and the date when the financial statements are authorised for issue, IAS 10 *Events after Reporting Period* needs to be applied to identify whether those estimates and assumptions should be adjusted for in the balances at the end of the reporting period to reflect those events.

3.4 Service concession arrangements

Many governments have utilised contractual service concession arrangements for the development, maintenance and operation of various infrastructure initiatives. Given the similarities that may exist between some service concession arrangements and rate-regulated schemes (e.g., the use of variance accounts due to price regulation) and the potential overlap in the scope of IFRIC 12 *Service Concession Arrangements* and IFRS 14, there may be some implementation issues for entities to consider when a service concession arrangement exists (i.e., how the two standards would interact with each other).

For example, when adopting IFRS, an entity would apply the requirements of IFRIC 12 prior to the application of IFRS 14. For infrastructure assets under service concession arrangements, the entity (i.e., the operator) would not recognise PP&E since the grantor is considered to be the party controlling the asset. Instead, the entity recognises the consideration received or receivable as either a financial asset or an intangible asset for the construction or upgrade services that it provides. In some instances, it may be necessary to divide the operator's right to cash flows into a financial asset (where there is an unconditional contractual right to cash or other financial assets) and an intangible asset (where there is only a licence and a right to charge users). This is also known as a 'hybrid model'.

Therefore, when adopting IFRS 14 in the case of a hybrid model, both the financial asset and intangible asset need to be combined and compared against the carrying amount under the previous GAAP, in order to determine the amount of regulatory deferral account balance under IFRS 14. This approach is aligned with the principle in paragraph 7 of IFRS 14, which explicitly states that any amounts recognised as assets or liabilities in accordance with other IFRSs should be excluded from the regulatory deferral account balances.

3.5 Income taxes

IFRS 14 states that the deferred tax asset or liability arising on recognition of a regulatory deferral account balance is included within the separate line item presented for the regulatory deferral account balance or movements within the balance. This differs from the general IAS 12 *Income Taxes* requirements of combining all deferred tax assets or liability balances.

Entities should also consider how they would determine deferred income taxes allocated to a regulatory deferral account. This would likely involve significant judgements and estimates in determining the split between the regulatory deferral account balances and other IFRS assets and liabilities.

On an ongoing basis, there may also be process implications to consider. For example, this may require separate tax ledgers to be maintained for the IFRS balances and the regulatory deferral accounts so as to track and monitor these balances separately for any utilisation, derecognition and impairment assessments.

4. Impairment considerations

IFRS 14 allows an entity to continue to apply its previous GAAP accounting policies for the identification, recognition, measurement and reversal of any impairment of its recognised regulatory deferral account balances. Consequently, the requirements under IAS 36 *Impairment of Assets* do not apply to the separate regulatory deferral account balances recognised.

Having said that, IAS 36 might require an entity to perform an impairment test on a cash-generating unit (CGU) that includes regulatory deferral account balances. The impairment test may be required because the CGU contains goodwill, or because one or more of the impairment indicators described in IAS 36 have been identified as relating to the CGU. Below are some considerations to keep in mind in such situations.

4.1 Determination of the recoverable amount of the CGU

IAS 36 requires an entity to assess whether there is any indication that an asset or CGU may be impaired at the end of each reporting period. Certain events that occur subsequent to the balance sheet date, but prior to the issuance of the financial statements, may also need to be considered.

If any impairment indication exists at the end of any interim or annual reporting period, the entity would have to estimate the recoverable amount of the asset or CGU. Paragraph B16 of IFRS 14 provides that an entity must apply the requirements under paragraphs 74-79 of IAS 36 to establish whether any of the regulatory deferral account balances recognised should be included in determining the carrying and recoverable amount of the CGU for the purpose of the impairment test. Therefore, if the regulatory deferral account balances are included in the carrying amount of a CGU, they must also be included in the recoverable amount of the CGU.¹

The inclusion or exclusion of regulatory deferral account balances for purposes of the impairment assessment of the CGU needs to be consistently applied period to period, unless a change is justified.

4.2 Allocation of the impairment losses within the CGU

Paragraph B16 of IFRS 14 provides that the remaining requirements of IAS 36 must be applied to any impairment loss that is recognised as a result of the impairment test. Therefore, the requirements in paragraphs 104-105 of IAS 36 would be relevant in recognising and allocating the impairment loss for a CGU where regulatory deferral account balances are recognised.

In allocating the impairment losses for a CGU, the impairment losses are first applied to reduce the goodwill and then to the other assets of the unit, including any regulatory deferral account debit balances, on a pro-rata basis, of the carrying amount of each asset in the CGU in accordance with IAS 36.104(b).

¹ IAS 36.75

However, it is important to note that any impairment losses that are allocated to the regulatory deferral account debit balances should not reduce their carrying amount to below the amount of costs that are recoverable under the rate regulation mechanisms.²

5. Group considerations

In a group situation, there could be complex scenarios that arise as a result of the regulatory regimes and historical accounting policies of an entity's subsidiaries. Paragraph 8 of IFRS 14 requires that an entity that is within its scope, and elects to apply it, must apply all of its requirements to all regulatory deferral account balances arising from all of the entity's rate-regulated activities. Therefore, careful assessment of the costs versus benefits should be evaluated when deciding whether to adopt IFRS 14.

5.1 Impact on associates, joint ventures and subsidiaries in the consolidated financial statements

IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* require the use of uniform accounting policies for like transactions and other events in similar circumstances, by the parent and the subsidiaries, associates and joint ventures.

Consequently, if a parent recognises regulatory deferral account balances in its consolidated financial statements, in accordance with IFRS 14, it must apply the same accounting policies to the regulatory deferral account balances arising in all of its subsidiaries. This applies irrespective of whether the subsidiaries recognise those balances in their own financial statements.

Conversely, if the parent does not recognise regulatory deferral account balances in its consolidated financial statements, any such balances in the subsidiary's separate financial statements would also have to be derecognised upon consolidation, even if the subsidiary meets the criteria to apply IFRS 14.

Similar to subsidiaries, adjustments may be required to make the associate's or joint venture's accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances conform to those of the investing entity in applying the equity method.

5.2 Business combinations and acquisitions

When an entity that has adopted IFRS 14 acquires a business, its accounting policies must be applied to the acquiree's regulatory deferral account balances as of the date of acquisition.

However, an entity that is an existing IFRS preparer is not allowed to apply IFRS 14 in its consolidated financial statements. Therefore, even if the entity acquires a business and the acquiree is a first-time adopter who chooses to implement IFRS 14, the entity should not reflect the acquiree's regulatory deferral account balances, as of the date of acquisition, in the consolidated financial statements.

² IAS 36.105

Regulatory deferral account balances, and the net movements in the account balances, are presented on separate line items in the statement of financial position and statement of profit or loss and OCI.

6. Presentation

One of the key aspects of IFRS 14 is the presentation changes introduced for both the statement of financial position and statement of profit or loss and OCI.

The interim standard requires regulatory deferral account balances to be presented as separate line items on the statement of financial position. In addition, the total of all regulatory deferral debit balances must be separated from the total of all regulatory deferral credit balances. The net movements in the account balances must be presented, net of the applicable deferred income taxes, as a separate line item on the statement of profit or loss. The net movements in regulatory deferral account balances that relate directly to OCI are also presented separately.

The IASB believes that presenting the regulatory deferral accounts separately on the statement of financial position and the statement of profit or loss and OCI would enhance comparability with entities that already apply IFRS and, thus, do not recognise regulatory deferral accounts.

6.1 Earnings per share

Entities are also required to present additional earnings per share (EPS) amounts. Although entities would continue presenting basic and diluted EPS in accordance with IAS 33 *Earnings per Share*, they are also required to present basic and diluted EPS, excluding the net movement in the regulatory deferral account balances with equal prominence.

6.2 Non-current assets held for sale and discontinued operations

Other presentation requirements include the exclusion of regulatory deferral accounts, and the related net movements, from discontinued operations or disposal group amounts presented in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Instead, the entity must present the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group either within the line items that are presented for the regulatory deferral account debit balances and credit balances or as separate line items alongside the other regulatory deferral account debit balances and credit balances.

7. Disclosures

Extract from IFRS 14

- 27 An entity that elects to apply this Standard shall disclose information that enables users to assess:
- (a) 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
 - (b) the effects of that rate regulation on its financial position, financial performance and cash flows.

Some of the key disclosure requirements include:

- ▶ A description of the rate-regulated activities and regulatory rate-setting process
- ▶ An explanation of how the future recovery or reversal of each class of regulatory deferral account balance is affected by risks and uncertainties, such as demand and regulatory risks
- ▶ The basis on which regulatory deferral account balances are recognised and measured initially and subsequently
- ▶ A reconciliation of the carrying amount of each class of regulatory deferral account balance as of the beginning and end of the reporting period

In addition, the description of the rate-regulated activities and explanation of the future recovery or reversal of regulatory deferral account balances may be provided in the financial statements or incorporated by cross-reference to information that is readily available to users of the financial statements (e.g., management commentary or risk report).

For consolidated financial statements, it is important to note that disclosures under IFRS 12 *Disclosure of Interests in Other Entities* must also include separate disclosure of the regulatory deferral accounts and the related net movement for the interests disclosed.

8. Effective dates and transition

IFRS 14 is effective for annual periods beginning on or after 1 January 2016 and earlier application is permitted. If adopted, IFRS 14 needs to be applied on a full retrospective basis.

Since IFRS 14 is only made available to first-time adopters of IFRS, entities should also consider when implementing the interim standard, how it would interact with the exemptions contained within IFRS 1. One of the common considerations would be the deemed cost exemption (paragraphs D5 to D8B of IFRS 1), which is further explored in the illustrative example below.

Illustration 8.1 – Application of the deemed cost exemption under IFRS 1 and the adoption of IFRS 14

Assume that an entity reporting under US GAAP has a PP&E balance of CU100 as at 31 December 20x1, which includes capitalised costs allowed under ASC 980-360. With effect from 1 January 20x2, the entity adopted IFRS and the PP&E balance determined under IFRS is CU80.

Question:

Upon adoption of IFRS 14, should the entity record a regulatory deferral account debit balance of CU20 or CUNil?

Answer:

The deemed cost exemption in IFRS 1 is meant to provide some relief for the practical difficulties that entities may face in determining the historical PP&E balances under other IFRSs as at the date of adopting IFRS.

Paragraph D8B of IFRS 1 specifically allows entities to elect to use the previous GAAP carrying amount of PP&E at the date of transition to IFRS as the deemed cost if these assets were previously used in operations subject to rate regulation.

Therefore, upon adoption of IFRS 14, the deemed cost of the PP&E balance is CU100 and the regulatory deferral account debit balance is CUNil as at 1 January 20x2.

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