

Request for Comment on Exposure Draft ED/2009/8 *Rate-regulated Activities*

Executive Summary of Proposals

The International Accounting Standards Board (IASB) has issued the exposure draft of a proposed International Financial Reporting Standard (IFRS) on rate-regulated activities.

The objective of the Exposure Draft ED/2009/8 *Rate-regulated Activities* is to establish criteria for the recognition of assets and liabilities arising from rate regulation and to require disclosures to enable users to understand the nature and financial effects of rate regulation on an entity's activities.

Issued by the Financial Reporting Standards Board
New Zealand Institute of Chartered Accountants

¹ The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

Introduction

Constituents should refer to page 4 of Exposure Draft ED/2009/8 *Rate-regulated Activities* and paragraphs BC1 to BC8 of the Basis for Conclusions for the reasons for the Exposure Draft being published.

IASB Proposals

The Exposure Draft contains proposals by the IASB for the accounting for rate-regulated activities. It is intended that an entity apply the proposed standard to its operating activities that meet the criteria in paragraph 3 of the Exposure Draft.

It is proposed that an entity recognise:

- (a) a regulatory asset for its right to recover specific previously incurred costs to earn a specified return; or
- (b) a regulatory liability for its obligation to refund previously collected revenues and to pay a specified return.

The effect of applying the requirements in the Exposure Draft is to recognise as an asset (liability) an amount that would otherwise be included in the statement of comprehensive income as an expense (revenue).

Recognition, measurement and derecognition of regulatory assets and liabilities is addressed in paragraphs 13 to 21 of the Exposure Draft.

Impact of proposals

So far as the FRSB is aware, no New Zealand entities currently recognise any assets or liabilities arising as a direct result of regulations. The proposed standard is based on existing requirements in North America but the proposals are new to New Zealand. It is therefore possible that the proposals may have a significant impact on some regulated entities in New Zealand as there are several entities whose prices are subject to some form of regulation. However, it is uncertain how many of these entities would fall within the scope of the proposed standard because application is dependant upon the exact nature of the regulation to which entities are subject.

The FRSB is interested in understanding the impact of these proposals in New Zealand. Entities whose prices are subject to a form of regulation are encouraged to consider carefully whether or not they fall within the scope of the proposed standard. The FRSB is actively seeking feedback from regulated entities and whether or not they consider that they are within the scope of the proposed standard. The FRSB also seeks feedback on the anticipated impact of the proposals on entities within the scope of the proposed standard,

New Zealand additional material for PBEs

As the FRSB is unclear about the application of this proposed standard in New Zealand, the FRSB is seeking general feedback from constituents on whether any modifications are needed for PBEs, the reason for the modifications being required and the form those modifications should take.

Differential Reporting

The FRSB has not yet concluded whether or not to propose any differential reporting concessions.

Invitation to Comment

The FRSB encourages constituents to respond to the IASB on the proposals in the Exposure Draft and to the FRSB on any issues that would affect the adoption of these requirements in the New Zealand context. Constituents who submit comments directly to the IASB are requested to forward a copy to the FRSB.

The FRSB requests that constituents supplement their opinions by detailed comments, whether supportive or critical, of the proposals. Supportive or critical comments are essential to a balanced review. The FRSB will consider all submissions received. Comments are invited on any aspect of the proposals. Comments

are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Questions

The FRSB welcomes comment on the proposals in the Exposure Draft. In addition to the IASB's questions in the Exposure Draft, the FRSB seeks constituents' views on the following:

1. Do you agree with the proposals in the Exposure Draft? If not, please provide reasons supporting your response.
2. Which for-profit and public benefit entities you consider will fall within the scope of the Exposure Draft. Please provide reasons supporting your response.
3. The possible impact of adopting the proposals on entities you consider will fall within the scope of the Exposure Draft.
4. Whether you consider that the proposals in the Exposure Draft give rise to the need for any differential reporting concessions for qualifying entities. Please identify the concessions that you consider appropriate and provide reasons supporting your response.
5. Whether there any regulatory issues or other issues arising in the New Zealand environment that may affect the implementation of the proposed New Zealand pronouncement arising from proposed standard, particularly any issues relating to:
 - a. profit-oriented entities;
 - b. public benefit entities; or
 - c. the Privacy Act 1993.Please provide reasons supporting your response.
6. Do you consider the proposed standard to be in the best interests of the users of general purpose financial reports in New Zealand? Please provide reasons supporting your response.

Comments should be addressed to:

Director – Accounting Standards

New Zealand Institute of Chartered Accountants

PO Box 11 342

WELLINGTON

Email: ASD@nzica.com

Submissions must be received by the FRSB no later than **1 November 2009**, the IASB no later than **20 November 2009**.

It would be appreciated if respondents to this Request for Comment include a copy of their submission in electronic form (preferably Microsoft Word format) as that allows for the efficient collation and analysis of comments. Unless otherwise requested, submissions will be made available to the public and may be forwarded to the IASB.

Respondents are requested to indicate, on their submission, on whose behalf the submission is being made (for example, own behalf, a group of people or an entity).