Resolution on the International Accounting Standards Board Exposure Draft ED/2009/8 Regarding Rate-Regulated Activities

WHEREAS, Rate regulation is widespread and significantly affects the economic environment of rate-regulated entities; *and*

WHEREAS, A specific standard on accounting for the effects of rate regulation exists in U.S. Generally Accepted Accounting Principles (GAAP), but it has no counterpart in International Financial Reporting Standards (IFRS); *and*

WHEREAS, Billions of dollars of 'regulatory' assets and liabilities are currently recognized in jurisdictions that refer to U.S. GAAP making clarification of the treatment of assets and liabilities arising from rate regulation in IFRSs critical; *and*

WHEREAS, The wide-spread use of Statement of Financial Accounting Standard 71 (SFAS 71) *Accounting for the Effect of Certain Types of Regulation*, means the financial statements used by investors generally reflect the operations and costs as viewed by regulators; *and*

WHEREAS, The audited financial statements, currently based on GAAP (including SFAS 71) are vital information for utility regulators; *and*

WHEREAS, Without a rate-regulated provision, utility earnings under IFRS will be more volatile, customer confidence could be substantially reduced and the ability to finance severely hindered when investments in infrastructure are greatly needed; *and*

WHEREAS, In December 2008, the International Accounting Standards Board (IASB) added a project to develop a standard on rate regulated activities that clarifies whether regulated entities could or should recognize an asset or a liability as a result of rate regulation, which culminated in the release of an exposure draft on July 23, 2009, regarding rate-regulated activities, available at, <http://www.iasb.org/Current%20Projects/IASB%20Projects/Rate%20regulated%20activities/Summary.htm>, seeking comments by November 20, 2009; *and*

WHEREAS, The draft IFRS (a) specifically addresses rate-regulated activities where an authorized body is empowered to establish rates that bind customers, and the price established by regulation (the rate) is designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return (cost-of-service regulation); *and*

WHEREAS, Many international entities are opposed to the draft IFRS allowing regulatory bodies to continue utilizing regulatory assets and liabilities as a tool to achieve regulatory objectives; *and*

WHEREAS, Incorporation of the principles of SFAS 71 is a critical component of these mechanisms, *now, therefore be it*

RESOLVED, That the National Association of Regulatory Utility Commissioners, convened at its 2009 Annual Convention in Chicago, Illinois, commends the IASB for seeking comments and gathering input on rate-regulated activities; *and be it further*

RESOLVED, That NARUC encourages its members to also file comments on the exposure draft; *and be it further*

RESOLVED, That NARUC file comments on the Exposure Draft ED/2009/8 regarding Rate-regulated Activities specifically to encourage adoption of rate-regulated activities allowing regulatory assets and liabilities, *and be it further*

RESOLVED, That NARUC generally supports the stated objectives to (a) establish criteria for the recognition of assets and liabilities arising from rate regulation; (b) clarify that regulated entities follow the requirements of all other IFRSs; and (c) require disclosures to enable users to understand the nature and financial effects of rate regulation, and *be it further*

RESOLVED, That NARUC supports the exposure draft's proposals that:

- Two criteria must be met for rate-regulated activities to be within the scope of the IFRS, though the examples cited to support the second criteria may be too restrictive for regulatory bodies utilizing regulatory assets and liabilities to implement an alternative regulation plan; *and*
- An entity should include in the cost of self-constructed property, plant and equipment or internally generated intangible assets used in regulated activities all the amounts included by the regulator even if those amounts would not be included in the assets' cost in accordance with other IFRSs; *and*
- Changes in reporting periods should be disclosed, though the ongoing calculation of numerical differences for property, plant and equipment and interest costs are not useful; *and*
- An entity should apply its requirements to regulatory assets and liabilities existing at the beginning of the earliest comparative period presented in the period in which it is adopted as long as (a) any adjustments arising from the application of the draft IFRS are recognized in the opening balance of retained earnings, and (b) the number of comparative periods should be consistent with provisions for first-time adopters; *and*
- An assessment of changes in recovery of regulatory assets or return of regulatory liabilities is appropriate, and impaired regulatory assets or liabilities should not remain on the books; *and*
- Regulatory assets and liabilities should be measured on initial recognition, though NARUC does not support the use of expected or estimated probability-weighted present value to measure as nominal value based on actual amounts or best estimates provides a more useful and consistent measurement; *and*
- No additional recognition criteria are appropriate once an activity is within the scope of the proposed regulatory assets and regulatory liabilities and recognized in financial statements.

Sponsored by the Committees on International Relations and Water
Recommended by the NARUC Board of Directors November 17, 2009
Adopted by the Committee of the Whole, November 18, 2009