RATE REGULATED ACCOUNTING

Question: What is the concern with rate regulated accounting?

SUGGESTED RESPONSE

- **Financial statement users need to be able to understand the financial impacts of rate regulation when looking at the financial results as it is separate from the general revenues and expenses of the government.**
- **Decision makers need to be able to understand the decisions of the rate regulator and to be able to identify regulatory deferral account balances, in order to predict future cash flows.**
- **The regulatory environment such as the one found in Canada is strong and support the recoverability or settlement of regulatory deferral account balances.**
- **There is great value in having the financial effects of rate regulation reflected through the inclusion of amounts in the financial statements, rather than being communicated in the management commentary, because of the higher level of assurance provided by the financial statement audit.**
- **As compared with note disclosure only, the recognition of regulatory deferral account balances in the primary financial statements increases the visibility of the financial effects of rate regulation and, thus, the ease with which users can complete their analyses and perform comparisons.**

CURRENT STATUS

Rate regulated accounting continues to important to support transparency and accountability as it reflects the economic substance of activities for rate regulated entities. The absence of a definitive decision by the IASB continues to be a concern to rate regulated entities, regardless of the fact that there is an interim standard that would grandfather rate regulated accounting.

In the absence of rate regulated accounting, the consolidated financial position of the province would not reflect the economic substance of OPG and H1 activities and undesirable volatility would be introduced into the Province's books.

We acknowledge the AG's position that OPG and H1 results should have been reported on our books as at January 1, 2015 (the date at which the deferral ended), however, in accordance with the province's accounting policy, the earliest possible date that such a change would be reflected on the Province's books is April 1, 2015.

A paper examining the decision-usefulness of financial information that reflects the economics of rate-regulated activities will be discussed at upcoming meetings of the AcSB, the International Forum of Accounting Standard Setters, and the Accounting Standards Advisory Forum (ASAF).

The Province will continue to monitor the IASB's project on rate regulated accounting.

BACKGROUND

The Accounting Standards Board (AcSB) is participating in the International Accounting Standards Board's (IASB) comprehensive project to determine whether (or how) IFRSs should be amended to provide guidance on rate-regulated activities. In January 2014, the IASB issued interim IFRS 14 Regulatory Deferral Accounts to provide guidance for first-time adopters of IFRSs with rate-regulated activities pending completion of this project.

The AcSB's due process includes ensuring those Canadian entities' financial reporting needs are considered by the IASB and issuing the AcSB's own exposure draft on each IASB proposal. Subject to the responses to the AcSB's exposure draft on whether the IASB's proposals are appropriate for application in Canada, the AcSB expects that the amendments will be incorporated into Canadian GAAP in accordance with the AcSB's strategy of adopting IFRSs for publicly accountable enterprises.

Both Hydro One and OPG are government business enterprises and have December 31st year-ends, whereas the Province's fiscal year ends on March 31.

Under the government's accounting policy, any changes to accounting policies impacting GBEs with different year-ends are reflected in the province's consolidated financial results in the subsequent reporting period. This policy allows us to maintain consistency in the basis upon which the budget and actual results are prepared and therefore best supports transparency and accountability in financial reporting. Otherwise, the actual results would reflect the impact of an accounting entry which wouldn't have been reflected in the approved budget against which the Province's results are reported. Ontario's policy for these sorts of changes is also consistent with the practices of other jurisdictions like Manitoba.

As such, the earliest date that the change in accounting standards applicable to rate regulated entities would be reflected in the Province's consolidated financial statements would be in next year's Public Accounts.

We are concerned with the continued uncertainty that remains regarding the future of rate regulated accounting under IFRS. It was because of that uncertainty that the Province directed both Hydro One and OPG to report based on US GAAP, because it does include rate regulated accounting. By adopting US GAAP, we essentially maintained the status quo for both of these entities because US GAAP is very closely aligned with the former Canadian GAAP.

(NOTE - We are not in a position to confirm/commit that we will reflect the results of OPG and Hydro One on an IFRS basis in our future Public Accounts. Rather, we will continue to monitor the progress of the International Accounting Standards Board's project on rate regulated accounting to help inform us on decisions respecting our future accounting policies.)

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