1. Background

The facts, circumstances and assumptions relevant to the two issues addressed in this submission are as follows:

1. The entity is a not-for-profit corporation that chose to prepare its financial statements in accordance with PSAS. Under PSAS, it is classified as an *Other Governmental Organization* (the "OGO").
2. The OGO does not receive transfers or subsidies from a government and is considered self-sustaining as it recovers all of its costs through the rates charged to customers.
3. The OGO is responsible for administering the electricity market, and settling transactions between the electricity distributors and the generators.
4. The OGO is responsible for procuring supply, capacity and conservation measures and has entered into energy contracts with generators.
5. The OGO is required to finance the shortfall between the amounts paid to the suppliers and the amounts collected from the customers (i.e. the regulatory asset).
6. The OGO is rate regulated by a Canadian rate regulator.
7. A "regulatory asset" is defined as an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. [ASC 980-10-05-6]
8. An "incurred cost" is defined as a cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for. [ASC 980-10-20]
9. PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities.

2. Issues

2.1 Issue #1 - Recognition of the economic impacts of rate regulation

Do regulatory assets meet the definition of assets under PSAS?

In order to assess this question, an OGO must address the following issues:

- Whether an OGO can use the GAAP hierarchy to apply the guidance in US GAAP?
- Whether the concepts in US GAAP and ASC 980 are compatible with those in PS 1000?
- Whether regulatory assets are considered intangible assets?

2.2 Issue #2 - Recognition of assets and liabilities when the OGO is acting as an agent

How should assets, liabilities, revenue and expenses be accounted for by an OGO when it is acting as an agent?

3. Analysis of issue #1

3.1. Can an OGO use the GAAP hierarchy to apply the guidance in US GAAP?

View A – Yes. An OGO is permitted to use the GAAP hierarchy to apply the guidance in US GAAP.

PSAS

In the absence of specific guidance in PSAS, an OGO is permitted under PSAS Section 1150 to apply ASC 980 in determining the appropriate accounting for rate-regulated operations.

Specifically, PS 1150.18 and 19 state:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.*
>
> *Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting*

Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances." (Emphasis added)

Since the subject of rate regulation is not covered in the PSAS defined "primary sources of GAAP", in accordance with PSAS an OGO can consider these additional sources.

The sources listed in paragraph 19 are highlighted as examples of important sources to consider rather than being an exhaustive list of sources that should be consulted by a public sector reporting entity when selecting an accounting policy. This view is supported by paragraph 18, which states that PS 1150.19-.24 *"identify some of the other sources"*. The frameworks referenced in paragraph 19 include frameworks from other jurisdictions, including frameworks for profit oriented enterprises, as well as frameworks specifically developed for public sector entities, which indicates that PS 1150 did not intend to and does not restrict public sector entities from consulting frameworks that were primarily developed for entities other than public sector reporting entities so long as the criteria in PS 1150 are met.

In the absence of guidance in an accounting framework, preparers and auditors are required to apply judgment in the development of accounting policies. Before the AcSB, GASB, FASAB and FASB issued their guidance on rate regulation, rate-regulated entities and their auditors were solely required to apply judgment, and, as a result, rate-regulated entities have recognized regulatory assets and liabilities since the early 1900s. Currently, FASB requires, and IASB (through IFRS 14), ASPE, GASB and FASAB explicitly permit, the recognition of the economic effects of rate regulation when an entity meets defined criteria. PSAS is silent on the application of rate regulation and, as a result, rate-regulated entities and their auditors are required to apply professional judgment when considering other aspects of the GAAP hierarchy. Further information on this point is provided below.

AcSB

Within the guidance published by the AcSB, Part I - *IFRS* and Part II - *ASPE* provide limited guidance on the accounting for the economic effects of rate regulation.

IFRS

IASB has not completed its current project on rate-regulated activities and current standards only include an interim standard (i.e. IFRS 14 *Regulatory Deferred Accounts*) that allows an entity within its scope to continue to account for rate-regulated activities in a manner consistent with its pre-IFRS accounting framework. The pre-IFRS accounting framework for those Canadian rate-regulated entities that have adopted IFRS 14 is the legacy Canadian GAAP included in Part V of the CPA Handbook. Part V includes specific guidance allowing for the recognition and measurement of regulatory assets and liabilities in accordance with Sections 1100.04, .24 and 32B. Entities have applied this guidance to account consistent with ASC 980 for rate-regulated activities (see analysis in Appendix A).

At the IASB meeting of February 22, 2018 the Board tentatively concluded that regulatory assets meet the definition of assets under the Conceptual Framework. http://www.ifrs.org/news-and-events/updates/iasb-updates/february-2018/

ASPE

ASPE defines a rate-regulated entity, provides guidance on certain aspects of the disclosure and presentation of information in the financial statements of rate-regulated entities through AcG 19 *Disclosures by entities subject to rate regulation*, and provides specific guidance under four Sections (3061 *Property, plant and equipment*, 3465 *Income Taxes*, 3475 *Disposal of long-lived assets and discontinued operations* and 3850 *Interest capitalized*). While ASPE provides no specific guidance on the recognition of regulatory assets and liabilities, it clearly allows such accounting for entities that are subject to rate regulation. For example, AcG 19 par. 7 requires the disclosure of assets and liabilities recognized solely as a result of the effects of rate regulation which would not be a possible disclosure if such effects could not be recorded in the entity's financial statements.

Rate-regulated entities reporting under ASPE have used the GAAP hierarchy to adopt the recognition and measurement guidance for regulatory assets and liabilities of ASC 980.

FASAB

FASAB permits a governmental entity to recognize the economic effects of rate regulation under specific circumstances. The *FASAB Handbook of Federal Accounting Standards and Other Pronouncements* contains the body of accounting concepts and standards for the U.S. Federal Government. Paragraph 11 of SSFAS 34 states:

> *In rare instances, a federal entity that is preparing GAAP-based general purpose financial reports for the first time may, in consultation with its auditors and bodies with oversight authority,* elect *to apply standards issued by the FASB if the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards. Unique user needs can arise from various sources that include, but are not limited to, investors, SEC requirements, bondholders, and customers. Entities may determine that the application of standards issued by the FASB more appropriately meets these unique user needs. (Emphasis added)*

As an example, the U.S. Department of Energy ("DOE") reports under the Statement of Federal Financial Accounting Standards (SFFAS, which is an aspect of FASAB) and recognizes regulatory assets in its financial statements[1]. Extracts from the note 1.A Basis of presentation and note 5 Regulatory Assets are as follows:

> Note 1.A: *These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the United States (U.S.) Department of Energy (the Department or DOE). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to federal entities.*

> *Note 6: "The Department's PMAs record certain amounts as assets in accordance with the Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) 980, Regulated Operations. The provisions of this standard require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under this standard, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers."* (Emphasis added)

The DOE's regulatory assets include balances arising from a variety of transactions, including debt financings, repayments towards previous funding of generation assets, and provisions for costs incurred to be funded through future operations.

GASB

GASB 62 permits (i.e. provides a choice to) a governmental entity to recognize the economic effects of rate regulation in financial statements for periods beginning after December 15, 2011. Before the issuance of GASB 62, preparers and auditors were required to apply judgment as to whether a governmental entity could apply ASC 980 (previously called FAS 71). GASB 62 section "How the Changes in This Statement Will Improve Financial Reporting" states that:

> *"The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This effort brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments." (Emphasis added)*

GASB 62 par. 149 states that *"If some of a business-type activity's operations are regulated and meet the criteria of paragraph 476 and the entity elects to apply paragraphs 476–500, those provisions should be applied to only that portion of the business-type activity's operations." (Emphasis added)*

[1] https://www.energy.gov/sites/prod/files/2016/11/f34/DOE_FY2016_AFR.pdf

IPSAS

The IPSAS does not provide accounting guidance for entities with rate-regulated activities. It is unclear whether there are any rate-regulated entities that use the IPSAS framework.

FASB

The recognition of the economic effects of rate regulation dates back to the early 1900s. FAS 71 required an entity to recognize the economic effects of rate regulation in financial statements for fiscal years beginning after December 15, 1983. Before the issuance of FAS 71, preparers and auditors were required to apply judgment with respect to the development of accounting policies to recognize the economic effects of rate regulation, and, as a result, rate-regulated entities have recognized regulatory assets and liabilities since the early 1900s

ASC 980 must be applied by entities that meet certain criteria. Section 10-15-2 of ASC 980 states that *"The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria…"*

Application to PSAS

While FASB is not specifically mentioned in PS 1150 as an example of "*important sources to consult*", it is also not prohibited. In addition, FASAB and GASB are mentioned and, as discussed above, provides for the application of the FASB ASC 980 standard. As noted in section 3.2 below, there are a number of criteria in PS 1150 that should be considered when assessing sources other than the primary source of GAAP. However, there is no hierarchy or ordering of sources set out in PS 1150. Instead, PS 1150 establishes an overall framework for the exercise of professional judgment. As long as ASC 980 meets the criteria in PS 1150, then ASC 980 is an acceptable alternative source that may be considered by an OGO in establishing its accounting policy for rate-regulated activities. Based on PS 1150.08 (a) and (b), a Canadian rate-regulated entity is permitted to use ASC 980 as a source that deals with its circumstances and would be allowed to conclude that it is more relevant than one from which the public sector reporting entity must otherwise analogize.

> "PS1150.08 *"A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:*
>
> *(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.*
>
> *(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction."*

As noted above, it is appropriate for an OGO to reference the private sector guidance when applying the GAAP hierarchy as PSAS does not provide detailed guidance on regulatory accounting.

The relevance of private sector regulatory accounting principles to a government entity, was also identified in the basis of conclusions for the issuance of FAS 71. Paragraph 64 of the Basis for Conclusions of FAS 71 issued in 1982 noted that a number of U.S. governmental utilities believed that users' emphasis on comparability between investor-owned utilities and governmental utilities supported the continuation of the recognition of the economic effects of rate regulation for governmental utilities. As mentioned earlier, as from 2011 GASB has adopted the guidance of ASC 980 in GASB 62.

> *"A number of governmental utility respondents to the Exposure Draft asked that governmental utilities be included within the scope of this Statement. They noted that many governmental utilities have been guided by the same accounting practices and standards as investor-owned utilities in their general-purpose financial statements, and they expressed the view that users' emphasis on comparability supports continuation of that practice. In their view, the Board's decision not to address governmental utilities in this Statement should not preclude them from applying it. The Board agreed with those respondents and modified paragraph 5(a) so as not to preclude application by governmental utilities with rates set by their own governing board."*

View B – No. An OGO is not permitted to use the GAAP hierarchy to apply the guidance in US GAAP.

PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In the absence of specific guidance in PSAS, an OGO is not permitted under PSAS Section 1150 to apply the identified GAAP hierarchy in determining the appropriate accounting for rate-regulated operations. The silence in PSAS means that PSAB has considered the use of rate-regulated standards by OGOs applying PSAS, and does not permit it unless specifically allowed under the standards.

There are instances where the concepts described in PS 1000 *Financial statement concepts* conflict with a primary source of GAAP. For example, a government business enterprise (GBE) that is required to prepare its financial statements using IFRS may use rate-regulated accounting in accordance with IFRS 14 *Regulatory deferral accounts*. In these instances, the requirement of the primary source of GAAP (i.e., PS 1300 *Government reporting entity*) prevail and act as an exemption from conforming to the conceptual framework. However, there is no such overriding conflict, nor such an exemption, when it comes to an OGO that applies PSAS as its reporting framework.

In order for rate-regulated accounting to be permissible under PSAS, there would need to be an explicit statement that would exempt entities from conforming to the concepts described in PS 1000 and apply the GAAP hierarchy to identify a secondary source as relevant in the circumstances. The lack of such an exemption is evidence that PSAS has considered, and does not allow, an OGO that applies PSAS to use rate-regulated accounting.

An analysis of the other sources of GAAP mentioned in PS 1150.19 follows.

IFRS

IFRS 14 *Regulatory deferral accounts* specifically states that the use of rate-regulated accounting is only permitted if the entity conducts rate-regulated activities and it previously recognized amounts that qualified as regulatory deferral accounts in its financial statements in accordance with its previous GAAP.

ASPE

Although Canadian private-sector entities can use the GAAP hierarchy under ASPE to consult ASC 980, a public sector entity following PSAS should not be looking to ASPE for guidance, as ASPE is specifically designated for private enterprises in Canada that are not publicly accountable.

IPSAS

The IPSASB is silent on the issue of rate-regulated accounting. In its published 2014 Strategy Consultation, the IPSASB listed and briefly described rate-regulated accounting under a section entitled, "Projects to converge with IFRS". Despite the nod of consideration to the issue, IPSASB has no active projects addressing rate-regulated accounting. Similar to PSAS, the subsequent silence means that the IPSASB does not permit consideration of guidance provided by FASB for rate-regulated accounting unless specifically allowed in specified circumstances (e.g., an entity that adopts IFRS as its framework).

FASAB

The FASAB does not provide accounting guidance for entities with rate-regulated activities. However, the SFFAS 34: The Hierarchy of Generally Accepted Accounting Principles allows certain consolidated federal reporting entities to apply FASB private sector standards for matters not addressed in FASAB standards. Paragraphs 9 – 12 of SSFAS 34 explain the rare circumstances in which it may be appropriate for a consolidated federal entity to apply the standards in FASB, which includes specific guidance on regulated operations in ASC 980. An exception is granted to entities that are required to prepare their financial statements pursuant to standards set by a regulatory agency, and for first-time adopters of FASAB.

> *9. "Some federal entities, including government corporations listed in the Government Corporation Control Act and certain others, such as the United States Postal Service, continue to publish financial reports pursuant to the accounting and reporting standards issued by the FASB. Some entities also may be required to prepare statements pursuant to standards set by a regulatory agency (e.g., the Federal Energy Regulatory Commission (FERC)). General purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports."*
>
> *10. Except as provided in paragraph 11, a federal entity that is preparing GAAP based general purpose financial reports for the first time should implement FASAB standards as FASAB is the preferred method of reporting for federal entities.*
>
> *11. In rare instances, a federal entity that is preparing GAAP-based general purpose financial reports for the first time may, in consultation with its auditors and bodies with oversight authority, elect to apply standards issued by the FASB if the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards. Unique user needs can arise from various sources that*

include, but are not limited to, investors, SEC requirements, bondholders, and customers. Entities may determine that the application of standards issued by the FASB more appropriately meets these unique user needs. This determination should involve a number of considerations. Examples of factors to consider include but are not limited to:

a. The entity's primary funding is derived from a source other than through annual federal appropriations.

b. The entity has been delegated the financial and operational authority to carry on its activities in a manner similar to private business enterprises.

c. The entity sells goods and/or services to individuals outside of the government reporting entity as its principal activity.

d. The entity is intended to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the federal government reporting entity.

e. It is desirable to compare general purpose financial reports of the federal entity that is preparing GAAP-based general purpose financial reports for the first time with an existing entity that is already following FASB GAAP.

12. While the application of standards issued by the FASB may be acceptable for a limited number of federal entities as noted above, entities that have already implemented standards issued by the FASAB should continue to apply the federal standards, as FASAB is the preferred method of reporting for federal entities.

GASB

Paragraph 476 of GASB 62 specifically permits an entity to use rate-regulated accounting. However, in order to use rate-regulated accounting, an entity must have regulated business activities and satisfy all three criteria listed out in GASB 62 paragraph 476. As GASB is one of the alternative sources of GAAP identified in PS 1150.19, it may be appropriate for a rate-regulated entity to consult GASB 62 in developing an accounting policy for regulatory deferral accounts.

In order for an OGO following PSAS to look to the principles of GASB 62 paragraph 476 for guidance in developing an accounting policy to recognize rate-regulated assets, the fundamental principles underlying the recognition of such assets would have to be consistent with the conceptual framework of PSAS. That is to say, an accounting policy developed using other sources of GAAP must still comply with the definitions of assets, liabilities, etc. that underpin PSAS as a whole. The application of GASB 62 paragraphs 476 – 500 may result in regulatory assets that do not meet the definition of an asset under PS 1000. GASB 62 paragraph 478 contains a specific exemption that allows an entity with regulated business-type activities to apply the provisions set out in paragraphs 476 – 500 instead of any conflicting provisions of standards. As PSAS does not contain such an exception that would allow a departure from its conceptual framework, an OGO would not be able to use rate-regulated accounting.

3.2. Are the concepts in US GAAP and ASC 980 compatible with those in PS 1000?[2]

View A – Regulatory assets and liabilities meet the definition of assets and liabilities under PS 1000 Financial statement concepts.

PSAS does not explicitly address the accounting for transactions in a rate-regulated environment. Since PSAS is silent regarding the recognition of the economic effects of rate regulation, in accordance with PS 1150.05 an OGO may consider other sources in the GAAP hierarchy to determine appropriate accounting policies for transactions in a rate-regulated environment. PS1150.05 states:

"*When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, <u>the selection of an appropriate accounting policy requires the exercise of professional judgment.</u> In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that <u>are consistent with</u>:* (Emphasis added)

(a) the primary sources of GAAP; and

(b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000."

[2] Consideration of the Issue in 3.2 assumes that View A is reached under the Issue in 3.1.

Based on PS 1150.05 above, the selection of an appropriate accounting policy requires the exercise of professional judgment and these policies have to be consistent with the primary sources of GAAP and the concepts in PS 1000.

Primary sources of GAAP

As mentioned above, PSAS does not explicitly address the accounting for transactions in a rate-regulated environment.

Although PS 3210 *Assets* applies for fiscal years beginning on or after April 1, 2017, this new standard does not provide any specific guidance on the accounting for the economic effects of rate regulation.

If the concepts of the other sources of GAAP (i.e. US GAAP and ASC 980) are in conflict with PSAS then PSAS prevails (PS 1150.12). For example, PSAS does not permit the use of a guidance in the other source of GAAP if that guidance is an exemption to comply with its own conceptual framework. Since ASC 980 is a specific application of US GAAP it is not an exemption from US GAAP. Furthermore, PSAS does not recognize intangible assets (PS 3150.03 and PS 1000.58). So if regulatory assets are considered to be intangible assets, they would not be allowed to be recognized through the other source of GAAP. This issue is discussed in section 3.3 below.

Application of the concepts in PS 1000

As required by PS 1150.05 (b), we need to analyze whether the concepts in the other sources (i.e. US GAAP and ASC 980) are compatible with the (i) qualitative characteristics of financial information, (ii) the elements of financial statements, and (iii) the recognition and measurement criteria in PS 1000. Based on the analysis below, these concepts under US GAAP are consistent and comparable to those under PSAS.

(i) Qualitative Characteristics of Financial Information

FASB	**PSAS 1000**	**Evaluation**
Concepts and objectives are for both business and non-business organizations as well as governmental units (Concept #4.3 to 4.5)	This Section describes the concepts underlying the development and use of accounting principles in government financial statements (par. 01)	Similar, as FASB also considers governmental units
Financial reporting should: – Be useful in making resource allocation decisions – Be useful in assessing services and ability to provide services – Be useful in assessing management stewardship and performance – Provide information about economic resources, obligations, net resources and changes in them (Concept # 4.33-.54)	Financial statements should be relevant to the needs of the users and reliable. Relevance is achieved through timeliness, predictability and accountability value. Reliable information has the following characteristics: representational faithfulness, completeness, neutrality, conservatism and verifiability. (par. 28-29)	Similar

(ii) Elements of Financial Statements

FASB	**PSAS**	**Evaluation**
Assets		
Probable future economic benefits obtained or controlled by the entity as a result of past transactions or events. (Concept #6.25-.34)	Economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. (par. 35)	Essential characteristics similar Regulatory assets meet the definition of asset as discussed further below. FAS 71.75 states that the Board concluded that, for general-purpose financial

FASB	PSAS	Evaluation
		reporting, the principal economic effect of the regulatory process is to provide assurance of the existence of an asset or evidence of the diminution or elimination of the recoverability of an asset. It should also be noted that the IASB has recently tentatively concluded that regulatory assets meet the definition of asset under the Conceptual Framework.
Liabilities		
Probable future sacrifices of economic benefits arising from present obligations of the entity to transfer assets or provide services in the future as a result of past transactions or events. (Concept #6.35-.43)	Present obligations to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits with little or no discretion to avoid settlement. (par. 44)	Essential characteristics similar FAS 71.11 states that rate actions of a regulator can impose a liability on a regulated enterprise. Such liabilities are usually obligations to the enterprise's customers. It should also be noted that the IASB has recently tentatively concluded that regulatory liabilities meet the definition of liability under the Conceptual Framework.
Revenues		
Inflows from delivering or producing goods, rendering services or other activities that constitute the entity's central operations. (Concept #6.78-.79)	Increases in economic resources resulting from operations, transactions and events of the accounting period. (par. 46)	Although PSAS is based on the change in the balance sheet assets/liabilities model, the revenue recognized for regulatory assets would not be contradictory to this concept.
Expenses		
Outflows from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's central operations. (Concept # 6.80-.81)	Decreases in economic resources resulting from operations, transactions and events of the accounting period. (par. 49)	Essential characteristics similar

(iii) Recognition Criteria

FASB	PSAS	Evaluation
To be recognized, an item must meet the definition of an element of the financial statements, must be measurable with sufficient reliability, be relevant and be reliable. (Concept # 5.64)	To be recognized, an item must have an appropriate basis of measurement, a reasonable estimate can be made of the amount and if the item involves obtaining or giving up future	Essential characteristics similar Regulatory assets have an appropriate basis of measurement (i.e. historical

FASB	PSAS	Evaluation
	economic benefits, it is expected those benefits will be obtained or given up. (par. 55) In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements. (par. 58)	cost). A reasonable estimate can be made of the regulatory assets as they represent the difference between the amount paid to a supplier for goods or services received and the amount collected from the customers. As the regulatory assets are approved by a regulator for future recovery in rates, the rate-regulated entity is the only party that will realize the economic benefits (i.e. the receipts of cash). As discussed in section 3.3, regulatory assets are not considered intangible assets. Intangible assets are non-financial assets. Regulatory assets are more akin to financial assets as defined in PS 1000 as they will be used to discharge existing or future liabilities.

(iii) Measurement Criteria

FASB	PSAS	Evaluation
Measurement basis dependent upon nature of item. Historical cost basis, replacement cost, market value. (Concept # 5.65-.70)	Primarily using historical cost basis. Replacement cost and realizable value are also used, but in limited circumstances. (par. 60)	Essential characteristics similar Regulatory assets and liabilities are measured at historical cost.

Do regulatory assets meet the definition of asset under PSAS?

PS 1000.35 defines assets as *"economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained."* This definition is consistent with the definition of assets in paragraph 3 of the new standard PS 3210. The analysis performed below takes into account the additional guidance in PS 3210 on what is meant by an economic resource, control, future economic benefits and past events and transactions. The analysis of the three essential characteristics as defined by PS 3210.4 are analyzed in the next table.

Characteristics	Additional guidance	Comments
They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.	The essence of assets are their future economic benefits. Assets embody future economic benefits that allow public sector entities to achieve their objectives. The future economic benefits embodied in assets involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows	Rate regulated assets involve a future economic benefit because they represent the amount of cost that can be recovered through future rate setting. The right to collect the incurred costs from the customers is a future cash inflow and therefore a future economic benefit. This is supported by PS 3210 which indicates

(par. 4(a))	or to reduce cash outflows. (par. 11) The future economic benefits embodied in an asset may also be in the form of generating future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. (par. 13)	that the future economic benefits embodied in an asset may be in the form of generation of future cash inflows. Cash inflows benefit the public sector entity because cash can be used to purchase or to provide goods and services, redistribute wealth or settle liabilities. Benefits in the form of cash inflows relates to resources, such as loans receivable, inventory for resale and portfolio investments. Also, some public sector resources generate cash inflows because they have users fees associated with them. In the case of rate regulated assets, the resource collected from customers is the future economic benefit, which is in accordance with PS 1000 and PS 3210.
The public sector entity can control the economic resource and access to the future economic benefits. (par. 4(b))	Economic resources can arise from, but are not limited to, the following: government's own legislation (e.g., taxes, fines and penalties); (par. 08(c)) A public sector entity controls the economic resource and access to the future economic benefits when it: a. can benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or to reduce cash outflows; b. can deny or regulate access to those benefits by others; and c. is exposed to the risks associated with the economic resource. (par.16)	Control of an economic resource is further interpreted in PS 3210 as the ability to benefit from the economic resource, and deny or regulate access to the resource. The economic resources is the right created by the legislation or regulation that the incurred costs will result in future cash flows. In a regulatory environment, incurring costs creates an enforceable right to set rates at a level that permits the rate-regulated entity to recover those costs. The adjustment of future rates is the mechanism the regulator uses to implement the right. The rate-regulated entity can control the asset or restrict others' access to it.
The transaction or event giving rise to the public sector entity's control has already occurred. (par.4(c))	It is the occurrence of a past transaction or event on or before the financial statement date that distinguishes a present economic resource controlled by a public sector entity from an economic resource that may be controlled by a public sector entity in the future. (par. 25) The past transaction or event that gives rise to control of an economic resource resulting from exchange agreements or contracts usually occurs at the point of exchange. This arises when substantially all the benefits and risks of ownership have been transferred to the public sector entity and normally coincides with the disbursement of funds, exchange of other assets or assumption of liabilities. (par. 26)	The recognition of a rate regulated asset is based on the fact that the related expenditure (i.e. the consumption of electricity) has been incurred and that the authority to recover the cost of the expenditure from the customer is in place. The electricity legislation and regulatory framework in place, and the regulatory license obtained by a rate-regulated entity provide the right to recover costs from the customers for the energy consumed, which indicates that once an eligible cost has been incurred, that the right to recover the cost will be met. FAS 71.75 states that the Board concluded that, for general-purpose financial reporting, the principal economic effect of the regulatory process is to provide assurance of the

		existence of an asset or evidence of the diminution or elimination of the recoverability of an asset. The regulator's rate actions affect the regulated enterprise's probable future benefits or lack thereof. Thus, an enterprise should capitalize a cost if it is probable that future revenue approximately equal to the cost will result through the rate-making process.

Application of the other sources of GAAP

Since the concepts in US GAAP and ASC 980 are consistent with PS 1000, an OGO needs to determine the other sources of GAAP that it can use in reference to the criteria in PS 1150. It should be noted that US GAAP is the only widely applied accounting framework that provides detailed guidance on rate-regulated accounting to be applied to general-purpose external financial statements.

Criteria of PS 1150.08

Application of PS 1150.08 is required, in the absence of a source in Canada that specifically provides guidance on the accounting for rate-regulated transactions, to ensure that the alternative source of GAAP is consistent with PS 1150.05.

> *"A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria:*
>
> *(a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from which the public sector reporting entity must analogize.*
>
> *(b) The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction.*
>
> *(c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources.*
>
> *(d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline."*

As discussed in section 3.1, the other sources of GAAP mentioned in PS 1150.19 provide some guidance on the accounting for the economic effects of rate regulation. Rate-regulated entities in North America reporting under US GAAP, GASB, FASAB, ASPE, IFRS (entities which have elected to use IFRS 14 upon transition to IFRS) and legacy Canadian GAAP before the Canadian entities transitioned to IFRS (or to other accounting frameworks) generally, and subject to meeting the criteria in those standards, all recognize the economic effects of rate regulation in accordance with ASC 980.

Based on PS 1150.08 (a) and (b), in the absence of a specific source in Canada that provides detailed guidance on the accounting for the economic effects of rate regulation, and since ASC 980 is the main source that deals with the accounting for the economic effects of rate-regulated activities, ASC 980 is considered a relevant source.

Criteria	**Evaluation**
Source deals with the specific circumstance	Yes, ASC 980 *Regulated Operations*
Source is issued by an accounting standard setter	Yes, FASB
Source continues to be relevant	Yes, still used by rate-regulated entities in Canada and the United States
Source uses a consultative process and deliberation when developing policies	Yes, comprehensive consultative due process and deliberation

Accounting for the economic effects of rate regulation under ASC 980 by Canadian rate-regulated entities is a long-standing practice in Canada in a variety of different industries. Although it is clear that industry practice in and of itself is not a sufficient basis for developing accounting policies, this practice has continued to be acknowledged and recognized by the AcSB, including by reference to the disclosure and other requirements addressing rate-regulated accounting in ASPE, the AcSB's deferral of the adoption of IFRS in Canada for entities with rate-regulated activities, and the AcSB's continued participation in the IASB's project on rate-regulated activities, including their involvement in drafting IFRS 14.

View B – Regulatory assets and liabilities do not meet the definition of assets and liabilities under PS 1000 Financial statement concepts.

In Section PS 1000 *Financial statement concepts*, the definition of an asset is as follows:

.35 *Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.*

.36 *Assets have three essential characteristics:*

(a) *they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;*

(b) *the public sector entity can control the economic resource and access to the future economic benefits; and*

(c) *the transaction or event giving rise to the public sector entity's control has already occurred.*

.37 *An item is not an asset of a government if it lacks one or more of the essential characteristics listed in the preceding paragraph. Thus, for example, an item does not qualify as an asset of a government if the item involves:*

(a) *no future economic benefit;*

(b) *future economic benefit, but the government cannot obtain it; or*

(c) *future economic benefit that the government may obtain, but the events or circumstances that give the government control of the benefit have not yet occurred.*

In order to recognize an asset under PS 1000.36, a regulatory asset must have all three of the characteristics described above.

Asset definition criterion	View B assesses these criteria as follows:	Comments
They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows customer.	Yes	The deferral of today's incurred costs and their future recovery from ratepayers would be considered an economic resource for which a rate-regulated entity will benefit in the future due to the right to charge higher rates.
The public sector entity can control the economic resource and access to the future economic benefits.	No	A rate-regulated entity arguably does not yet have the ability to control the benefit outlined under PS 1000.36(a). The contractual right to the future revenues is dependent on both the continuation of regulatory approval from the rate regulator to collect the higher fees in the future and the provision of the regulated activity to ratepayers in the future at higher rates.
The transaction or event giving rise to the public sector entity's control has already occurred.	No	The transaction or event that gives control of the benefit to a rate-regulated entity is the consumption of electricity by ratepayers in the future, for which higher rates may be charged. This transaction will not occur until future years. That is, the transaction that will give rise to a rate-regulated entity having control over the benefit will not occur until the year that the costs incurred are actually recovered through higher future hydro rates being billed to ratepayers.

3.3. Are regulatory assets considered intangible assets?[3]

View A – Regulatory assets are not considered intangible assets.

There are two fundamental bases for this view.

First, we note that the economic impacts of rate regulation are not recognized under US GAAP as intangible assets since the FASB has specific guidance dealing with this type of asset. An entity that meets the recognition criteria in ASC 980-10-15-2 applies ASC 980, not the intangible assets standards under US GAAP. The guidance in ASC 980-10-15-2 requires an entity to apply ASC 980 in its general-purpose external financial statements if its regulated operations meet all of the following criteria:

"(a) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.

(b) The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form.

(c) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs."

Within ASC 980, there are no references that indicate that the assets recognized under the topic are intangible assets. Furthermore, there are no references in ASC 350 *Intangibles-Goodwill and Other* that indicate that assets recognized under ASC 980 are intangible assets. Within IFRS and Parts II and V of the CPA Handbook, there are no references that indicate that regulatory assets are considered intangible assets.

Second, we considered the definitions of financial and non-financial assets under PSAS. An intangible asset would need to be a non-financial asset. The definitions of financial assets and non-financial assets in PS 1000.39 and .42, respectively, are:

> ***"Financial assets** are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations."*
>
> ***"Non-financial assets** are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:*
>
> *(a) are normally employed to deliver government services;*
>
> *(b) may be consumed in the normal course of operations; and*
>
> *(c) are not for sale in the normal course of operations."*

Furthermore, paragraph 50(c) of PS 1201 *Financial statement presentation* states that *"The statement of financial position should report financial assets segregated by main classifications, such as inventories for resale"*.

Regulatory assets cannot be consumed in the normal course of operations. However, by virtue of the fact that they represent a financial claim on customers that has arisen due to the fact that the regulator requires the amount to be collected in a future period, a regulatory asset can be used to discharge existing or future liabilities. Therefore, similar to inventories for resale, regulatory assets are more akin to financial assets than non-financial assets under PSAS. This is also supported by PS 1000.42(b), which states that "*a financial asset is any asset that is a realizable asset that is convertible to cash",* since regulatory assets are converted into cash in the future through the rate recovery process.

Although intangible assets are mentioned in PSAS, it does not offer a definition. As mentioned in PS 1150.25 and PS 1000.57 and .58, intangible assets are considered non-financial assets and since PSAS has no appropriate public sector recognition and measurement criteria for their recognition, they are not recognized as assets. The costs, benefits and economic value of regulatory assets can be reasonably and verifiably quantified, as they represent the difference between the amount paid to a supplier for goods or services received and the amount collected from the customers.

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[3] The discussion of the Issue in 3.3 assumes that View A is reached under both Issue 3.1 and 3.2.

25. *"Certain non-financial resources are, however, not given accounting recognition as assets in government financial statements. For example, all government intangibles, and all natural resources and Crown lands that have not been purchased by the government, are not given accounting recognition in government financial statements. A government's non-financial assets, as defined in FINANCIAL STATEMENT CONCEPTS, Section PS 1100, comprise the recognized non-financial resources of a government."*

57. *"Purchased natural resources and Crown lands are recognized in government financial statements. However, when natural resources and Crown lands have been inherited by the government in right of the Crown and have not been purchased, they are not given accounting recognition as assets in government financial statements. These items are not recognized as assets because the costs, benefits and economic value of such items cannot be reasonably and verifiably quantified using existing methods. Similarly, art and historic treasures are also not recognized as assets."*

58. *"In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements. The intangible often called "human capital" that embodies the talent or intellectual capital of government employees is not recognized as an asset under existing accounting principles."* (Emphasis added)

View B – Regulatory assets are considered intangible assets.

A rate regulatory asset represents a right to future recovery of the shortfall of cash received from ratepayers versus the amount due to suppliers. Such right would be classified as an intangible asset under PSAS. However, an OGO cannot record an intangible asset under PSAS PS 1000.58, which states: *"In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements."*

4. Analysis of issue #2

How should assets, liabilities, revenue and expenses be accounted for by an OGO when it is acting as an agent?

View A – Assets and liabilities related to the settlement of the transactions between the electricity distributors and the generators (i.e. market participants) should be recognized under PSAS.

The OGO is responsible for administering the electricity market and is also responsible for settling the transactions between the market participants. The market account assets and liabilities represent the point-in-time balances which result from the settlement process between the electricity distributors and the generators. The amounts are required to be collected from and paid to the market participants. Furthermore, the OGO is required to finance the shortfall between the amounts paid to the suppliers and the amounts collected from the customers until the amounts have been collected from the customers. It is considered that the OGO is acting as an agent.

Therefore, the question that arises is how should assets, liabilities, revenue and expenses be accounted for by an OGO in an agency relationship?

In PSAB's financial statement concepts, PSAB 1000.29(a), *the reliability of financial information is achieved through, amongst other things, representational faithfulness, which "… is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form."*

PSAB does not specifically address the accounting for transactions or the period end balances with market participants nor does it provide detailed guidance when an OGO is acting as an agent.

For inflows and outflows of cash, PSAB does address the matter of an agency relationship in PSAB 3510 *Tax Revenue*, whereby it states in paragraph .14 that "*Amounts collected as an agent of the government or other third parties will not give rise to an increase in net assets or revenue of the agent. Thus, except as provided in paragraph PS 3510.12, tax revenue arises only for the government that imposes the tax and not for other entities, such as a tax agency, or another government that collects a tax on behalf of the government imposing the tax."*

By analogy, an OGO could view the inflows and outflows of cash with the market participants being performed on behalf of other entities, and thus should not be recording those inflows and outflows in the statement of operations. However, PSAB does not address directly or by analogy the period end balances. However, financial assets and liabilities related to the transactions with the market participants could be analyzed under PS 3450 *Financial Instruments*.

Financial assets and liabilities relating to the transactions with the market participants include cash restricted for the market activities, revolving line of credit to finance the shortfall, interest receivable and payable, and amounts due to and due from market participants.

Paragraph 11 of PS 3450 states that *"A government should recognize a financial asset or a financial liability on its statement of financial position when, and only when, a government becomes a party to the contractual provisions of the instrument."*

Paragraph 9 of PS 3450 states that "*A contract establishing a financial instrument creates, at its inception, rights and obligations to receive or deliver economic benefits. The financial assets and financial liabilities portray these rights and obligations in financial statements. The assessment of those benefits is a measurement question and does not affect the timing of recognition. Recognition occurs when a government becomes a party to a financial instrument or non-financial derivative contract."*

Based on the above guidance, since the OGO is responsible for procuring supply, capacity and conservation measures and as the OGO entered into these energy contracts with the generators, these contracts meet the definition of financial instruments and therefore the OGO should recognize these assets and liabilities on the statement of financial position.

The next issue that arises is should these assets and liabilities be presented on a gross or net basis?

Based on PS 3450, since the counterparties (i.e. generators and customers) are different and do not realize the asset and settle the liability simultaneously, these assets and liabilities cannot be presented on a net basis as they do not meet the netting criteria in paragraphs .059 and .066(b).

Paragraph 059 states *"A financial asset and a financial liability should be offset and the net amount reported in the statement of financial position when, and only when, a government:*

(a) currently has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously."

Since the counterparties are different, there are no enforceable right to set off between the counterparties. Paragraph .066 (b) states:

"The conditions set out in paragraph PS 3450.059 are generally not satisfied and offsetting is usually inappropriate when:

(a) financial assets and financial liabilities arise from financial instruments having the same primary risk exposure but involve different counterparties."

Two application examples supporting this conclusion are presented below.

<u>Accounting treatment of the tax collected by the Government of Canada ("GoC") on behalf of the provinces and territories</u>

It is worth noting the accounting treatment applied by the GoC for the tax collected by the GoC on behalf of the provinces and territories. The accounting policy for the Tax Revenue of the Government of Canada for the financial year ended March 31, 2017 states (see Appendix D):

"Tax collected on behalf of the provincial/territorial governments is not included in tax revenues. It is recorded as payable to the provincial/territorial governments included within Other Accounts Payable and Accrued Liabilities and distributed by the Department of Finance in accordance with associated agreements."

<u>IFRIC project on Centrally Cleared Client Derivatives</u>

The IFRS Interpretations Committee ("IFRIC") has addressed a conceptually similar issue in 2017. The IFRIC received a request to clarify the accounting for centrally cleared client derivative contracts from the perspective of the clearing member (see Appendix E). The wording for the final agenda decision is as follows:

"The Committee concluded that the clearing member first applies the requirements for financial instruments. More specifically, the Committee observed that:

a) *if the transaction(s) results in contracts that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement, then the clearing member applies the recognition requirements in paragraph 14 of IAS 39 to those contracts. The clearing member presents assets and liabilities separately applying IAS 39 in the statement of financial position, unless net presentation is required pursuant to the offsetting requirements in paragraph 42 of IAS 32.*
b) *If the transaction(s) is not within the scope of IAS 39 and another IFRS Standard does not specifically apply, only then would the clearing member apply the hierarchy in paragraphs 10–12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to determine an appropriate accounting policy for the transaction(s).”*

As the circumstances are analogous, the relevant guidance on recognition and netting is consistent between IFRS and PSAS in this respect and so the IFRIC conclusion is consistent with the OGO's proposed accounting treatment for the recognition and netting of financial assets and liabilities as a result of entering into contractual arrangements.

14. *“An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.*

42. *A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:*
    a) *currently has a legally enforceable right to set off the recognised amounts; and*
    b) *intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.*

View B – Assets and liabilities related to the transactions with the market participants should not be recognized under PSAS.

A government should not record assets and liabilities related to the transactions in an agency relationship as the government has no access or discretion to use the market account assets for their own benefit, nor does the government have an obligation to settle the market account liabilities in the event of default by market participants. The nature of the market accounts do not meet the characteristics of an asset or liability established by PSAS.

Appendix A: Legacy Canadian GAAP

Did Part V of the CPA Canada Handbook – Accounting (the "legacy Canadian GAAP" or "Part V") provide an exemption to use ASC 980?

It is important to note that the legacy Canadian GAAP under Part V is still relevant as Canadian rate-regulated entities reporting under IFRS 14 are required through IFRS 14.11 to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory assets and liabilities, which were accounted for under Part V.

The GAAP hierarchy under PSAS, Section 1150 issued in 2005 was effective for fiscal years beginning on or after April 1, 2005, while the GAAP hierarchy under Part V of the CICA Handbook, Section 1100 issued in 2003 was effective for fiscal years beginning on or after April 1, 2005. As analyzed in Appendix B, both GAAP hierarchies are consistent except for an exemption from applying Section 1100 granted to rate-regulated entities between 2003 and 2008 under Part V ("Original Section 1100"). After 2008, the exemption from applying Section 1100 was removed from the GAAP hierarchy under Part V ("Revised Section 1100").

The original Section 1100 under Part V was applicable for fiscal years beginning on or after October 1, 2003, except for rate-regulated entities. An exemption from applying Original Section 1100 was granted to those entities pending resolution of the AcSB project on rate-regulated operations.

> .32 *"This Section applies to fiscal years beginning on or after October 1, 2003, except in the circumstances described in paragraph 1100.34. Earlier adoption is encouraged.*
>
> .34 *Pending completion of a separate project on rate-regulated operations, an <u>entity is not required to apply this Section to the recognition and measurement</u> of assets and liabilities arising from rate regulation. Entities are required to apply this Section to all other assets and liabilities for fiscal years beginning on or after October 1, 2003.*
>
> .35 *An entity that chooses not to apply this Section to the recognition and measurement of assets and liabilities arising from rate regulation is required to comply with all disclosure requirements of GAAP, and to disclose the nature of the differences between its accounting policies for assets and liabilities arising from rate regulation and those required by the primary sources of GAAP."* (Emphasis added)

As explained in the Basis for Conclusions of Original Section 1100 of Part V, the AcSB granted an exemption from the application of Section 1100 to the assets and liabilities arising from rate regulation in the GAAP hierarchy pending completion of a separate project on rate-regulated operations.

> .90 *"The AcSB considered whether to grant temporary relief from the application of Section 1100 to any type of entity. Given the AcSB's active project on rate-regulated operations, members were sympathetic to the fact that such an entity may make changes to adopt Section 1100 and then have to make further changes (perhaps reversing previous decisions) to adopt the future requirements of any CICA Handbook - Accounting amendments related to rate-regulated operations. However, the AcSB expressed concern with a blanket exclusion of rate-regulated operations from Section 1100. The AcSB noted that the specific issues that rate-regulated operations face in applying Section 1100 appear to apply only to those assets and liabilities that are affected by rate regulation. The AcSB did not see a need to provide an exemption from the requirements of Section 1100 for any other aspect of accounting by a rate-regulated operation. Furthermore, the AcSB did not have sufficient information to develop a robust definition of a "rate-regulated operation". Many entities undertake both rate-regulated activities, and other activities that are unaffected by rate regulation. The AcSB did not see validity in exempting those activities unaffected by rate regulation.*
>
> .91 *Accordingly, the AcSB <u>granted temporary relief</u> from the application of Section 1100 only to the recognition and measurement of assets and liabilities arising from rate regulation, pending completion of a separate project on rate-regulated operations. Entities are required to apply Section 1100 to all other assets and liabilities for fiscal years beginning on or after October 1, 2003. Entities that choose not to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation must nonetheless comply with all disclosure requirements of GAAP, and disclose the nature, but not necessarily the effect, of the differences between its accounting policies for assets and liabilities arising from rate regulation and those required by the primary sources of GAAP."* (Emphasis added)

As the AcSB's project for rate-regulated operations was stopped in 2007, the AcSB amended Section 1100 to remove the temporary exemption granted to rate-regulated entities. Handbook revision release no. 47, dated

December 2007, stated:

"Deleted paragraphs 1100.34-.35 to remove the temporary exemption from the requirement to apply this Section to the recognition and measurement of assets and liabilities arising from rate regulation, and a disclosure requirement relating to this exemption."

"Added paragraph .32B to specify the effective date of this Section as it pertains to the recognition and measurement of assets and liabilities arising from rate regulation." (Emphasis added)

As a result of the 2007 amendment, rate-regulated entities were required to apply Revised Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation. Paragraph 32B was added to Section 1100 as follows:

".32B This Section applies to the recognition and measurement of assets and liabilities arising from rate regulation in interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Rate regulation exists when all of the following criteria are present:

(a) The rates for regulated services or products provided to customers are established by or are subject to approval by a regulator or a governing body empowered by statute or contract to establish rates to be charged for services or products.

(b) The regulated rates are designed to recover the cost of providing the services or products.

(c) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition."

Commencing in 2009, rate-regulated entities reporting under Part V used Section 1100 and concluded that while the primary source of GAAP did not provide specific guidance on the recognition and measurement of regulatory assets and liabilities, impacted entities were able to apply the GAAP hierarchy to reach a conclusion that ASC 980 (then FAS 71) was in accordance with Canadian GAAP.

It is useful to analyze how other sources of GAAP under Section 1100 of legacy Canadian GAAP have been applied in 2009 by Canadian entities with rate-regulated activities, as the temporary exemption for the measurement and recognition of assets and liabilities arising from rate-regulated activities was removed from Section 1100.

.03 "An entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the entity.

.04 When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the entity, or additional guidance is needed to apply a primary source to specific circumstances, an entity should adopt accounting policies and disclosures that are:

(a) consistent with the primary sources of GAAP; and

(b) developed through the exercise of professional judgment and the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section 1000."

As example, we have provided below extract from the consolidated financial statements of Ontario Power Generation for the year ended December 31, 2009 on the accounting policies adopted for the recognition and measurement of assets and liabilities arising from rate regulation under the legacy Canadian GAAP.

Ontario Power Generation

"The CICA revised its guidance on accounting for rate-regulated operations, effective January 1, 2009, with amendments to Handbook Section 1100, Generally Accepted Accounting Principles, ("Section1100"), Handbook Section 3465, Income Taxes, ("Section 3465"), and Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation, ("AcG-19") as follows:

- *To remove the temporary exemption pertaining to the application of Section 1100 to rate-regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation"*

"In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under

a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Handbook Section 1600, Consolidated Financial Statements, Handbook Section 3061, Property, Plant and Equipment, Section 3465, and Handbook Section 3475, Disposal of Long-Lived Assets and Discontinued Operations. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Handbook Section 1000, Financial Statement Concepts. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with the Financial Accounting Standards Board Accounting Standards Codification Topic 980, Accounting for the Effects of Certain Types of Regulation (formerly Financial Accounting Standards No. 71). As a result, there is no effect on the Company's financial statements for the year ended December 31, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above." (Emphasis added)

Since the application of the GAAP hierarchy, the financial statement concepts, and the definitions of assets and liabilities under Part V and PSAS are similar, and since all rate-regulated entities in Canada have used the GAAP hierarchy under Part V to adopt ASC 980, an OGO can adopt ASC 980 on the basis that it meets the criteria in ASC 980.

Do regulatory assets and liabilities meet the definitions of asset and liability under Part V?

As mentioned above the exemption to not apply section 1100 under Part V by a rate-regulated entity was removed in 2009, and, as a result, those entities were allowed to utilize Section 1100, and particularly paragraph 32B, in their evaluation of the appropriate recognition and measurement of regulatory assets and liabilities. As also mentioned above, the GAAP hierarchy under Part V was similar to the GAAP hierarchy under PSAS and, when looking to other sources of GAAP, both hierarchies required the other sources of GAAP (which included, or did not preclude, ASC 980) to be evaluated based on the following criteria[4]:

1. whether they are consistent with accounting policies and disclosure within PSAS (or Part V),
2. whether they are consistent with the application of concepts in Section 1000 of PSAS (or of Part V),
3. does the source meet all of the following criteria for the other source:
    - *(a)* deals with the specific circumstance
    - *(b)* is issued by an accounting standard setter
    - *(c)* continues to be relevant
    - *(d)* uses a consultative process and deliberation when developing policies

A rate-regulated entity reporting under Part V was required by Section 1000 *Financial statement concepts* to analyze whether the concepts in the other source of GAAP (i.e. ASC 980) were compatible with the (i) qualitative characteristics of financial information, (ii) the elements of financial statements, and (iii) the recognition and measurement criteria in Section 1000 of Part V. These requirements included the evaluation whether regulatory assets and liabilities under ASC 980 met the definitions of asset and liability under Section 1000 of Part V.

It is important to note that the publication issued by the Office of the Auditor General of British Columbia *Summary of the Comparison of the PSAS with the CICA Handbook Part V* states that the framework under Part V is either similar to PSAS or silent in some aspects (see Appendix C).

After the removal of the exemption from Part V, all rate-regulated entities concluded that ASC 980 met all the requirements and continued to recognize regulatory assets and liabilities under Part V until they transitioned to IFRS or other accounting frameworks.

As a result, since rate-regulated entities reporting under Part V recognized the economic effects of rate regulation using the GAAP hierarchy and since PSAS has a consistent GAAP hierarchy and accounting framework, a rate-regulated entity reporting under PSAS should also be allowed to adopt ASC 980.

[4] See particularly Part V, section 1100.03 and .07 and PSAS 1150.05 and .08.

Appendix B: Other sources of GAAP

The following table analyzes the differences, if any, between the GAAP hierarchy under PSAS (section 1150) and the legacy Canadian GAAP (section 1100).

PSAS	Legacy Canadian GAAP	Difference
PS2120.02, “a change in an accounting policy may be made… if it is considered that the change would result in a more appropriate presentation of events or transactions in the financial statements of the government.”	1506.14 “An entity shall change an accounting policy only if the change: (a) is required by a primary source of GAAP (see GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100); or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.”	Similar
PS1150.02 “This Section applies to all governments. It also applies to those organizations that consider the CPA Canada Public Sector Accounting Handbook (CPA Canada PSA Handbook) to be the most appropriate to their objectives and circumstances. An entity applying this Section is referred to as a "public sector reporting entity".	1100.4 Basis of Conclusions “The CICA Handbook - Accounting is silent or provides limited guidance in certain specific areas. This does not imply, however, that entities may do whatever they please. Section 1100 provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with explicitly in the primary sources of GAAP.”	Similar
PS1150.05 “When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with: (a) the primary sources of GAAP; and (b) the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.”	1100.04 “When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the entity, or additional guidance is needed to apply a primary source to specific circumstances, an entity should adopt accounting policies and disclosures that are: (a) consistent with the primary sources of GAAP; and (b) developed through the exercise of professional judgment and the application of the concepts described in FINANCIAL STATEMENT CONCEPTS, Section 1000.”	Similar
PS1150.08 “A public sector reporting entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph PS 1150.05. The public sector reporting entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria: (a) The specificity of the source — A source that deals with the specific circumstances is likely to be more relevant than one from	1100.07 “An entity consults sources other than primary sources of GAAP to assist in selecting accounting policies and disclosures only when these sources comply with paragraph 1100.04. An entity evaluates sources in selecting the appropriate accounting policies and disclosures based on all of the following criteria: (a) The specificity of the source. A source that deals with the specific circumstances is likely to be more relevant than one from which the entity must analogize. (b) The authority of the issuer or author. A source	Similar

PSAS	Legacy Canadian GAAP	Difference
which the public sector reporting entity must analogize. (b) `The authority of the issuer or author — A source issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction. (c) The continued relevance of the source — The passage of time may diminish the relevance of certain sources. (d) The development process for the source — A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline."	issued by an accounting standard setter in its own jurisdiction is likely to be more relevant than a source issued by others in the same jurisdiction. (c) The continued relevance of the source. The passage of time may diminish the relevance of certain sources. (d) The development process for the source. A source developed after extensive consultation and debate is likely to be more relevant than a source developed without such discipline."	
PS1150.10 "A public sector reporting entity considers all sources of GAAP that it consults in the context of the concepts described in paragraph PS 1150.05(b), which describes the concepts underlying the development and use of accounting principles in financial statements. A public sector reporting entity adopts accounting policies that are consistent with these concepts. The Public Sector Accounting Board (the Board) considers a source to be consistent with the concepts in paragraph PS 1150.05(b) when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in paragraph PS 1150.05(b)."	1100.10 "An entity considers all sources of GAAP that it consults in the context of FINANCIAL STATEMENT CONCEPTS, Section 1000. Section 1000 describes the concepts underlying the development and use of accounting principles in general purpose financial statements (financial statements). An entity adopts accounting policies that are consistent with the concepts described in Section 1000. The Board considers a source to be consistent with the concepts in Section 1000 when the guidance in that source is compatible with the qualitative characteristics of financial information, the elements of financial statements, and the recognition and measurement criteria in Section 1000."	Similar
PS1150.19 "Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."	1100.24 Pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions may be useful sources to consult. In particular, accounting pronouncements published with the authority of the US Financial Accounting Standards Board (FASB), or the International Accounting Standards Board (IASB), are often important sources to consult on matters not covered by primary sources of GAAP or to assist in applying a primary source of GAAP to specific circumstances.	Similar
Silent	1100.32B "This Section applies to the recognition and measurement of assets and liabilities arising from rate regulation in interim and annual financial statements relating to fiscal years	PSAS is silent

PSAS	Legacy Canadian GAAP	Difference
	beginning on or after January 1, 2009. Rate regulation exists when all of the following criteria are present: (a) The rates for regulated services or products provided to customers are established by or are subject to approval by a regulator or a governing body empowered by statute or contract to establish rates to be charged for services or products. (b) The regulated rates are designed to recover the cost of providing the services or products. (c) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition."	

Based on the above analysis, there are no substantive differences between the way the GAAP hierarchies are applied when the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the entity, except that legacy Canadian GAAP specifically stated that a rate-regulated entity would apply the GAAP hierarchy for the recognition and measurement of assets and liabilities arising from rate regulation in interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The legacy Canadian GAAP eliminated the temporary relief from the application of Section 1100 for the recognition and measurement of assets and liabilities arising from rate regulation. PSAS does not contradict this guidance.

Appendix C: Summary Comparison of PSAS with the CICA Handbook Part V

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Appendix D: Extracts from the consolidated financial statements of the Government of Canada for the financial year ended March 31, 2017

Net vs gross
presentation under PS

Appendix E – IFRIC project on Centrally Cleared Client Derivatives

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