Accounting & Regulatory Update

November 17, 2016

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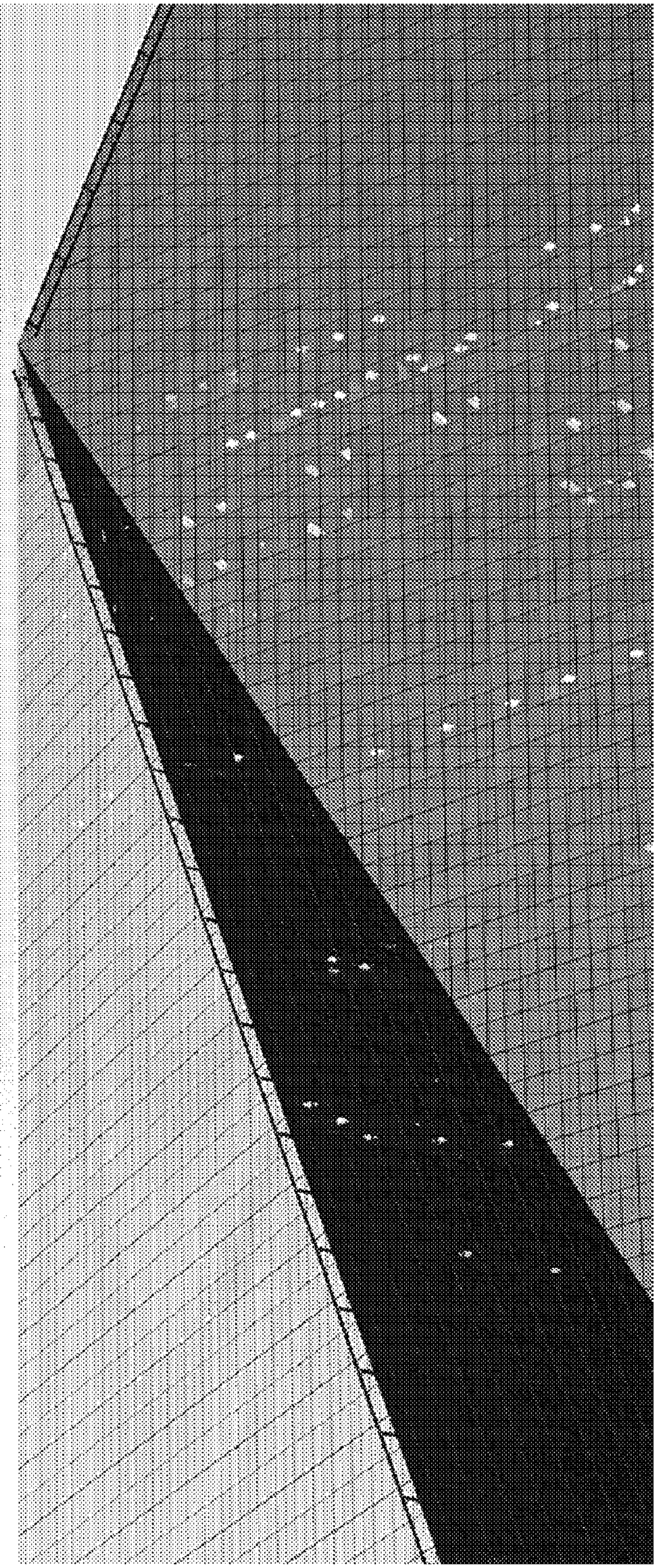
Agenda

1. IASB Work Plan 2017 - 2021
2. Preliminary proposals for an accounting model
3. Way forward
4. OSC exemption



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IASB Work Plan 2017 - 2021

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IASB Work Plan 2017-2021

- In November 2016 the IASB released the "IASB Work Plan 2017-2021, Feedback Statement on the 2015 Agenda Consultation"
- The purpose of the 2015 Agenda Consultation was to gather views on the strategic direction and balance of the Board's work plan over the next three to five years
- The Board decided that both the projects on Insurance Contracts and the Conceptual Framework should remain on its standard-setting work plan, together with the other two existing standard-setting projects on Materiality and on Rate-regulated Activities
- The Board has asked the staff to develop an accounting model. It expects to consult stakeholders in 2017
- Work plan as at October 20, 2016: DP to be released after 6 months

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Preliminary proposals for an accounting model

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ASAF meeting of December 7, 2016

- IASB staff will present preliminary proposals for an accounting model for rate-regulated entities
- ASAF is an advisory group to the IASB consisting of 12 national accounting standard-setters and regional bodies
- The support from ASAF is crucial for the project
- Rate-regulated accounting was discussed at five ASAF meetings
- The preliminary proposals addressed all concerns raised by ASAF

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Concerns raised by ASAF

Scope

- Should focus on enforceable rights and obligations that are created by the rate regulation

Interaction with other Standards and the Conceptual Framework

- Customer-base
- Performance obligation
- Definitions of, and criteria for recognizing assets and liabilities
- Caution in recognizing long-term regulatory assets
- How to account for funds received in advance of construction

Segregating identifiable rate adjustments from the overall changes in value of the regulatory licence/ agreement (i.e. intangibles)

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Core principles and features of the model

To establish principles that an entity applies to inform users of the effects of the rate regulation on the entity's cash flows arising from past transactions, events and conditions.

To achieve this, the model:

- Supplements the requirements of existing IFRS Standards, ie an entity applies other IFRS Standards before applying the new model;
- Focuses on the rights and obligations arising from the regulatory agreement and restricts the scope of the proposed accounting to those regulatory adjustments that link, through the rate-setting mechanism, the entity's right to charge customers a determinable amount in exchange for satisfying specified regulatory obligations to the satisfaction of those obligations; and
- Addresses the satisfaction of the entity's regulatory obligations to the customer-base separately from the satisfaction of the entity's performance obligations to individual customers (which are addressed through IFRS 15)

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Proposals

- Rate-regulated entities will recognize income, expenses, assets and liabilities in accordance with other IFRS Standards before applying the new model
- Based on a revenue model rather than deferred costs model (ie FAS 71)
- The model uses a historical cost measurement basis
- No discounting
- Present separately:
  - Revenue recognized as (or when) the entity satisfies performance obligations contained in contracts with individual customers, using the regulated rate (ie recognized using IFRS 15); and
  - Regulatory adjustments that arise due to the origination and reversal of timing differences
- **Indirect costs likely to be a separate regulatory balance**
- **AFUDC? Likely to include only the interest on borrowed funds**

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Way forward

Way Forward

IASB meeting of December 2016

– Staff will present an overview of **their** preliminary proposals for the model

– Staff will highlight the input received from ASAF members and other stakeholders and how that input has contributed to the development of the proposals

IASB meeting in early 2017

– Staff will continue to develop the core principles and features and present further details of the proposals

– Staff will seek decisions from the Board about detailed proposals for the model on scope, recognition and derecognition, measurement, presentation and disclosure

– Staff will propose to the Board to issue a 2nd DP

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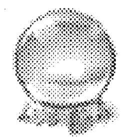
The crystal ball

Timing of the issuance of a Standard



- DP will likely be issued in July 2017
- ED will likely be issued in Q4 2018

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OSC exemption

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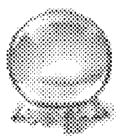
– The OSC exemption to use US GAAP will expire on January 1, 2019

– Timing to request an additional extension to use US GAAP



– Assuming the preliminary proposals are supported by the ASAF and the IASB at their meetings of December, I recommend that you file your request for an additional extension after the IASB meeting of December 12-16, 2016

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