Message

**From**: Kim.Marshall@ieso.ca [Kim.Marshall@ieso.ca]
**Sent**: 2018-03-22 8:41:41 PM
**To**: Picard, Michel [mpicard@kpmg.ca]
**Subject**: Re: IASB meeting of March 22, 2018

This is good!

Sent from my iPad

On Mar 22, 2018, at 4:49 PM, Picard, Michel <mpicard@kpmg.ca> wrote:

**The contents of this email do not represent the official views of KPMG or the IASB. It represents my personal views. KPMG accepts no responsibility to anyone for the information contained in this email.**
As mentioned in my email of March 12, the Board met today to discuss the following two matters:

a) <!--[if !supportLists]--><!--[endif]-->which features of defined rate regulation are both necessary and sufficient for the origination of regulatory assets and regulatory liabilities and so should define the scope of the model for recognition and measurement (AP 9B); and

b) <!--[if !supportLists]--><!--[endif]-->the criteria for recognising regulatory assets and regulatory liabilities in the financial statements (AP 9C).

The Board tentatively decided that:

a) <!--[if !supportLists]--><!--[endif]-->The accounting model should apply to defined rate regulation established through a formal regulatory framework that:

- <!--[if !supportLists]--><!--[endif]-->is binding on both the entity and the regulator; and
    - <!--[if !supportLists]--><!--[endif]-->establishes a basis for setting the rate for specified goods or services that includes a rate-adjustment mechanism. That mechanism creates, and subsequently reverses, rights and obligations caused by the regulated rate in one period including amounts related to specified activities the entity carries out in a different period.

Vote: 13 out of 14 board members agreed.

b) <!--[if !supportLists]--><!--[endif]-->The accounting model:

- <!--[if !supportLists]--><!--[endif]-->should require the recognition of regulatory assets or liabilities if it is **more likely than not** that they exist—the model sets a symmetrical recognition threshold in cases of existence uncertainty; and

- <!--[if !supportLists]--><!--[endif]-->**should not set thresholds that would prevent recognition** of a regulatory asset or liability for which there is (i) low probability of an inflow or outflow of economic benefits or (ii) high measurement uncertainty.

Vote: 13 out of 14 board members agreed.

<image002.jpg>

**Based on the reading of my Crystal Ball!**

- <!--[if !supportLists]--><!--[endif]-->The Board members continued to be very supportive of the project and the proposals put forward by the staff.

- <!--[if !supportLists]--><!--[endif]-->There was a lot of initial discussions today around the measurement and derecognition.
- <!--[if !supportLists]--><!--[endif]-->The Board meeting of May 2018 will address the measurement requirements, including whether or not regulatory assets and liabilities should be discounted with a Day 1 gain or loss. I do not believe that a fair value model will be applied to the regulatory assets and liabilities.
- <!--[if !supportLists]--><!--[endif]-->The staff will likely ask the Board in the coming 2-3 months to publish an ED or a DP as the next consultation document for the project. I believe the Board will go ahead with an ED rather than a DP.
- <!--[if !supportLists]--><!--[endif]-->I still maintain that the timing of the ED is around Mid-2019.

Should you have any questions, please do not hesitate to contact me.

Regards,

**Michel Picard, CPA, CA**

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**From:** Picard, Michel
**Sent:** Monday, March 12, 2018 1:05 PM
**To:** Picard, Michel <mpicard@kpmg.ca>
**Subject:** IASB meeting of March 22, 2018

**The contents of this email do not represent the official views of KPMG or the IASB. It represents my personal views. KPMG accepts no responsibility to anyone for the information contained in this email.**
Please find enclosed Agenda Paper (AP) 9B *Scope of the model* and 9C *Recognition* to be discussed at the IASB meeting of 3/22/2018. I set out below a summary of the key issues addressed in AP 9B and 9C.

## 1. <!--[if !supportLists]--><!--[endif]-->Scope of the model

AP 9B addresses the features of 'defined rate regulation' that are both necessary and sufficient for the origination of regulatory assets and liabilities. The proposed two mandatory criteria for the scope are as follows:

- <!--[if !supportLists]--><!--[endif]-->Binding on both the entity and the regulator
- <!--[if !supportLists]--><!--[endif]-->Presence of a rate-adjustment mechanism

The other features discussed in the Discussion Paper *Reporting the financial effects of rate regulation* issued in 2014 (2014 DP) are not considered mandatory criteria; they are considered supporting 'conditions or indicators'. These indicators include:

- <!--[if !supportLists]--><!--[endif]-->Limitations on entry and on exit
- <!--[if !supportLists]--><!--[endif]-->Goods or services are essential to customers

- <!--[if !supportLists]--><!--[endif]-->Parameters to maintain the availability and quality of the good or services
- <!--[if !supportLists]--><!--[endif]-->Parameters for rates that provide regulatory protections that support greater stability of prices for customers and support the financial viability of the entity

As a result of the input provided by the Consultative Group and respondents to the 2014 DP, the staff recommend to the Board using the following amended definition of defined rate regulation:

'Defined rate regulation' is established through a formal regulatory framework that:

a) <!--[if !supportLists]--><!--[endif]-->is binding on both the entity and the rate regulator; and

b) <!--[if !supportLists]--><!--[endif]-->establishes a basis for setting the ~~regulated~~ rate ~~chargeable by the entity to its customers (P) for the transfer of specified goods and/ or services that comply with minimum quality levels or other service requirements (Q); and~~

c) <!--[if !supportLists]--><!--[endif]-->that includes~~, as part of the basis for setting the regulated rate,~~ a rate-adjustment mechanism that creates, and subsequently reverses, rights and obligations arising from timing differences when the regulated rate in one period includes amounts related to specified activities the entity carries out in a different period.~~; and~~

d) <!--[if !supportLists]--><!--[endif]-->~~imposes limitations on entry into an industry (and on exit from it).~~

**Question to the Board:** Do you agree with the staff recommendation on the features of defined rate regulation that are both necessary and sufficient to define what is included in the scope of the model?

AP 9B also addresses the entities that are self-regulated.

The criterion 'binding on both the entity and the rate regulator' means that activities subject only to 'self-regulation' would not be included in the scope of the model (ie an entity cannot create enforceable rights and obligations with itself). Some entities may need to exercise judgement to assess whether the process for setting and enforcing the rates is subject to:

a) <!--[if !supportLists]--><!--[endif]-->the entity's internal governance mechanism that binds neither the entity nor the regulator; or

b) <!--[if !supportLists]--><!--[endif]-->sufficient external oversight and/or approval through statute or regulation that creates terms binding both the entity and the regulator.

The staff do not intend to develop any guidance on how entities should assess such circumstances.

Judgment will be required by the entities subject to regulation by statute or contract.

## 2. <!--[if !supportLists]--><!--[endif]-->Recognition

According to the revised Conceptual Framework, an asset or liability is recognised only if the recognition provides users of financial statements with information that is useful, ie with:

a) <!--[if !supportLists]--><!--[endif]-->*relevant information* about the asset or liability and about any resulting income, expenses or changes in equity; and

b) <!--[if !supportLists]--><!--[endif]-->a *faithful representation* of the asset or liability and of any resulting income, expenses or changes in equity.

The staff recommends the following:

a) <!--[if !supportLists]--><!--[endif]-->requires the recognition of regulatory assets or liabilities if it is 'more likely than not' that they exist (ie the model sets a symmetrical recognition threshold of 'more likely than not' in cases of existence uncertainty); and

b) <!--[if !supportLists]--><!--[endif]-->should not include specific requirements for entities to assess whether to recognise regulatory assets or regulatory liabilities in either of the following situations:

   (i) if the probability of an inflow or outflow of economic benefits is low.

   (ii) in conditions of high measurement uncertainty.

**Question to the Board**: Do you agree with the recognition criteria proposed by the staff?

Stay tuned for future discussions which will address the measurement, presentation and disclosures.

I expect that the Staff will ask the Board whether to continue to develop proposals for an Exposure Draft or, instead, to develop a higher level overview of the model for consultation through a Discussion Paper at the Board meeting of May 2018.

Should you have any questions, please do not hesitate to contact me.

ps: If you would like to add any of your colleagues on my distribution list, please ask them to send me an email. If you want to be removed from the distribution list, please send me an email.

Regards,

**Michel Picard, CPA, CA**

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