

Rate-regulated activities

Talking points for podcast 107



The International Accounting Standards Board has published an exposure draft of a new accounting standard that would affect companies that operate under a regulatory agreement that determines the rate to charge for goods and services.



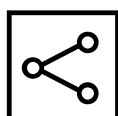
Such rate-regulated activities typically occur in sectors such as utilities or transport, where regulation exists to protect consumers where there are limited providers. Regulation varies widely and creates different economic environments and different economic relationships between entities and their customer base.



The proposed ED would supersede IFRS 14. IFRS 14 was originally issued in January 2014 and generally permits first time adopters of IFRS to account for regulatory deferral accounts in accordance with prior GAAP. Companies applying IFRS today might be applying IFRS 14 or might apply IFRS without additional regulatory accounting. The proposed Standard may have a significant effect for entities within its scope that do not currently have regulatory balances or where there would be differences from their existing rate regulatory accounting model.



The ED proposes a revenue model and accompanying disclosures that recognises regulatory assets and liabilities when part of the “total allowed compensation” for goods or services supplied in a period is included in the regulated rates for goods or services supplied in a different period. This approach mitigates any mismatch in the timing of revenue and expense recognition that may arise when revenue recognised includes compensation for products and services provided in other periods. It is intended to help users better understand the relationship between an entity’s revenue, expenses and cash flows.



While there are some similarities between the proposed IFRS and current US GAAP model, the proposed standard addresses a wider range of rate-making mechanisms and there are differences in the recognition and measurement models.



The IASB website contains [useful resources](#), including a webinar that helps break down each of the accounting considerations. The IASB is requesting comments from all interested parties by 30 July 2021.