



# IFRS 14 REGULATORY DEFERRAL ACCOUNTS

## FACT SHEET

This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

### **IMPORTANT NOTE**

**This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.**

## IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 14 is applicable for annual reporting periods commencing on or after 1 January 2016. Earlier application is permitted.

### OBJECTIVE

The objective of IFRS 14 is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

The following are examples of the types of costs that rate regulators might allow in rate-setting decisions and that an entity might, therefore, recognise in regulatory deferral account balances:

- Volume or purchase price variances.
- Costs of approved 'green energy' initiatives (in excess of amounts that are capitalised as part of the cost of property, plant and equipment in accordance with IAS 116 *Property, Plant and Equipment*).
- Non-directly-attributable overhead costs that are treated as capital costs for rate regulation purposes (but are not permitted, in accordance with IAS 116, to be included in the cost of an item of property, plant and equipment).
- Project cancellation costs.
- Storm damage costs.
- Deemed interest (including amounts allowed for funds that are used during construction that provide the entity with a return on the owner's equity capital as well as borrowings).

### SCOPE

An entity is permitted to apply the requirements of this Standard in its first IFRS financial statements if and only if it:

- a. conducts rate-regulated activities; and
- b. recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.

An entity should apply the requirements of this Standard in its financial statements for subsequent periods if and only if, in its first IFRS financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of this Standard.

An entity that is within the scope of, and that elects to apply, this Standard should apply all of its requirements to all regulatory deferral account balances that arise from all of the entity's rate-regulated activities.

## RECOGNITION, MEASUREMENT, IMPAIRMENT AND DERECOGNITION

An entity that has rate-regulated activities and that is within the scope of, and elects to apply, this Standard shall apply paragraphs 10 and 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when developing its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

On initial application of this Standard, an entity can continue to apply its previous GAAP accounting policies for regulatory deferral account balances, subject to the presentation requirements of this Standard, which may require changes to the entity's previous GAAP presentation policies.

### Changes in accounting policies

An entity shall not change its accounting policies in order to start to recognise regulatory deferral account balances. An entity may only change its accounting policies for regulatory deferral account balances if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in paragraph 10 of IAS 8.

### Interaction with other standards

The requirements of other standards are required to be applied to regulatory deferral account balances subject to any specific exception, exemption or additional requirements of the following standards:

- IAS 10 *Events after the Reporting Period*
- IAS 12 *Income Taxes*
- IAS 33 *Earnings per Share*
- IAS 36 *Impairment of Assets*
- IFRS 3 *Business Combinations*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 10 *Consolidated Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*
- IFRS 12 *Disclosure of Interests in Other Entities*

## PRESENTATION

An entity needs to present separate line items in the statement of financial position for:

- a. the total of all regulatory deferral account debit balances; and
- b. the total of all regulatory deferral account credit balances.

An entity should not classify the totals of regulatory deferral account balances as current or non-current in the statement of financial position. It needs to separately disclose the separate line items required by IFRS 14 by the use of sub-totals.

An entity should present, in the other comprehensive income section of the statement of profit or loss and other comprehensive income, the net movement in all regulatory deferral account balances for the reporting period that relate to items recognised in other comprehensive income. Separate line items should be used for the net movement related to items that, in accordance with other standards:

- a. will not be reclassified subsequently to profit or loss; and
- b. will be reclassified subsequently to profit or loss when specific conditions are met.

Similarly, an entity should present a separate line item in the profit or loss section of the statement of profit or loss and other comprehensive income, or in the separate statement of profit or loss, for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item should be distinguished from the income and expenses that are presented in accordance with other standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.

## DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IFRS 14 disclosure requirements to assist in the objective of the standard.

## DEFINITIONS

<b>First IFRS financial statements</b>	The first annual financial statements in which an entity adopts International Financial Reporting Standards (IFRS), by an explicit and unreserved statement of compliance with IFRS.
<b>First-time adopter</b>	An entity that presents its first IFRS financial statements.
<b>Previous GAAP</b>	The basis of accounting that a first-time adopter used immediately before adopting IFRS.
<b>Rate-regulated activities</b>	An entity's activities that are subject to rate regulation.
<b>Rate regulation</b>	A framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator.
<b>Rate regulator</b>	An authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The rate regulator may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.
<b>Regulatory deferral account balance</b>	The balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers.

## AUSTRALIAN SPECIFIC REQUIREMENTS

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The Australian equivalent standard is AASB 14 *Regulatory Deferral Accounts* and is applicable to annual reporting periods beginning on or after 1 January 2016. AASB 114 may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2016.

### REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- a. Tier 1: Australian Accounting Standards; and
- b. Tier 2: Australian Accounting Standards  
– Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

Disclosure requirements under Tier 2 are the same as those under Tier 1 for this Standard.

## APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the “Yes / No / N/A” column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for “No” answers.

CODE		YES / NO / N/A	EXPLANATION (If required)
IFRS 14.27	<p>Has the entity that elects to apply this Standard disclosed information that enables users to assess:</p> <ol style="list-style-type: none"> <li>the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides; and</li> <li>the effects of that rate regulation on its financial position, financial performance and cash flows?</li> </ol>		
IFRS 14.28	<p>If the disclosures provided in accordance with IFRS 14.30 – IFRS 14.36 are insufficient to meet the objective in IFRS 14.27 above, has the entity disclosed additional information that is necessary to meet that objective?</p>		
IFRS 14.30	<p>Has the entity disclosed for each type of rate-regulated activity:</p> <ol style="list-style-type: none"> <li>a brief description of the nature and extent of the rate-regulated activity and the nature of the regulatory rate-setting process;</li> <li>the identity of the rate regulator(s). If the rate regulator is a related party (as defined in IAS 24 <i>Related Party Disclosures</i>), the entity shall disclose that fact, together with an explanation of how it is related; and</li> <li>how the future recovery of each class (i.e. each type of cost or income) of regulatory deferral account debit balance or reversal of each class of regulatory deferral account credit balance is affected by risks and uncertainty, for example: <ul style="list-style-type: none"> <li>demand risk (for example, changes in consumer attitudes, the availability of alternative sources of supply or the level of competition);</li> <li>regulatory risk (for example, the submission or approval of a rate-setting application or the entity’s assessment of the expected future regulatory actions); and</li> <li>other risks (for example, currency or other market risks)?</li> </ul> </li> </ol>		
IFRS 14.31	<p>Have the disclosures required by IFRS 14.30 in the financial statements been given either directly in the notes or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time?</p>		

CODE		YES / NO / N/A	EXPLANATION (If required)
IFRS 14.32	Has the entity disclosed the basis on which regulatory deferral account balances are recognised and derecognised, and how they are measured initially and subsequently, including how regulatory deferral account balances are assessed for recoverability and how any impairment loss is allocated?		
IFRS 14.33	<p>For each type of rate-regulated activity, has the entity disclosed the following information for each class of regulatory deferral account balance:</p> <p>a. a reconciliation of the carrying amount at the beginning and the end of the period, in a table unless another format is more appropriate. The entity shall apply judgement in deciding the level of detail necessary (see IFRS 14.28–29), but the following components would usually be relevant:</p> <ul style="list-style-type: none"> <li>• the amounts that have been recognised in the current period in the statement of financial position as regulatory deferral account balances;</li> <li>• the amounts that have been recognised in the statement(s) of profit or loss and other comprehensive income relating to balances that have been recovered (sometimes described as amortised) or reversed in the current period; and</li> <li>• other amounts, separately identified, that affected the regulatory deferral account balances, such as impairments, items acquired or assumed in a business combination, items disposed of, or the effects of changes in foreign exchange rates or discount rates;</li> </ul> <p>b. the rate of return or discount rate (including a zero rate or a range of rates, when applicable) used to reflect the time value of money that is applicable to each class of regulatory deferral account balance; and</p> <p>c. the remaining periods over which the entity expects to recover (or amortise) the carrying amount of each class of regulatory deferral account debit balance or to reverse each class of regulatory deferral account credit balance?</p>		
IFRS 14.34	<p>When rate regulation affects the amount and timing of an entity's income tax expense (income), has the entity disclosed the impact of the rate regulation on the amounts of current and deferred tax recognised?</p> <p>Has the entity separately disclosed any regulatory deferral account balance that relates to taxation and the related movement in that balance?</p>		



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CODE		YES / NO / N/A	EXPLANATION <i>(If required)</i>
IFRS 14.35	When an entity provides disclosures in accordance with IFRS 12 <i>Disclosure of Interests in Other Entities</i> for an interest in a subsidiary, associate or joint venture that has rate-regulated activities and for which regulatory deferral account balances are recognised in accordance with IFRS 14, has the entity disclosed the amounts that are included for the regulatory deferral account debit and credit balances and the net movement in those balances for the interests disclosed (see paragraphs IFRS 14.B25–B28)?		
IFRS 14.36	When an entity concludes that a regulatory deferral account balance is no longer fully recoverable or reversible, has the entity disclosed that fact, the reason why it is not recoverable or reversible and the amount by which the regulatory deferral account balance has been reduced?		

## OTHER MATTERS

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