



IFRS for Rate Regulated Entities

CAMPUT Conference

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Agenda

- Setting the stage
- Overriding principles
- Current status
- IFRS for regulated entities
- Accounting implications
- Audit implications
- What next
- Questions & discussion

Setting the stage

Setting the stage

- IFRS is here for January 1, 2010
- Globalization and capital markets reasons why
- Standards continue to evolve
- Power of the lobby to influence standards
- Frustrations and opportunities
- Business issue
- European experience helpful but not the answer
- Continuum of change
- It is a good thing

Overriding principles

Overriding principles

- Intended to represent economic reality
- Balance sheet focus
- Fair value considered more appropriate
- Accounting principles-based and consistent with framework
- Options and alternative treatments available
- Professional judgment required
- More disclosures for increased transparency
- Will result in changes to income and financial position
- All stakeholders impacted

IASB composition

Australia	1	Auditor	5
China	1	Preparer	3
France	1	Analyst/User	2
Germany	1	Academic	2
Japan	1	Other	2
South Africa	1		14
Sweden	1		
United Kingdom	3		
United States	4		
	14		

Chair of IASB - Sir David Tweedie (Scottish CA)

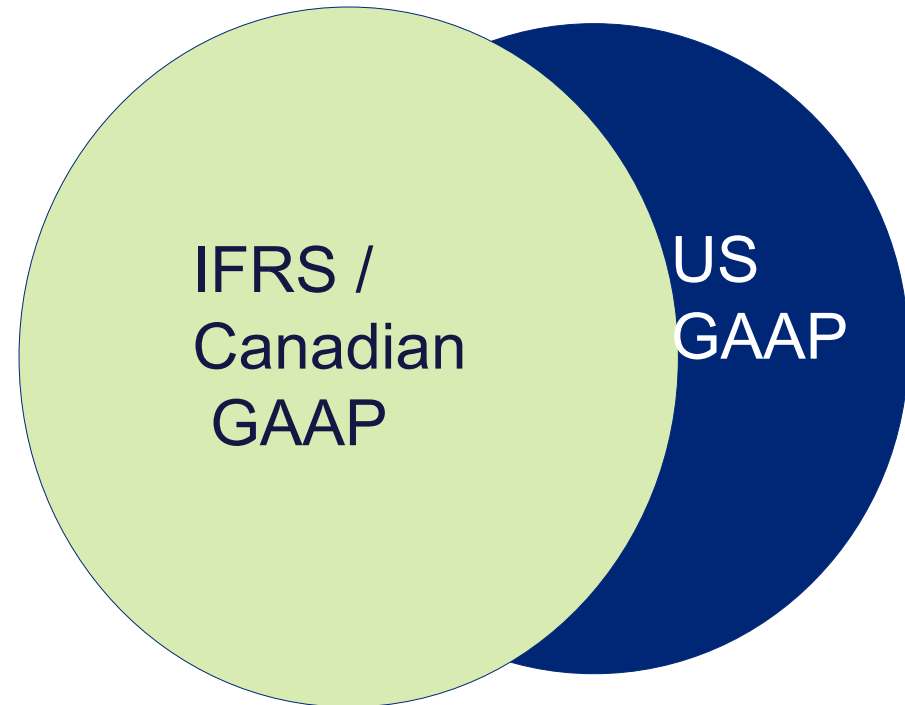
Qualification - professional competence and practical experience (not geographical representation)

Current Status

Current status

- SEC Chair comments on roadmap
- AcSB reconfirmed mandatory adoption date

Expected status by 2011:



Further changes expected to IFRS beyond 2011

Current status – Canadian GAAP changes

- Convergence with IFRS
- S 1100 Temporary exemption removal
- S 3465 Income taxes
- S 3064 Intangibles
- S 3062 Inventories

Current status – changes to rate-regulated accounting under Canadian GAAP

Revision	Impact
<ul style="list-style-type: none"> • Removal of the temporary exemption in <i>S. 1100 – Generally Accepted Accounting Principles</i> and deletion of the specific criteria defining a rate regulated enterprise 	<ul style="list-style-type: none"> • GAAP framework and hierarchy apply equally to all entities, including rate regulated • SFAS 71 can be applied in the GAAP hierarchy as it is consistent with the conceptual framework
<ul style="list-style-type: none"> • s. 3465 require recognition of future tax liabilities & assets, and regulatory asset or liability for the amount of future income taxes expected to be included in future rates 	<ul style="list-style-type: none"> • Current and future income taxes will need to be recognized • Required to record future income taxes for temporary differences arising from rate regulated assets & liabilities if included in the future rates
<ul style="list-style-type: none"> • Retention of AcG-19 during the transition period 	<ul style="list-style-type: none"> • Disclosures will remain the same until full adoption to IFRS

Current status - changes to rate-regulated accounting under Canadian GAAP

Revision	Impact
<ul style="list-style-type: none"> • S.1100 & 3465 apply to interim and annual financial statements relating to fiscal years beginning on or after Jan. 1, 2009 	<ul style="list-style-type: none"> • Changes in the accounting for rate-regulated assets & liabilities arising from application of the amendments is to be disclosed in the current period consistent with requirements under AcG-19 para.8
<ul style="list-style-type: none"> • S.1100 will apply prospectively 	<ul style="list-style-type: none"> • No cumulative catch-up adjustment is made to balances • Prospective application only
<ul style="list-style-type: none"> • S.3465 will apply retrospectively without restatement 	<ul style="list-style-type: none"> • Any necessary cumulative catch-up adjustment would be made to opening retained earnings in the year of change • No restatement of comparative information
<ul style="list-style-type: none"> • S.3064 will converge intangibles with IFRS 	<ul style="list-style-type: none"> • Do regulatory assets meet the criteria under S.3064 for recognition as intangible assets in 2009?

IFRS for regulated entities

IFRS for regulated entities – potential changes

Regulatory accounting	Possible IFRS impact	Implications
General Regulatory accounting permitted	No special provision for regulatory accounting (yet)	Impact on rates Two sets of books Assurance and costs Adjust to retained earnings
Revenue Excess revenue and rate stabilization	If revenue recognition criteria of IAS 18 met, revenue recognized	Volatility Mismatching
Expenses Deferred power and other expenses	Only assets and liabilities meeting criteria in IAS 1, 16 and 38 recognized	Volatility Mismatching
Employee Benefits Expense on a cash basis	Not permitted under IAS 19	Increased liabilities Actuarial valuations

IFRS for regulated entities – potential changes

Regulatory accounting	Possible IFRS Impact	Implications
<p>Capital assets</p> <p>Impacts what is included as cost</p>	<p>Cost includes all necessary to bring asset to working condition for its intended use; including:</p> <ul style="list-style-type: none"> • original purchase price • directly attributable costs • estimated cost of dismantling and removing. • recording of gains and losses on retirement of individual assets 	<p>Some items may not be capitalized</p> <p>Third party contributions may be deferred revenue</p> <p>AROs – legal and constructive obligations</p> <p>Componentization</p> <p>Impairment</p> <p>Deferred tax implications</p> <p>Recording gains and losses in income in year of retirement</p>

IFRS for regulated entities – potential changes

Regulatory accounting	Possible IFRS impact	Implications
<p>Intangibles Regulatory assets and liabilities recorded as intangibles</p>	<p>Only assets and liabilities that meet the recognition criteria in IAS 1, IAS 16 and IAS 38 recognized</p>	<p>All regulatory assets and liabilities may be written off Future volatility</p>
<p>Tax Allow recording on a cash basis</p>	<p>Not permitted under IAS 12</p>	<p>Change in calculation of taxes method</p>
<p>Business Combinations Fair value of assets acquired equals carrying value - difference to goodwill</p>	<p>Purchase price allocation in accordance with IFRS 3 Fair value assigned to identifiable assets and liabilities</p>	<p>Acquired assets and liabilities may have fair value increases Impact on depreciation Impact on rate base</p>

IFRS for regulated entities – ongoing changes

- IFRS 1 exemption
 - Finalized in 2009
- Project on Rate Regulated Accounting
 - Guarantee of cost recovery
 - April IASB agenda item
 - Exposure draft in July
 - Final standard in 2010
- Other changes and early adoption

Accounting implications

Accounting implications

- Difference between regulatory accounting and 'normal' GAAP now considered regulatory asset or liability may change
- Public versus government-owned utility may have different accounting
- Costs of conversion
- Reconciliations – initial and ongoing may be required
- Transitional adjustments to opening retained earnings
- Subjectivity of fair value and other options
- Impairment reversals
- Impact on recoverability of current assets under Canadian GAAP before transition to IFRS

Audit implications

Audit implications

- Development period consultations
- Evolving and differing opinions
- Fair value
- Reliance on professional judgment
- Documentation of rationale and support
- Transparency and disclosures
- Independent assessment of application of policies consistent with standards and framework
- Unqualified audit report or report on different financial statements

What next

What next

- Rely on US GAAP SFAS 71 – Accounting for the Effects of Certain Types of Regulation ?
- Changes to other Canadian standards for 2009
- Ongoing discussions between rate regulators and utilities
- Auditor review of regulated utility position papers
- Utilities choosing accounting policies
- Impact of exposure draft in July
- Utilities finalizing changes
- Regulators determine rate setting implications

Deloitte.