Discussion Paper DP/2014/2: Reporting the Financial Effects of Rate Regulation

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Discussion Paper (hereafter DP) Reporting the Financial Effects of Rate Regulation, issued on 17 September 2014.

Rate-regulated activities are widespread and take various forms. We appreciate the work performed by the IASB to address issues raised in connection with rate-regulated activities, as, in view of the divergent views expressed in the past, we consider that there is indeed a need to provide some understanding of the issues and how these should or should not be portrayed in IFRS financial statements.

In commenting on the 2013 Exposure Draft which led to the IFRS 14 interim standard, we considered that, given the significant variety of regulatory regimes across jurisdictions, the definition of the scope and recognition criteria of regulatory assets / liabilities should be developed in the frame of a long-term project which was to include a review of different regulatory regimes. We therefore welcome the objectives set out in § 1.11 of this DP as well as the analysis performed on the responses to the Request for Information regarding features of regulatory regimes.

Too narrow a scope

Although we welcome the fact that the scope of the DP appears broader than that of the 2009 ED, as it seems to be able to accommodate regulations with similar economic effects as well as hybrid forms of regulation, we note that it is still very close and that, depending on the outcome of the present consultation, it could easily lead to a short term solution for such scope, leaving out other forms of rate regulations to much longer discussions, if any.

In particular, we regret that the focus for the scope is still very much on the cost-based aspects of the regimes, whereas the DP acknowledges that regulation increasingly tends to be of a hybrid, i.e. cost + incentive, form.

Therefore, the DP lacks an analysis of the impacts that incentives may have on the economic environment of the entity when in conjunction with cost-based rate-regulated regimes. Without such analysis, as a minimum, we consider that the outcome may fail to achieve a
principle-based set of solutions applicable to a broad range of rate regulations, as well as achieve broad common understanding and therefore consistent implementation, as called for by respondents to previous consultations.

**Need for a more general, principle-based approach**

We consider that the starting point is to enable users to understand the effects of rate regulation on the amount, timing and certainty of future cash flows, if any.

We note that effects of income taxation regulation are already portrayed through deferral balances under IAS 12 requirements. Although there are some significant differences with rate regulation (such as the parties involved), we consider that, when appropriate supportable characteristics exist, a similar solution, reflective of the way such deferral balances are recovered or settled, would be a reasonable, pragmatic and cost-effective outcome to satisfy the above-mentioned user needs, as it would:

- Preserve the integrity of IFRSs, after having considered the link with other IFRSs that Section 7 of the DP suggests will need to be analysed;
- Be more consistent with how:
  - the regulation is articulated, and
  - entities manage regulatory constraints;
- Enable a more direct reading by users of the deferred effects of rate regulation; and thereby,
- Enhance comparability within and among rate-regulated entities as well as between rate-regulated entities and non rate-regulated entities.

We therefore consider that separate presentation and relevant disclosures in the sense of the requirements set out in IFRS 14 are appropriate.

In our view, such solution need not require specific accounting requirements but, as mentioned hereafter, could be achieved by analysing more thoroughly the rate regulation features in the context of existing IFRSs and in particular in the context of guidance to IFRS 15.

**Implications in the context of defined rate regulation**

Although we disagree with the approach taken in the DP, we agree with the way the DP defines defined rate regulation and analyses its features.

In particular, we agree with the fact that none of the features identified seem to individually warrant different accounting requirements from existing IFRS and that it is the combination of these features which generate specific rights and obligations that need to be considered for accounting purposes based on the following major features:

- The existence of an external rate regulator, necessary in terms of enforcement of the regulation;
- The existence of rights and obligations which are enforceable on the rate-regulated entity and on the rate regulator;
- The existence of a rate-setting mechanism that is enforceable, the uncertainty therefore having a bearing in terms of measurement.
Beyond the above features, we consider another important feature to be the rights and obligations of the customer and looking at the customer from a customer-base/portfolio type of unit of account perspective. This requires analysing the regulation and the contracts with customers in a holistic manner, in particular considering that the regulation is akin to specific clauses of the contract with the customer. To this effect, it would also be useful to further analyse IFRS 15, for example in terms of the obligating event and of variable consideration.

In the specific context of defined rate regulation as per the DP, it follows that, as the rates charged to the customer are the mechanism with which such deferral balances are recovered or settled, the acceleration/deferral of revenue approach would be the most relevant.

In view of the above, we would not consider the following approaches to be acceptable:

- The recognition of the package of rights and obligations as an intangible asset, which we consider to be complex, and to require significant amendments to existing standards;
- The adoption of the regulatory accounting requirements as an exception to/exemption from IFRS, which bears the risk of unintended consequences and serves different objectives than those of financial reporting;
- The prohibition of recognition of regulatory deferral account balances, which would not be principle-based and with which we currently are in disagreement.

Our detailed comments to the questions raised in the Discussion Paper are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix

Question 1

(a) What information about the entity’s rate-regulated activities and the rate-regulatory environment do you think preparers of financial statements need to include in their financial statements or accompanying documents such as management commentary? Please specify what information should be provided in:

(i) the statement of financial position;
(ii) the statement(s) of profit or loss and other comprehensive income;
(iii) the statement of cash flows;
(iv) the note disclosures; or
(v) the management commentary.

(b) How do you think that information would be used by investors and lenders in making investment and lending decisions?

Question 1 (a)

We consider that the starting point is to enable users to understand the effects of rate regulation on the amount, timing and certainty of future cash flows, if any.

Therefore, in our view, in order to accurately predict future cash flows to inform their decisions about providing resources to the entity, users need to understand the economic environment in which the entity operates (ie qualitative information) and, if any, the effects of such economic environment on the financial statements of the entity (ie quantitative information) in terms, amongst others, of its performance. We consider that the disclosure requirements provided in IFRS 14 §27 – 36 are appropriate with regard to such purposes.

Regarding rate-regulated activities, not only are such activities widespread and take various forms, it is also often that reporting entities will be engaged in activities under varying regulatory regimes for the same type of goods or services provided. Users therefore need to be able to understand the level of dependency of cash flows on the varying types of regulatory regimes as well as non-regulated activities.

Section 2 of the DP defines the following user needs in the specific context of defined rate regulation under:

- The need for confidence that the rate regulation will enable the entity to recover its appropriate costs and to generate sufficient returns to cover its cost of capital; and
- The need for confidence in the ability to collect the cash generated by the rate-regulated entity in order to repay borrowings and to pay interest and dividends.

Whilst we agree with these needs, we consider however that they are the same as for any type of entity, whether subjected to rate-regulation or not.

As a consequence, the relevant information provided to users should follow general IFRS principles:

- For the statement of financial position, are the definition of assets or liabilities met (Do rights and obligations exist? Can they be recognised? How should they be measured?)?
- For the statement of profit or loss and other comprehensive income, what period does the related income or expense relate to?
- For the statement of cash flows, during which period do the cash flows occur?
- For the notes, what is the relevant and material information that should be provided to understand the regulatory environment in which the entities operate and, where relevant, what analysis that would link the amounts recorded in the different statements ought to be provided?
- For the management commentary, what information which is not included in the financial statements could be provided (e.g. management’s expectation of future trends)?

**Question 1 (b)**

We understand that the information would be used by users to:
- Understand and assess how the context of the rate regulation and the decisions made by the regulator influence the performance of the entity;
- Help predict the entity’s quality of earnings and therefore its dividend distribution capacities (trends, stability) as well as its ability to collect cash flows and pay interest;
- Enhance comparability between rate-regulated activities and non rate-regulated activities within the same reporting entity but also between different rate-regulated entities/regulated.

**Question 2**

*Are you familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities, for example, in accordance with US generally accepted accounting principles (GAAP) or other local GAAP or in accordance with IFRS 14? If so, what problems, if any, does the recognition of such balances cause users of financial statements when evaluating investment or lending decisions in rate-regulated entities that recognise such balances compared to:*

(a) non-rate-regulated entities; and

(b) rate-regulated entities that do not recognise such balances?

We are familiar with financial statements that recognise regulatory deferral account balances as well as with financial statements that do not, as per the existing IFRS practice.

We are of the view that activities which provide similar economic effects as those activities covered by the scope of Topic 980 (formally SFAS 71) would meet the definition of assets and liabilities under both the existing and the proposed future Frameworks. We think that a thorough analysis of rights and obligations towards customers (and vice-versa) would be useful in this regard. Such analysis should consider whether, in the contract the entity has with a customer, the legislation plays a role in the sense that it would be similar to specific clauses which provide the customer with rights (to benefit from reduced rate changes stemming from favourable events and circumstances of its supplier) and obligations (to compensate its supplier from unfavourable events and circumstances) – that is the legal and contractual arrangements should be analysed in a holistic manner. This should include an analysis of the notion of customer base as well as of a ‘portfolio’ type of unit of account (similar to that of general warranty provisions) for measurement.

In our view, it is the fact that IFRS entities do not, as per the widely accepted practice, account for such balances that creates issues in terms of comparability and understanding for users of financial statements, not only as regards entities’ activities located for example in the
US or in Canada, but also for some activities in Europe which are regulated under similar types of regulation as those covered by Topic 980 (e.g.: regulated rate for the use of the gas distribution network to gas suppliers as per Directive 2003/55/EC which stipulates the non-discriminatory right of access of third parties to transmission and distribution networks as well as to installations of natural liquefied gas by establishing non-discriminatory transmission and distribution tariffs).

**Question 3**

Do you agree that, to progress this project, the IASB should focus on a defined type of rate regulation (see Section 4) in order to provide a common starting point for a more focused discussion about whether rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might need to be developed (see paragraphs 3.6–3.7)? If not, how do you suggest that the IASB should address the diversity in the types of rate regulation summarised in Section 3?

See answer to question 4.

**Question 4**

Paragraph 2.11 notes that the IASB has not received requests for it to develop special accounting requirements for the form of limited or ’market’ rate regulation that is used to supplement the inefficient competitive forces in the market (see paragraphs 3.30–3.33).

(a) Do you agree that this type of rate regulation does not create a significantly different economic environment and, therefore, does not require any specific accounting requirements to be developed? If not, why not?

(b) If you agree that this type of rate regulation does not require any specific accounting requirements, do you think that the IASB should, alternatively, consider developing specific disclosure requirements? If so, what would you propose and why?

We welcome the fact that the IASB has used as a starting point the analysis performed on the responses to the Request for Information regarding features of regulatory regimes. The analysis presented distinguishes two major frameworks for rate regulation, merely cost-based and incentive-based mechanisms, which are not mutually exclusive as some mechanisms (and increasingly more and more) carry features of both cost-based and incentive-based mechanisms.

**Need for a broader scope**

We note that the IASB has first narrowed down the scope of this DP to mechanisms which are cost-based, indicating that it has not received any requests to develop an accounting solution for pure incentive-based mechanisms. Acknowledging that pure cost-based mechanisms are becoming rare, the focus has been widened to cater for hybrid schemes under the label of “defined rate regulation”. However, as defined, the scope seems to focus on the cost-based characteristics of the mechanisms, which brings it, in practice, very close to and encompasses the regulations addressed by Topic 980 under US GAAP and therefore to the scope of the IASB’s 2009 ED.
If an accounting solution is to be developed, we consider that it ought to be principle-based and leave room for the exercise of judgment, so that constituents are able to assess whether and how a given rate regulation would fall in the scope of such a solution. We therefore do not think that starting by focusing solely on the cost-based aspects of the regimes is the right way to proceed. We would have preferred a starting point based on the common features of rate-regulation as identified in the IASB staff’s July 2013 (§23 – see answer to question 5 (b)) agenda paper supplemented with an analysis of the effect of such features in terms of IFRS.

We note that, if there is a need for an accounting solution for a form of rate regulation, it follows that there are impacts on cash flows, if only through the limitation on revenue (in the case of price caps for instance) and therefore management’s decisions as regards how the entity is going to operate its related costs but also as regards the potential impact on its other non-regulated activities (for instance in terms of pricing). It would have been useful to analyse these comparatively to the effects of other types of mechanisms and to non-regulated mechanisms more thoroughly: whether they create or not a significantly different environment (for instance, companies which are not subjected to rate regulation may establish prices on their different products which would produce different margins for commercial and strategic reasons), in terms of rights and obligations, both from unregulated markets and from defined rate regulations. The conclusion may have been the same as that drawn by the IASB but it would have been better founded.

In addition, precisely because the type of regulation as well as the goods or services subject to regulation differ between jurisdictions, we consider that it is, at a minimum, useful to provide users with qualitative disclosures about the regulatory environment the entity operates in supplemented with relevant quantitative disclosures as to the volume each major type of regulation represents in an entity’s activities.

We therefore do not think that the argumentation provided in the DP for narrowing the focus is compelling enough (amongst which, no request for standard setting).

### Limitations in focusing on defined rate regulation

Coming back to defined rate regulation, as much as there are merits in analysing its effects in terms of financial reporting, we are concerned that, depending on the outcome of the present consultation, it could easily lead to a short term solution for such scope, leaving out other forms of rate regulations to much longer discussions, if any.

We consider that, were the outcome of the project to stop at defined rate regulation without considering, as a minimum, the following aspects, the IASB would have failed to produce what respondents to the previous consultation have called for, merely to use a wide variety of rate-regulatory industries and schemes in order to identify high level principles that can be applied broadly:

- The impact of deviations to any of the features developed to define defined rate regulation (level of competition, essential character of the goods and services, external regulator, etc).
- The effect of incentives compared to economic environments with no such incentives and the extent to which incentives included in rate regulation would effectively enable such rate regulation to remain within the scope defined in the DP (avoiding any “cliff effect”);
- The ability to isolate the effects of such incentives from those of the cost of service;
- The difference in accounting treatment between entities whose activities are rate-regulated but have no “guarantee” of customer demand by the regulator, who could
potentially be able to recognise assets/liabilities in relation to future price increases or decreases and other entities whose activities are not subject to rate regulation who would not be able to recognise such assets/liabilities although they equally have the right to increase/decrease their prices and would have a dominant market share enabling them to pass on their costs through price increases.

**Question 5**

Paragraphs 4.4–4.6 summarise the key features of defined rate regulation. These features have been the focus of the IASB’s exploration of whether defined rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might be developed in order to provide relevant information to users of general purpose financial statements.

(a) Do you think that the description of defined rate regulation captures an appropriate population of rate-regulatory schemes within its scope? If so, why? If not, why not?

(b) Do you think that any of the features described should be modified in order to include or exclude particular types of rate-regulatory schemes or rate-regulated activities included within the scope of defined rate regulation? Please specify and give reasons to support any modifications to the features that you suggest, with particular reference to why the features may or may not give rise to circumstances that result in particular information needs for users of the financial statements.

(c) Are there any additional features that you think should be included to establish the scope of defined rate regulation or would you omit any of the features described? Please specify and give reasons to support any features that you would add or omit.

**Question 5 (a)**

As mentioned in our answer to question 4, we consider that the narrow focus taken by the IASB in effect brings it close to the scope of its previous project.

**Question 5 (b)**

As previously mentioned in our answer to question 4, we do not consider that the approach ought to be to modify one or the other feature to include or exclude any rate-regulation mechanisms. Rather, we would have preferred an approach whereby an analysis of common features would be carried out in regard of IFRS, in order to determine the characteristics of each type of feature or the combination of features which would give rise to different accounting solutions.

Common features in terms of objectives identified following the 2009 ED and the RFI as per the IASB July 2013 staff paper (§23) are the following:

(a) Protect the interests of consumers by:
   a. Controlling the price charged to customers (‘a fair and reasonable rate’); and
   b. Providing rate stability

(b) To maintain the (public) service; and

(c) To provide investors with a ‘fair rate of return’.

None of these features, nor any of the specific features of defined rate regulation, as acknowledged by the DP, contain discriminatory characteristics that would lead to specific accounting requirements in and by themselves because they also exist in unregulated and/or competitive markets (e.g. exclusive right to supply, distribute; essential goods or services).
We consider that the following features are those which would appear to bear the most significance in terms of their effects on financial statements:

- Existence of a regulator that is external to the entity;
- Existence of rights and obligations which are enforceable on the rate regulated entity and on the rate-regulator;
- The regulation establishes a mechanism in terms of rate-setting which is enforceable.

Other features mentioned in the DP appear important but more so in the context of the measurement of the rights and obligations generated by the regulation. This is the case for instance with respect to the features of no effective competition to supply in addition to the level of hurdles to choose alternative goods or services in order to capture demand inelasticity.

**Question 5 (c)**

**Rights and obligations of the customer/customer base**

As indicated in our answer to question 2, we think that a thorough analysis of rights and obligations towards customers (and vice-versa) would be useful. Such analysis should consider whether, in the contract the entity has with a customer, the legislation plays a role in the sense that it would be similar to specific clauses which provide the customer with rights (to benefit from reduced rate changes stemming from favourable events and circumstances of its supplier) and obligations (to compensate its supplier from unfavourable events and circumstances) – that is the legal and contractual arrangements should be analysed in a holistic manner. This should include an analysis of the notion of customer base as well as of a ‘portfolio’ type of unit of account (similar to that of general warranty provisions) for measurement.

**Defining the customer: intermediate or end-customer**

As mentioned in the DP, regulation evolves over time and it may be that the direct customer of the rate-regulated entity is not the end-customer of the goods and services, with the supply of the goods and services to the end-customer not being rate-regulated (this occurs in the energy sector in the case of vertically integrated activities – see also our answer to question 2). It is not clear in the DP who the customers of the essential goods and services are: the direct customers or the end-customers? Does this have an impact on the notion of ‘essential’ goods and services?
Question 6

Paragraphs 4.62–4.72 contain an analysis of the rights and obligations that arise from the features of defined rate regulation.

(a) Are there any additional rights or obligations that you think the IASB should consider? Please specify and give reasons.

(b) Do you think that the IASB should develop specific accounting guidance or requirements to account for the combination of rights and obligations described? Why or why not?

Question 6 (a)

We do not think that there are additional rights or obligations that the IASB should consider beyond those we mention in our answer to question 5 (c).

Question 6 (b)

Given the diversity of views in the past and the fact that we are not convinced that the established practice under IFRS mentioned in the DP is necessarily relevant, we consider that there is a need for some form of guidance on where and how existing concepts under the framework and existing IFRS should / could apply in the context of rate-regulated activities.

In preparing such guidance, and in view of what is considered to be relevant information, the IASB should be able to identify whether there is any need to modify existing IFRS literature or to add application guidance.

In our view, the following aspects should be considered by the IASB:

- The compliance with the framework of deferral balances as well as the possibility and need to qualify and categorise any deferral balances in existing asset and liability categories as currently it is not straightforward where such balances would fall into;
- The confirmation of what the obligating events for the rate change are: the future delivery of goods or services, or the events and circumstances that have led to the variances from the revenue requirement. This would be helpful when considering guidance in terms of IFRS 15 (considering variable consideration and prepaid expenses / deferred income);
- The analysis of the transactions in a holistic manner: in other words analysing the contract the entity has with a customer, including the fact that the legislation plays a role in terms similar to those of specific clauses which provide the customer with rights (to benefit from reduced rate changes stemming from favourable events and circumstances of its supplier) and obligations (to compensate its supplier from unfavourable events and circumstances). This should include an analysis of the notion of customer base as well as of a 'portfolio' type of unit of account (similar to that of general warranty provisions) for measurement.
We note that effects of income taxation regulation are already portrayed through deferral balances under IAS 12 requirements. Although there are some significant differences with rate regulation (such as the parties involved), we consider that, when appropriate supportable characteristics exist, a similar solution, reflective of the way such deferral balances are recovered or settled, would be a reasonable, pragmatic and cost-effective outcome to satisfy the previously-mentioned user needs, as it would:

- Preserve the integrity of IFRSs, after having considered the link with other IFRSs that Section 7 of the DP suggests will need to be analysed;
- Be more consistent with how:
  - the regulation is articulated, and
  - entities manage regulatory constraints;
- Enable a more direct reading by users of the deferred effects of rate regulation; and thereby,
- Enhance comparability within and among rate-regulated entities as well as between rate-regulated entities and non rate-regulated entities.

As mentioned in our answer to question 1, we therefore consider that separate presentation (if any) and relevant disclosures in the sense of the requirements set out in IFRS 14 are appropriate.

In view of the above, we would not consider the following approaches to be acceptable:

- The approach consisting in recognising the package of rights and obligations as an intangible asset: beyond being complex and potentially requiring significant amendments to IAS 38 (e.g. component approach, revaluation model), such an approach would entail issues in terms of the separability of such an asset when the approval of the regulator is needed and of the identification of the costs that can be incorporated to avoid recognition of internal goodwill.
- The approach consisting in adopting the regulatory accounting requirements as an exception to/exemption from IFRS: beyond the rate-regulator pursuing different...
objectives from those of financial reporting, this could entail unintended consequences as regards other forms of regulation, specifically when they prescribe regulatory accounting, but it would most of all not maximise user needs.

- The approach prohibiting the recognition of regulatory deferral account balances which would not be principle-based and with which we currently are in disagreement.

We are therefore supportive of the development of specific guidance, the form of which (specific IFRS or guidance to an existing IFRS) will result from the analysis we recommend in our answer to question 6 (b) that the IASB undertake.

In the specific context of defined rate regulation as per the DP, as the rates charged to the customer are the mechanism with which the regulatory deferral balances are recovered or settled, we consider that the acceleration/deferral of revenue approach would be the most relevant.

We therefore consider, as suggested previously, that the development of guidance should address the issue within the implementation of IFRS 15 with notions such as the customer base, as well as a portfolio type unit of account.

**Question 8**

*Does your organisation carry out activities that are subject to defined rate regulation? If so, what operational issues should the IASB consider if it decides to develop any specific accounting guidance or requirements?*

See answer to question 2: Mazars is involved with auditing entities subject to defined rate-regulation but does not carry out activities that are themselves subject to rate regulation.

We consider however that if the IASB decides to develop specific accounting guidance or requirements, these should be articulated within IFRS 15, remain principle-based and, as much as possible, be reflective of the way the defined rate regulation is managed by the entity which is subjected to it.
Question 9

If, after considering the feedback from this Discussion Paper and the Conceptual Framework project, the IASB decides to prohibit the recognition of regulatory deferral account balances in IFRS financial statements, do you think that the IASB should consider developing specific disclosure-only requirements? If not, why not? If so, please specify what type of information you think would be relevant to investors and lenders in making their investing or lending decisions and why.

As mentioned in our answer to questions 2 and 7, we would disagree with the IASB going down the route of prohibiting the recognition of regulatory deferral account balances.

If the IASB did decide to proceed that way, as mentioned in our answer to question 1, we consider that separate disclosures would be relevant if material to the users’ understanding of the entity’s financial statements. In this regard, the IASB will need to consider whether the existing disclosure requirements for the notes are sufficient or whether additional specific guidance is needed.

Question 10

Sections 2 and 6 discuss some of the information needs of users of general purpose financial statements. The IASB will seek to balance the needs of users of financial statements for information about the financial effects of rate regulation on an entity’s operations with concerns about obscuring the understandability of financial statements and the high preparation costs that can result from lengthy disclosures (see paragraph 2.27).

(a) If the IASB decides to develop specific accounting requirements for all entities that are subject to defined rate regulation, to what extent do you think the requirements of IFRS 14 meet the information needs of investors and lenders? Is there any additional information that you think should be required? If so, please specify and explain how investors or lenders are likely to use that information.

(b) Do you think that any of the disclosure requirements of IFRS 14 could be omitted or modified in order to reduce the cost of compliance with the requirements, without omitting information that helps users of financial statements to make informed investing or lending decisions? If so, please specify and explain the reasons for your answer.

We consider at this stage that the disclosure requirements included in IFRS 14 are appropriate in responding to the needs of users of financial statements.

See also our answer to question 9.
**Question 11**

IFRS 14 requires any regulatory deferral account balances that have been recognised to be presented separately from the assets and liabilities recognised in the statement of financial position in accordance with other Standards. Similarly, the net movements in regulatory deferral account balances are required to be presented separately from the items of income and expense recognised in the statement(s) of profit or loss and other comprehensive income.

If the IASB develops specific accounting requirements that would apply to both existing IFRS preparers and first-time adopters of IFRS, and those requirements resulted in the recognition of regulatory balances in the statement of financial position, what advantages or disadvantages do you envisage if the separate presentation required by IFRS 14 was to be applied?

We consider at this stage that separate presentation of the effects of rate regulation is useful to users of financial statements as it would enhance comparability of the entities rate regulated activities with:
- Its own non rate-regulated activities;
- Other entities with rate-regulated activities
- Other entities without rate-regulated activities.

**Question 12**

Section 4 describes the distinguishing features of defined rate regulation. This description is intended to provide a common starting point for a more focused discussion about whether this type of rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements should be developed.

Paragraph 4.73 suggests that the existence of a rate regulator whose role and authority is established in legislation or other formal regulations is an important feature of defined rate regulation. Do you think that this is a necessary condition in order to create enforceable rights or obligations, or do you think that co-operatives or similar entities, which operate under self-imposed rate regulation with the same features as defined rate regulation (see paragraphs 7.6–7.9), should also be included within defined rate regulation? If not, why not? If so, do you think that such co-operatives should be included within the scope of defined rate regulation only if they are subject to formal oversight from a government department or other authorised body?

We identified in question 5 that the external regulator is an important feature in terms of enforceability of rights and obligations. We consider that if there is an external regulator, the legal form of the entity would not play a role in determining whether it falls within the scope of defined rate regulation.

Therefore, self-regulated cooperatives would not in our view fall in the scope of defined rate regulation as they are not in a situation that is significantly, if in any way, different from that of entities whose management defines a strategy, its business model, etc.
Question 13
Paragraphs 7.11–7.22 highlight some of the issues that the IASB may consider if it continues to progress this project.
Do you have any comments or suggestions on these or any other issues that may or may not have been raised in this Discussion Paper that you think the IASB should consider if it decides to develop proposals for any specific accounting requirements for rate-regulated activities?

As mentioned in our answer to question 2, we consider that it is important that the IASB looks at rate regulation accounting issues in a holistic manner both in terms of the rate regulation mechanisms it is looking at (not just cost-based mechanisms) as in terms of all existing IFRS including the Conceptual Framework.