Hong Kong Institute of
Certified Public Accountants
香港會計師公會

31 July 2009

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IASB EXPOSURE DRAFT OF *RATE-REGULATED ACTIVITIES*

Comments to be received by 30 October 2009

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the International Accounting Standard Board (IASB) Exposure Draft which has been posted on the Institute's website at:
www.hkicpa.org.hk/professionaltechnical/accounting/exposuredraft/content.php.

The IASB has developed the proposed International Financial Reporting Standard (IFRS) to define regulatory assets and regulatory liabilities, set out criteria for their recognition, specify how they should be measured and require disclosures about their financial effects.

The IASB added this rate-regulated activities project to its agenda in December 2008 because of differences of views in practice about whether it was appropriate for entities to recognise assets and liabilities arising from rate regulation and ongoing requests for guidance on this issue. IFRSs do not currently provide guidance on the recognition and measurement of such assets and liabilities. Consequently, preparers of financial statements must develop accounting policies in accordance with the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, considering the definitions in the *Framework*.

Rate regulation is a restriction on the setting of prices that can be charged to customers for services or products. A number of regulatory methodologies exist and, for each, application can vary by regulator, the entity being regulated and the particular circumstances.

The IASB's objective for the proposed IFRS are:

(a) to establish criteria for the recognition of assets and liabilities arising from rate regulation

(b) to clarify that regulated entities follow the requirements of all other IFRSs in addition to the proposed IFRSs

(c) to require disclosures to enable users to understand the nature and financial effects of rate regulation on an entity's activities.

--- A summary of the main proposals in the Exposure Draft is set out in the Appendix.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party. The FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the IASB Exposure Draft.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Exposure Draft to be considered, they are requested to be received by the Institute on or before **30 October 2009**.

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓

Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603

Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

Comments may be sent by mail, fax or e-mail to:

Steve Ong
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Fax number (+852) 2865 6776
E-mail: commentletters@hkicpa.org.hk

Comments may be made available for public review unless otherwise requested by the contributor.

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Appendix

Main features of the proposals in the Exposure Draft (ED)

Scope of the proposals under the ED

The proposals under the ED specifically addresses rate regulated activities that meet the following two criteria:

(a) an authorised body is empowered to establish rates that bind customers

(b) the price established by regulation (the rate) is designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return (cost-of-service regulation).

Recognition and measurement

When the scope criteria are met, the entity recognises regulatory assets and regulatory liabilities in addition to the assets and liabilities recognised in accordance with other IFRSs. The effect of this requirement is initially to recognise as an asset (liability) an amount that would otherwise be recognised in that period in the statement of comprehensive income as an expense (income).

On initial recognition and at the end of each subsequent reporting period regulatory assets and regulatory liabilities are measured at their expected present value. Regulatory assets are assessed for impairment when the entity concludes that it is not reasonable to assume that it will be able to collect sufficient revenues from its customers to recover its costs.

Summary

If adopted, the proposed IFRS would:

(a) define regulatory assets and regulatory liabilities;

(b) set out criteria for their recognition;

(c) specify how they should be measure; and

(d) require disclosures about their financial effects.