Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 14.

Background

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB) considerations in issuing AASB 14 *Regulatory Deferral Accounts*. Individual Board members gave greater weight to some factors than to others.

Background

BC2 AASB 14 is the result of the AASB's due process, which began when the AASB issued Exposure Draft ED 240 *Regulatory Deferral Accounts* (AASB ED 240) in May 2013 (incorporating International Accounting Standards Board [IASB] ED/2013/5 *Regulatory Deferral Accounts*). That Exposure Draft proposed an interim Standard to permit first-time adopters of Australian Accounting Standards [International Financial Reporting Standards (IFRS)] to continue to account for regulatory deferral account balances in their financial statements in accordance with their previous GAAP. The proposed interim standard was not intended, in any way, to anticipate the outcome of the IASB's longer term Rate-regulated Activities project.

BC3 In the Preface to ED 240, the AASB expressed the view that it did not expect the proposed interim standard, if it were to be incorporated into Australian Accounting Standards, would have a significant impact on entities in Australia as the Standard could conceivably only affect entities that adopt Australian Accounting Standards for the first time and have recognised regulatory deferral account balances under their previous GAAP.

BC4 The AASB received two comment letters on ED 240, which expressed broad support for issuing the interim standard, acknowledging that it would be an interim measure while the IASB develops a Discussion Paper under its comprehensive Rate-regulated Activities project. One respondent expressed the view that they were not aware of any entities in Australia whose financial statements would be directly impacted by the proposals in ED 240.

BC5 In its comment letter to the IASB on ED/2013/5, the AASB raised the following key concerns:

(a) the proposals could result in the IASB inappropriately setting a precedent of introducing additional interim standards for first-time adopters of IFRS to encourage transition to IFRS; and

(b) the proposals would reduce comparability between first-time adopters of IFRS that choose to apply the proposals and those that already apply IFRS or first-time adopters of IFRS that do not elect to apply the proposals.

BC6 In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts* (incorporating the proposals in ED/2013/5 without substantive changes) for annual reporting periods beginning on or after 1 January 2016, with early application permitted. The AASB noted that its concerns with the ED/2013/5 proposals, expressed in its submission to the IASB, were not addressed in IFRS 14.

BC7 After further considering the types of entities that might be affected by the requirements of AASB 14 (including a newly listed rate-regulated entity from a foreign jurisdiction and a foreign rate-regulated entity that 'back door' lists in Australia), the AASB expects that the practical impact of adopting AASB 14 in Australia would be minimal.

BC8 The AASB noted that its concerns (see paragraph BC5 above) are not so great as to cause it to make a decision that would be seen as not adopting IFRS more broadly. Accordingly, given the interim nature of IFRS 14 (and therefore AASB 14) and the expected practical impact of AASB 14, consistent with its policy of adopting IFRS in Australia, the AASB decided to issue AASB 14 on the basis that to do so would not be contrary to the best interests of the Australian economy.

BC9 The AASB also noted that, currently under AASB 1 *First-time Adoption of Australian Accounting Standards*, if a first-time adopter recognises property, plant and equipment or intangible assets used in rate-regulated activities and the carrying amounts of such items include amounts determined under the entity's previous GAAP that do not qualify for capitalisation in accordance with Australian Accounting Standards, the first-time adopter may elect to use its previous GAAP carrying amount of such items at the date of transition to Australian Accounting Standards as deemed cost (paragraph D8B of AASB 1). A similar exemption is also available to a first-time adopter with oil and gas properties, whereby the entity may elect to account for its exploration and evaluation assets at the amount determined under the entity's previous GAAP on transition to Australian Accounting Standards (paragraph D8A of AASB 1). The AASB considered that the exemption in AASB 14 that would permit first-time adopters to continue to account for amounts related to rate regulation in accordance with their previous GAAP when they first-time adopt Australian Accounting Standards is somewhat similar to these exemptions in AASB 1. Therefore, AASB 14 would be broadly consistent with the approach taken by the AASB to allowing first-time adopters to 'grandfather' previous GAAP when transitioning to Australian Accounting Standards.

Dissenting opinion

Dissent of Peter Gibson and Steve Mitsas

DO1 AASB 14 *Regulatory Deferral Accounts* is consistent with the AASB's policy of incorporating IFRSs into Australian Accounting Standards. While we generally support that policy, from a 'first principles' basis we do not agree with the key approach in AASB 14 that allows the continuation of accounting policies that are inconsistent with existing recognition and measurement requirements in other Australian Accounting Standards for late first-time adopters of Australian Accounting Standards.

DO2 Despite AASB 14 being described as an interim standard, it risks perpetuating differences in the recognition and measurement of assets and liabilities, and detracts from the comparability of financial statements, across similar entities. On this basis, we do not support adoption of AASB 14.