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Ontario Energy Board
IFRS Consultation Meeting
September 16, 2008

KPMG Advisory

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Change to Section 3465 effective Jan 1, 2009:

Para 102

- Rate-regulated enterprises should recognize future income taxes in accordance with the Section (i.e. no longer exempt from recognizing future income taxes)

Para 103

- As a result of an action by a regulator, future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered from or returned to future customers. To the extent this is the case, an entity recognizes an asset or liability for that expected future revenue or reduction in future revenue

Disclosure requirements under AcG19:

Para 8

- When rate-regulation has caused an entity to account for a transaction or event differently than it would have in the absence of rate-regulation, the entity should state this fact and disclose additional information about the effect on its financial statements. Disclose …… **<u>how it would have been reflected in the absence of rate-regulation</u>**

Para 8 (c)

- When a separate asset or liability has been recognized **<u>solely</u>** as a result of the effects of rate-regulation, disclose ……..

Why is this an important consideration?

- Active discussion is still on-going at an IFRIC level

- Agenda decision is still awaited

Final answer will only be known when IASB/IFRIC makes a final pronouncement on this matter

However, per one of the "Information for Observers" papers that was made available for the Sept 2008 IFRIC meeting, the following important points are included:

- "It is not the job of the IFRIC to decide whether the rate-setting actions of a regulator can sometimes create an asset or liability meeting the Framework definitions and criteria;

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(Continued)

- …the determination of whether a particular rate-setting action has created a bona fide asset or liability requires careful evaluation of all the relevant facts and circumstances pertaining to that action;

- the paper suggests that **the entity itself, and its auditor, are best positioned** to determine whether an asset or liability exists as a result of a rate regulators action. Only they have the understanding of the entity's regulatory environment, and the knowledge and facts surrounding a particular regulatory action, needed to make this determination"

Carefully consider current AcG 19 disclosures as the conclusions therein might end up being the answer under IFRS

What does adopting IFRS mean?

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Per IFRS 1, an entity adopts IFRS:

- In the first annual financial statements in which the entity makes an **explicit** and **unreserved** statement in those financial statements of compliance with IFRS

- Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs

  - for Dec 31, 2011 reporters, IFRSs effective for periods ending on Dec 31, 2011 will have to be applied in the Jan 1, 2010 opening balance sheet

- To comply with IAS 1, an entity's first IFRS financial statements shall include at least 3 statements of financial position, 2 statements of comprehensive income, 2 statements of cash flows and 2 statements of changes in equity and related notes, including comparative information

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The onus is on each utility to apply the 6 R's:

- **Re-establish** (and re-write) policies in line with IFRS requirements
  - IFRS has numerous accounting policy choices. These could result in very different figures being reported
  - IFRS also has several AFS presentation elections
  - changes can also be made even if current GAAP accounting policies are appropriate under IFRS (i.e. start a fresh set of accounting practices!)
- **Retrospectively** apply IFRS (as if IFRS has always been applied), except for a few areas subject to specific mandatory and elective exemptions
- **Recognize/de-recognize** assets and liabilities in accordance with IFRS criteria
- **Re-measure** assets and liabilities
- **Reclassify** assets and liabilities
- **Reconcile** amounts reported under previous GAAP

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