

## **Regulatory Deferral Accounts**

This Standard is applicable for annual reporting period beginning on  
1 January 2024.

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Financial Reporting Standard 114 *Regulatory Deferral Accounts* (FRS 114) is set out in paragraphs 1–36 and Appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. The Standard should be read in the context of its objective, the *Preface to Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# Financial Reporting Standard 114

## *Regulatory Deferral Accounts*

### Objective

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- 1 The objective of this Standard is to specify the financial reporting requirements for *regulatory deferral account balances* that arise when an entity provides goods or services to customers at a price or rate that is subject to *rate regulation*.
- 2 In meeting this objective, the Standard requires:
  - (a) limited changes to the accounting policies that were applied in accordance with previous generally accepted accounting principles (*previous GAAP*) for regulatory deferral account balances, which are primarily related to the presentation of these accounts; and
  - (b) disclosures that:
    - (i) identify and explain the amounts recognised in the entity's financial statements that arise from rate regulation; and
    - (ii) help users of the financial statements to understand the amount, timing and uncertainty of future cash flows from any regulatory deferral account balances that are recognised.
- 3 The requirements of this Standard permit an entity within its scope to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous GAAP when it adopts FRS, subject to the limited changes referred to in paragraph 2 above.
- 4 In addition, this Standard provides some exceptions to, or exemptions from, the requirements of other Standards. All specified requirements for reporting regulatory deferral account balances, and any exceptions to, or exemptions from, the requirements of other Standards that are related to those balances, are contained within this Standard instead of within those other Standards.

### Scope

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- 5 **An entity is permitted to apply the requirements of this Standard in its *first FRS financial statements* if and only if it:**
  - (a) **conducts *rate-regulated activities*; and**
  - (b) **recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP.**
- 6 **An entity shall apply the requirements of this Standard in its financial statements for subsequent periods if and only if, in its first FRS financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of this Standard.**
- 7 This Standard does not address other aspects of accounting by entities that are engaged in rate-regulated activities. By applying the requirements in this Standard, any amounts that are permitted or required to be recognised as assets or liabilities in accordance with other Standards shall not be included within the amounts classified as regulatory deferral account balances.

- 8 An entity that is within the scope of, and that elects to apply, this Standard shall apply all of its requirements to all regulatory deferral account balances that arise from all of the entity's rate-regulated activities.

## Recognition, measurement, impairment and derecognition

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### **Temporary exemption from paragraph 11 of FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***

- 9 An entity that has rate-regulated activities and that is within the scope of, and elects to apply, this Standard shall apply paragraphs 10 and 12 of FRS 8 when developing its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.
- 10 Paragraphs 11–12 of FRS 8 specify sources of requirements and guidance that management is required or permitted to consider in developing an accounting policy for an item, if no relevant Standard applies specifically to that item. This Standard exempts an entity from applying paragraph 11 of FRS 8 to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, entities that recognise regulatory deferral account balances, either as separate items or as part of the carrying value of other assets and liabilities, in accordance with their previous GAAP, are permitted to continue to recognise those balances in accordance with this Standard through the exemption from paragraph 11 of FRS 8, subject to any presentation changes required by paragraphs 18–19 of this Standard.

### **Continuation of existing accounting policies**

- 11 On initial application of this Standard, an entity shall continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances, except for any changes permitted by paragraphs 13–15. However, the presentation of such amounts shall comply with the presentation requirements of this Standard, which may require changes to the entity's previous GAAP presentation policies (see paragraphs 18–19).
- 12 An entity shall apply the policies established in accordance with paragraph 11 consistently in subsequent periods, except for any changes permitted by paragraphs 13–15.

### **Changes in accounting policies**

- 13 An entity shall not change its accounting policies in order to start to recognise regulatory deferral account balances. An entity may only change its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable<sup>1</sup>, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in paragraph 10 of FRS 8.
- 14 This Standard does not exempt entities from applying paragraphs 10 or 14–15 of FRS 8 to changes in accounting policy. To justify changing its accounting policies for regulatory deferral account balances, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in paragraph 10 of FRS 8. However, the change does not need to achieve full compliance with those criteria for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

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<sup>1</sup> In 2011, the *Framework for the Preparation and Presentation of Financial Statements (Framework)* was replaced with the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. The term "faithful representation", which was used in the *Conceptual Framework* issued in 2011 and is also used in the revised version of the *Conceptual Framework* issued in 2019, encompasses the main characteristics that the *Framework* called "reliability". The requirement in paragraph 13 of this Standard is based on the requirements of FRS 8, which retains the term "reliable".

- 15 Paragraphs 13–14 apply both to changes made on initial application of this Standard and to changes made in subsequent reporting periods.

### **Interaction with other Standards**

- 16 **Any specific exception, exemption or additional requirements related to the interaction of this Standard with other Standards are contained within this Standard (see paragraphs B7–B28). In the absence of any such exception, exemption or additional requirements, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets, liabilities, income and expenses that are recognised in accordance with other Standards.**
- 17 In some situations, another Standard might need to be applied to a regulatory deferral account balance that has been measured in accordance with an entity's accounting policies that are established in accordance with paragraphs 11–12 in order to reflect that balance appropriately in the financial statements. For example, the entity might have rate-regulated activities in a foreign country for which the transactions and regulatory deferral account balances are denominated in a currency that is not the functional currency of the reporting entity. The regulatory deferral account balances and the movements in those balances are translated by applying FRS 21 *The Effects of Changes in Foreign Exchange Rates*.

## **Presentation**

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### **Changes in presentation**

- 18 This Standard introduces presentation requirements, outlined in paragraphs 20–26, for regulatory deferral account balances that are recognised in accordance with paragraphs 11–12. When this Standard is applied, the regulatory deferral account balances are recognised in the statement of financial position in addition to the assets and liabilities that are recognised in accordance with other Standards. These presentation requirements separate the impact of recognising regulatory deferral account balances from the financial reporting requirements of other Standards.
- 19 In addition to the items that are required to be presented in the statement of financial position and in the statement(s) of profit or loss and other comprehensive income in accordance with FRS 1 *Presentation of Financial Statements*, an entity applying this Standard shall present all regulatory deferral account balances and the movements in those balances in accordance with paragraphs 20–26.

### **Classification of regulatory deferral account balances**

- 20 **An entity shall present separate line items in the statement of financial position for:**
- (a) **the total of all regulatory deferral account debit balances; and**
  - (b) **the total of all regulatory deferral account credit balances.**
- 21 **When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify the totals of regulatory deferral account balances as current or non-current. Instead, the separate line items required by paragraph 20 shall be distinguished from the assets and liabilities that are presented in accordance with other Standards by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented.**

### **Classification of movements in regulatory deferral account balances**

- 22 **An entity shall present, in the other comprehensive income section of the statement of profit or loss and other comprehensive income, the net movement in all regulatory**

deferral account balances for the reporting period that relate to items recognised in other comprehensive income. Separate line items shall be used for the net movement related to items that, in accordance with other Standards:

- (a) will not be reclassified subsequently to profit or loss; and
  - (b) will be reclassified subsequently to profit or loss when specific conditions are met.
- 23 An entity shall present a separate line item in the profit or loss section of the statement of profit or loss and other comprehensive income, or in the separate statement of profit or loss, for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item shall be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.
- 24 When an entity recognises a deferred tax asset or a deferred tax liability as a result of recognising regulatory deferral account balances, the entity shall present the resulting deferred tax asset (liability) and the related movement in that deferred tax asset (liability) with the related regulatory deferral account balances and movements in those balances, instead of within the total presented in accordance with FRS 12 *Income Taxes* for deferred tax assets (liabilities) and the tax expense (income) (see paragraphs B9–B12).
- 25 When an entity presents a discontinued operation or a disposal group in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*, the entity shall present any related regulatory deferral account balances and the net movement in those balances, as applicable, with the regulatory deferral account balances and movements in those balances, instead of within the disposal groups or discontinued operations (see paragraphs B19–B22).
- 26 When an entity presents earnings per share in accordance with FRS 33 *Earnings per Share*, the entity shall present additional basic and diluted earnings per share, which are calculated using the earnings amounts required by FRS 33 but excluding the movements in regulatory deferral account balances (see paragraphs B13–B14).

## Disclosure

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### Objective

- 27 An entity that elects to apply this Standard shall disclose information that enables users to assess:
- (a) the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides; and
  - (b) the effects of that rate regulation on its financial position, financial performance and cash flows.
- 28 If any of the disclosures set out in paragraphs 30–36 are not considered relevant to meet the objective in paragraph 27, they may be omitted from the financial statements. If the disclosures provided in accordance with paragraphs 30–36 are insufficient to meet the objective in paragraph 27, an entity shall disclose additional information that is necessary to meet that objective.
- 29 To meet the disclosure objective in paragraph 27, an entity shall consider all of the following:
- (a) the level of detail that is necessary to satisfy the disclosure requirements;

- (b) how much emphasis to place on each of the various requirements;
- (c) how much aggregation or disaggregation to undertake; and
- (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

### **Explanation of activities subject to rate regulation**

- 30 To help a user of the financial statements assess the nature of, and the risks associated with, the entity's rate-regulated activities, an entity shall, for each type of rate-regulated activity, disclose:
- (a) a brief description of the nature and extent of the rate-regulated activity and the nature of the regulatory rate-setting process;
  - (b) the identity of the rate regulator(s). If the rate regulator is a related party (as defined in FRS 24 *Related Party Disclosures*), the entity shall disclose that fact, together with an explanation of how it is related;
  - (c) how the future recovery of each class (ie each type of cost or income) of regulatory deferral account debit balance or reversal of each class of regulatory deferral account credit balance is affected by risks and uncertainty, for example:
    - (i) demand risk (for example, changes in consumer attitudes, the availability of alternative sources of supply or the level of competition);
    - (ii) regulatory risk (for example, the submission or approval of a rate-setting application or the entity's assessment of the expected future regulatory actions); and
    - (iii) other risks (for example, currency or other market risks).

- 31 The disclosures required by paragraph 30 shall be given in the financial statements either directly in the notes or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. If the information is not included in the financial statements directly or incorporated by cross-reference, the financial statements are incomplete.

### **Explanation of recognised amounts**

- 32 An entity shall disclose the basis on which regulatory deferral account balances are recognised and derecognised, and how they are measured initially and subsequently, including how regulatory deferral account balances are assessed for recoverability and how any impairment loss is allocated.
- 33 For each type of rate-regulated activity, an entity shall disclose the following information for each class of regulatory deferral account balance:
- (a) a reconciliation of the carrying amount at the beginning and the end of the period, in a table unless another format is more appropriate. The entity shall apply judgement in deciding the level of detail necessary (see paragraphs 28–29), but the following components would usually be relevant:
    - (i) the amounts that have been recognised in the current period in the statement of financial position as regulatory deferral account balances;



- (ii) the amounts that have been recognised in the statement(s) of profit or loss and other comprehensive income relating to balances that have been recovered (sometimes described as amortised) or reversed in the current period; and
    - (iii) other amounts, separately identified, that affected the regulatory deferral account balances, such as impairments, items acquired or assumed in a business combination, items disposed of, or the effects of changes in foreign exchange rates or discount rates;
  - (b) the rate of return or discount rate (including a zero rate or a range of rates, when applicable) used to reflect the time value of money that is applicable to each class of regulatory deferral account balance; and
  - (c) the remaining periods over which the entity expects to recover (or amortise) the carrying amount of each class of regulatory deferral account debit balance or to reverse each class of regulatory deferral account credit balance.
- 34 When rate regulation affects the amount and timing of an entity's income tax expense (income), the entity shall disclose the impact of the rate regulation on the amounts of current and deferred tax recognised. In addition, the entity shall separately disclose any regulatory deferral account balance that relates to taxation and the related movement in that balance.
- 35 When an entity provides disclosures in accordance with FRS 112 *Disclosure of Interests in Other Entities* for an interest in a subsidiary, associate or joint venture that has rate-regulated activities and for which regulatory deferral account balances are recognised in accordance with this Standard, the entity shall disclose the amounts that are included for the regulatory deferral account debit and credit balances and the net movement in those balances for the interests disclosed (see paragraphs B25–B28).
- 36 When an entity concludes that a regulatory deferral account balance is no longer fully recoverable or reversible, it shall disclose that fact, the reason why it is not recoverable or reversible and the amount by which the regulatory deferral account balance has been reduced.

## Appendix A

### Defined terms

*This appendix is an integral part of the Standard.*

<b>First FRS financial statements</b>	The first annual financial statements in which an entity adopts Financial Reporting Standards (FRS), by an explicit and unreserved statement of compliance with FRS.
<b>First-time adopter</b>	An entity that presents its <b>first FRS financial statements</b> .
<b>Previous GAAP</b>	The basis of accounting that a <b>first-time adopter</b> used immediately before adopting FRS.
<b>Rate-regulated activities</b>	An entity's activities that are subject to <b>rate regulation</b> .
<b>Rate regulation</b>	A framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a <b>rate regulator</b> .
<b>Rate regulator</b>	An authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The <b>rate regulator</b> may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.
<b>Regulatory deferral account balance</b>	The balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the <b>rate regulator</b> in establishing the rate(s) that can be charged to customers.

## Appendix B

### Application Guidance

*This appendix is an integral part of the Standard.*

#### Rate-regulated activities

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- B1 Historically, rate regulation applied to all activities of an entity. However, with acquisitions, diversification and deregulation, rate regulation may now apply to only a portion of an entity's activities, resulting in it having both regulated and non-regulated activities. This Standard applies only to the rate-regulated activities that are subject to statutory or regulatory restrictions through the actions of a rate regulator, regardless of the type of entity or the industry to which it belongs.
- B2 An entity shall not apply this Standard to activities that are self-regulated, ie activities that are not subject to a pricing framework that is overseen and/or approved by a rate regulator. This does not prevent the entity from being eligible to apply this Standard when:
- (a) the entity's own governing body or a related party establishes rates both in the interest of the customers and to ensure the overall financial viability of the entity within a specified pricing framework; and
  - (b) the framework is subject to oversight and/or approval by an authorised body that is empowered by statute or regulation.

#### Continuation of existing accounting policies

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- B3 For the purposes of this Standard, a regulatory deferral account balance is defined as the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers. Some items of expense (income) may be outside the regulated rate(s) because, for example, the amounts are not expected to be accepted by the rate regulator or because they are not within the scope of the rate regulation. Consequently, such an item is recognised as income or expense as incurred, unless another Standard permits or requires it to be included in the carrying amount of an asset or liability.
- B4 In some cases, other Standards explicitly prohibit an entity from recognising, in the statement of financial position, regulatory deferral account balances that might be recognised, either separately or included within other line items such as property, plant and equipment in accordance with previous GAAP accounting policies. However, in accordance with paragraph 11 of this Standard, an entity that elects to apply this Standard in its first FRS financial statements applies the exemption from paragraph 11 of FRS 8 in order to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment, and derecognition of regulatory deferral account balances. Such accounting policies may include, for example, the following practices:
- (a) recognising a regulatory deferral account debit balance when the entity has the right, as a result of the actual or expected actions of the rate regulator, to increase rates in future periods in order to recover its allowable costs (ie the costs for which the regulated rate(s) is intended to provide recovery);
  - (b) recognising, as a regulatory deferral account debit or credit balance, an amount that is equivalent to any loss or gain on the disposal or retirement of both items of property, plant and equipment and of intangible assets, which is expected to be recovered or reversed through future rates;

- (c) recognising a regulatory deferral account credit balance when the entity is required, as a result of the actual or expected actions of the rate regulator, to decrease rates in future periods in order to reverse over-recoveries of allowable costs (ie amounts in excess of the recoverable amount specified by the rate regulator); and
  - (d) measuring regulatory deferral account balances on an undiscounted basis or on a discounted basis that uses an interest or discount rate specified by the rate regulator.
- B5 The following are examples of the types of costs that rate regulators might allow in rate-setting decisions and that an entity might, therefore, recognise in regulatory deferral account balances:
- (i) volume or purchase price variances;
  - (ii) costs of approved 'green energy' initiatives (in excess of amounts that are capitalised as part of the cost of property, plant and equipment in accordance with FRS 16 *Property, Plant and Equipment*);
  - (iii) non-directly-attributable overhead costs that are treated as capital costs for rate regulation purposes (but are not permitted, in accordance with FRS 16, to be included in the cost of an item of property, plant and equipment);
  - (iv) project cancellation costs;
  - (v) storm damage costs; and
  - (vi) deemed interest (including amounts allowed for funds that are used during construction that provide the entity with a return on the owner's equity capital as well as borrowings).
- B6 Regulatory deferral account balances usually represent timing differences between the recognition of items of income or expenses for regulatory purposes and the recognition of those items for financial reporting purposes. When an entity changes an accounting policy on the first-time adoption of FRS or on the initial application of a new or revised Standard, new or revised timing differences may arise that create new or revised regulatory deferral account balances. The prohibition in paragraph 13 that prevents an entity from changing its accounting policy in order to start to recognise regulatory deferral account balances does not prohibit the recognition of the new or revised regulatory deferral account balances that are created because of other changes in accounting policies required by FRS. This is because the recognition of regulatory deferral account balances for such timing differences would be consistent with the existing recognition policy applied in accordance with paragraph 11 and would not represent the introduction of a new accounting policy. Similarly, paragraph 13 does not prohibit the recognition of regulatory deferral account balances arising from timing differences that did not exist immediately prior to the date of transition to FRS but are consistent with the entity's accounting policies established in accordance with paragraph 11 (for example, storm damage costs).

## **Applicability of other Standards**

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- B7 An entity that is within the scope of, and that elects to apply, the requirements of this Standard shall continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. However, paragraphs 16–17 state that, in some situations, other Standards might also need to be applied to regulatory deferral account balances in order to reflect them appropriately in the financial statements. The following paragraphs outline how some other Standards interact with the requirements of this Standard. In particular, the following paragraphs clarify specific exceptions to, and exemptions from, other Standards and additional presentation and disclosure requirements that are expected to be applicable.

### **Application of FRS 10 *Events after the Reporting Period***

- B8 An entity may need to use estimates and assumptions in the recognition and measurement of its regulatory deferral account balances. For events that occur between the end of the reporting period and the date when the financial statements are authorised for issue, the entity shall apply FRS 10 to identify whether those estimates and assumptions should be adjusted to reflect those events.

### **Application of FRS 12 *Income Taxes***

- B9 FRS 12 requires, with certain limited exceptions, an entity to recognise a deferred tax liability and (subject to certain conditions) a deferred tax asset for all temporary differences. A rate-regulated entity shall apply FRS 12 to all of its activities, including its rate-regulated activities, to identify the amount of income tax that is to be recognised.
- B10 In some rate-regulatory schemes, the rate regulator permits or requires an entity to increase its future rates in order to recover some or all of the entity's income tax expense. In such circumstances, this might result in the entity recognising a regulatory deferral account balance in the statement of financial position related to income tax, in accordance with its accounting policies established in accordance with paragraphs 11–12. The recognition of this regulatory deferral account balance that relates to income tax might itself create an additional temporary difference for which a further deferred tax amount would be recognised.
- B11 Notwithstanding the presentation and disclosure requirements of FRS 12, when an entity recognises a deferred tax asset or a deferred tax liability as a result of recognising regulatory deferral account balances, the entity shall not include that deferred tax amount within the total deferred tax asset (liability) balances. Instead, the entity shall present the deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances either:
- (a) with the line items that are presented for the regulatory deferral account debit balances and credit balances; or
  - (b) as a separate line item alongside the related regulatory deferral account debit balances and credit balances.
- B12 Similarly, when an entity recognises the movement in a deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances, the entity shall not include the movement in that deferred tax amount within the tax expense (income) line item that is presented in the statement(s) of profit or loss and other comprehensive income in accordance with FRS 12. Instead, the entity shall present the movement in the deferred tax asset (liability) that arises as a result of recognising regulatory deferral account balances either:
- (a) with the line items that are presented in the statement(s) of profit or loss and other comprehensive income for the movements in regulatory deferral account balances; or
  - (b) as a separate line item alongside the related line items that are presented in the statement(s) of profit or loss and other comprehensive income for the movements in regulatory deferral account balances.

### **Application of FRS 33 *Earnings per Share***

- B13 Paragraph 66 of FRS 33 requires some entities to present, in the statement of profit or loss and other comprehensive income, basic and diluted earnings per share both for profit or loss from continuing operations and profit or loss that is attributable to the ordinary equity holders of the parent entity. In addition, paragraph 68 of FRS 33 requires an entity that reports a discontinued operation to disclose the basic and diluted amounts per share for the discontinued operation, either in the statement of profit or loss and other comprehensive income or in the notes.

- B14 For each earnings per share amount presented in accordance with FRS 33, an entity applying this Standard shall present additional basic and diluted earnings per share amounts that are calculated in the same way, except that those amounts shall exclude the net movement in the regulatory deferral account balances. Consistent with the requirement in paragraph 73 of FRS 33, an entity shall present the earnings per share required by paragraph 26 of this Standard with equal prominence to the earnings per share required by FRS 33 for all periods presented.

### **Application of FRS 36 *Impairment of Assets***

- B15 Paragraphs 11–12 require an entity to continue to apply its previous GAAP accounting policies for the identification, recognition, measurement and reversal of any impairment of its recognised regulatory deferral account balances. Consequently, FRS 36 does not apply to the separate regulatory deferral account balances recognised.
- B16 However, FRS 36 might require an entity to perform an impairment test on a cash-generating unit (CGU) that includes regulatory deferral account balances. This test might be required because the CGU contains goodwill, or because one or more of the impairment indicators described in FRS 36 have been identified relating to the CGU. In such situations, paragraphs 74–79 of FRS 36 contain requirements for identifying the recoverable amount and the carrying amount of a CGU. An entity shall apply those requirements to decide whether any of the regulatory deferral account balances recognised are included in the carrying amount of the CGU for the purpose of the impairment test. The remaining requirements of FRS 36 shall then be applied to any impairment loss that is recognised as a result of this test.

### **Application of FRS 103 *Business Combinations***

- B17 The core principle of FRS 103 is that an acquirer of a business recognises the assets acquired and the liabilities assumed at their acquisition-date fair values. FRS 103 provides limited exceptions to its recognition and measurement principles. Paragraph B18 of this Standard provides an additional exception.
- B18 Paragraphs 11–12 require an entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, if an entity acquires a business, it shall apply, in its consolidated financial statements, its accounting policies established in accordance with paragraphs 11–12 for the recognition and measurement of the acquiree's regulatory deferral account balances at the date of acquisition. The acquiree's regulatory deferral account balances shall be recognised in the consolidated financial statements of the acquirer in accordance with the acquirer's policies, irrespective of whether the acquiree recognises those balances in its own financial statements.

### **Application of FRS 105 *Non-current Assets Held for Sale and Discontinued Operations***

- B19 Paragraphs 11–12 require an entity to continue to apply its previous accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. Consequently, the measurement requirements of FRS 105 shall not apply to the regulatory deferral account balances recognised.
- B20 Paragraph 33 of FRS 105 requires a single amount to be presented for discontinued operations in the statement(s) of profit or loss and other comprehensive income. Notwithstanding the requirements of that paragraph, when an entity that elects to apply this Standard presents a discontinued operation, it shall not include the movement in regulatory deferral account balances that arose from the rate-regulated activities of the discontinued operation within the line items that are required by paragraph 33 of FRS 105. Instead, the entity shall present the movement in regulatory deferral account balances that arose from the rate-regulated activities of the discontinued operation either:

- (a) within the line item that is presented for movements in the regulatory deferral account balances related to profit or loss; or
  - (b) as a separate line item alongside the related line item that is presented for movements in the regulatory deferral account balances related to profit or loss.
- B21 Similarly, notwithstanding the requirements of paragraph 38 of FRS 105, when an entity presents a disposal group, the entity shall not include the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group within the line items that are required by paragraph 38 of FRS 105. Instead, the entity shall present the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group either:
- (a) within the line items that are presented for the regulatory deferral account debit balances and credit balances; or
  - (b) as separate line items alongside the other regulatory deferral account debit balances and credit balances.
- B22 If the entity chooses to include the regulatory deferral account balances and movements in those balances that are related to the disposal group or discontinued operation within the related regulated deferral account line items, it may be necessary to disclose them separately as part of the analysis of the regulatory deferral account line items described by paragraph 33 of this Standard.

### ***Application of FRS 110 Consolidated Financial Statements and FRS 28 Investments in Associates and Joint Ventures***

- B23 Paragraph 19 of FRS 110 requires that a “parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances”. Paragraph 8 of this Standard requires that an entity that is within the scope of, and elects to apply, this Standard shall apply all of its requirements to all regulatory deferral account balances arising from all of the entity’s rate-regulated activities. Consequently, if a parent recognises regulatory deferral account balances in its consolidated financial statements in accordance with this Standard, it shall apply the same accounting policies to the regulatory deferral account balances arising in all of its subsidiaries. This shall apply irrespective of whether the subsidiaries recognise those balances in their own financial statements.
- B24 Similarly, paragraphs 35–36 of FRS 28 require that, in applying the equity method, an “entity’s financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances”. Consequently, adjustments shall be made to make the associate’s or joint venture’s accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances conform to those of the investing entity in applying the equity method.

### ***Application of FRS 112 Disclosure of Interests in Other Entities***

- B25 Paragraph 12(e) of FRS 112 requires an entity to disclose, for each of its subsidiaries that have non-controlling interests that are material to the reporting entity, the profit or loss that was allocated to non-controlling interests of the subsidiary during the reporting period. An entity that recognises regulatory deferral account balances in accordance with this Standard shall disclose the net movement in regulatory deferral account balances that is included within the amounts that are required to be disclosed by paragraph 12(e) of FRS 112.
- B26 Paragraph 12(g) of FRS 112 requires an entity to disclose, for each of its subsidiaries that have non-controlling interests that are material to the reporting entity, summarised financial information about the subsidiary, as specified in paragraph B10 of FRS 112. Similarly, paragraph 21(b)(ii) of FRS 112 requires an entity to disclose, for each joint venture and associate that is material to the reporting entity, summarised financial information as specified

in paragraphs B12–B13 of FRS 112. Paragraph B16 of FRS 112 specifies the summary financial information that an entity is required to disclose for all other associates and joint ventures that are not individually material in accordance with paragraph 21(c) of FRS 112.

- B27 In addition to the information specified in paragraphs 12, 21, B10, B12–B13 and B16 of FRS 112, an entity that recognises regulatory deferral account balances in accordance with this Standard shall also disclose the total regulatory deferral account debit balance, the total regulatory deferral account credit balance and the net movements in those balances, split between amounts recognised in profit or loss and amounts recognised in other comprehensive income, for each entity for which those FRS 112 disclosures are required.
- B28 Paragraph 19 of FRS 112 specifies the information that an entity is required to disclose when the entity recognises a gain or loss on losing control of a subsidiary, calculated in accordance with paragraph 25 of FRS 110. In addition to the information required by paragraph 19 of FRS 112, an entity that elects to apply this Standard shall disclose the portion of that gain or loss that is attributable to derecognising regulatory deferral account balances in the former subsidiary at the date when control is lost.



## **Appendix C**

### **Effective date and transition**

*This appendix is an integral part of the Standard.*

### **Effective date and transition**

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#### **Effective date**

- C1 An entity shall apply this Standard if its first annual FRS financial statements are for a period beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies this Standard in its first annual FRS financial statements for an earlier period, it shall disclose that fact.

## **Appendix D**

### **Amendments to other FRSs**

*This appendix sets out amendments to other FRSs that are a consequence of the issuance of this FRS. An entity shall apply the amendments for annual periods beginning on or after 1 January 2016. If an entity applies FRS 114 for an earlier period, it shall apply the amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.*

\* \* \* \* \*

*The amendments contained in this appendix when this FRS was issued in 2016 have been incorporated into the relevant FRSs published in this volume.*