

Disclosures by entities subject to rate regulation, AcG-19

Principles

- 4 Rate regulation can affect both the revenue-generating ability of an entity and the period in which its revenues are earned. In certain circumstances, it may result in the creation of material economic benefits and obligations. Therefore, it is an important consideration in evaluating the financial performance of entities with rate-regulated operations.
- 5 To meet the needs of financial statement users, entities subject to rate regulation shall disclose general information facilitating an understanding of the nature of the rate regulation and its effects on the entity's financial statements. The information shall be presented in such a manner as to enable a clear understanding of these effects.

General information on rate regulation

- 6 An entity subject to rate regulation shall disclose the following:
 - (a) the fact that the entity is subject to rate regulation, and a description of the nature and extent of the rate-regulated operations; and
 - (b) for each set of operations subject to a different rate-setting authority or type of regulation, the identity of the rate-setting authority and, if it meets the definition of a related party (see RELATED PARTY TRANSACTIONS, Section 3840), a statement to this effect, together with an explanation of why this is the case.

Additional information on the financial statement effects of rate regulation

- 7 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 shall disclose the following:
 - (a) the specific financial statement items affected;
 - (b) for each item, how it has been reflected in the financial statements, as well as the rationale for this treatment, including information about either the supporting regulatory action (for example, issuance of a final rate order or approval to accumulate amounts pending final disposition at a later date, with the date being disclosed when known), or the expectations of the entity regarding future regulatory actions; and
 - (c) when a separate asset or liability has been recognized solely as a result of the effects of rate regulation:
 - (i) the carrying amount of the asset or liability, as at the most recent balance sheet date, and the balance sheet line item that includes it when it is not otherwise evident;
 - (ii) the income statement effect of such recognition for the current period;
 - (iii) the remaining period over which the carrying amount of the asset is expected to be recovered or the liability is expected to be settled;
 - (iv) a description of the regulatory risks and uncertainties affecting the eventual recovery of the asset or settlement of the liability and its timing, consistent with MEASUREMENT UNCERTAINTY, Section 1508; and
 - (v) when the regulator does not include a return on investment in the rate base for the asset during its recovery period, a statement to that effect; and
 - (d) when accounting for the effects of rate regulation has been discontinued since the last financial statements issued, a statement to that effect, together with the reasons for the discontinuance and identification of the rate-regulated operations affected.
- 8 The financial statement note providing the information required by paragraph 7(a) shall make reference to any other note containing the information required by paragraphs 7(b)-(c).