



**Ontario Energy Board**

Commission de l'énergie de l'Ontario

# Countdown to IFRS

***CAMPUT Montreal***

May 4, 2010

***Bill Cowan***

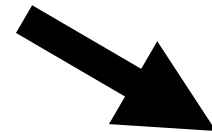
Senior Manager, Special Projects  
Applications and Regulatory Audit

# Will it Be .....

3

2

1

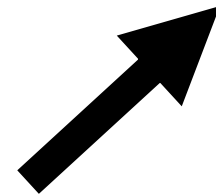


# | Or Will it Be .....

3

2

1



# What Is At Stake?

**The accounting standards issue is:**

***How should rate-regulated utilities record and report economic effects of regulatory decisions on net income reported in audited financial statements?***

i.e., record deferral/variance accounts in the body of the numbers or just in the notes?

# It is All About ....

- **The timing of recognition**

**NOT**

- **Whether to recognize (seems resolved)**

# It is the Accountants' Problem ...

**So why should the rate-regulator care?**



# Rate-Regulator Cares Because –

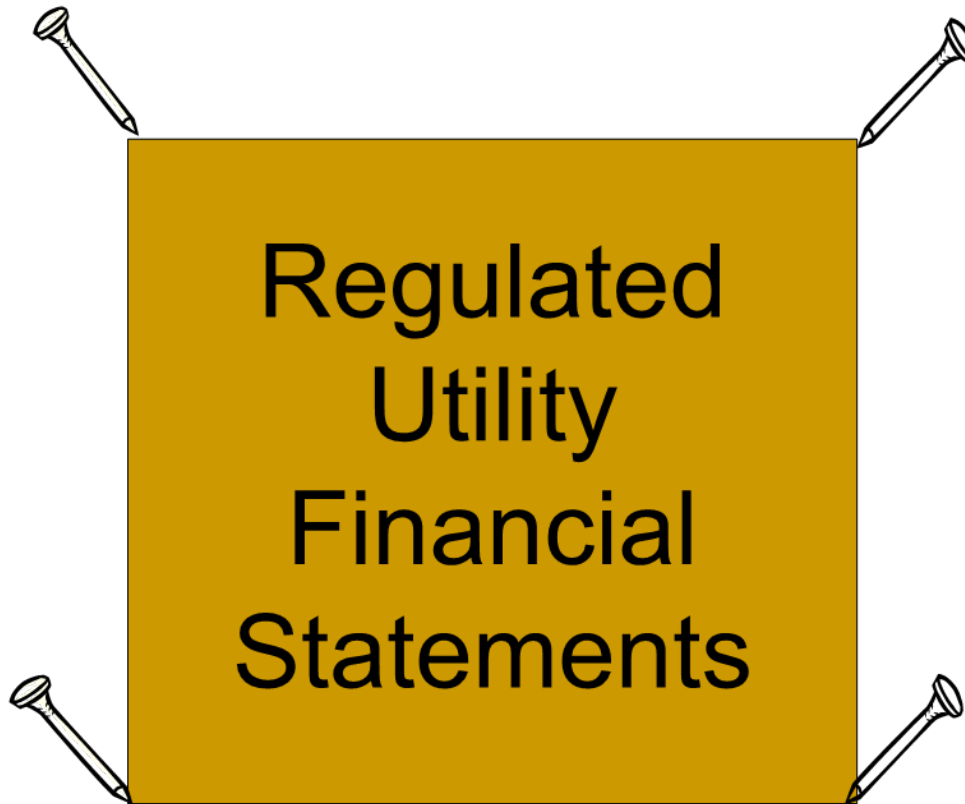
**If economic effects of regulatory decisions not included in net income**

- Investors will see
  - Income volatility  $\neq$  reality
  - Complex note disclosure
  - Possible unwarranted change in perceived business risk
- Regulators will find
  - Tortured link to audited financial statements
  - Reduced confidence in numbers in rates applications

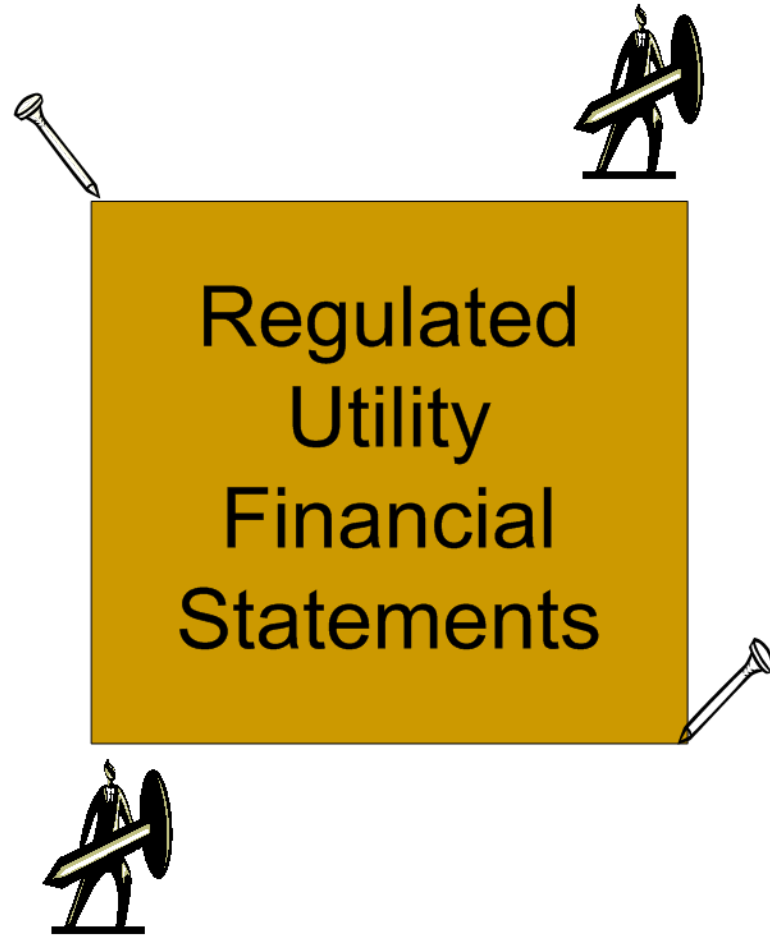
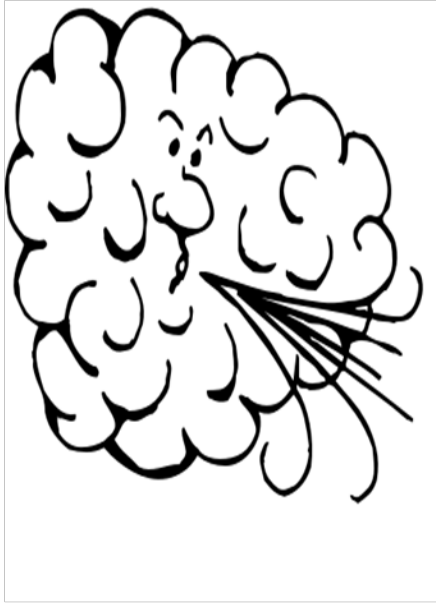
**Result = two views of the same economic reality**



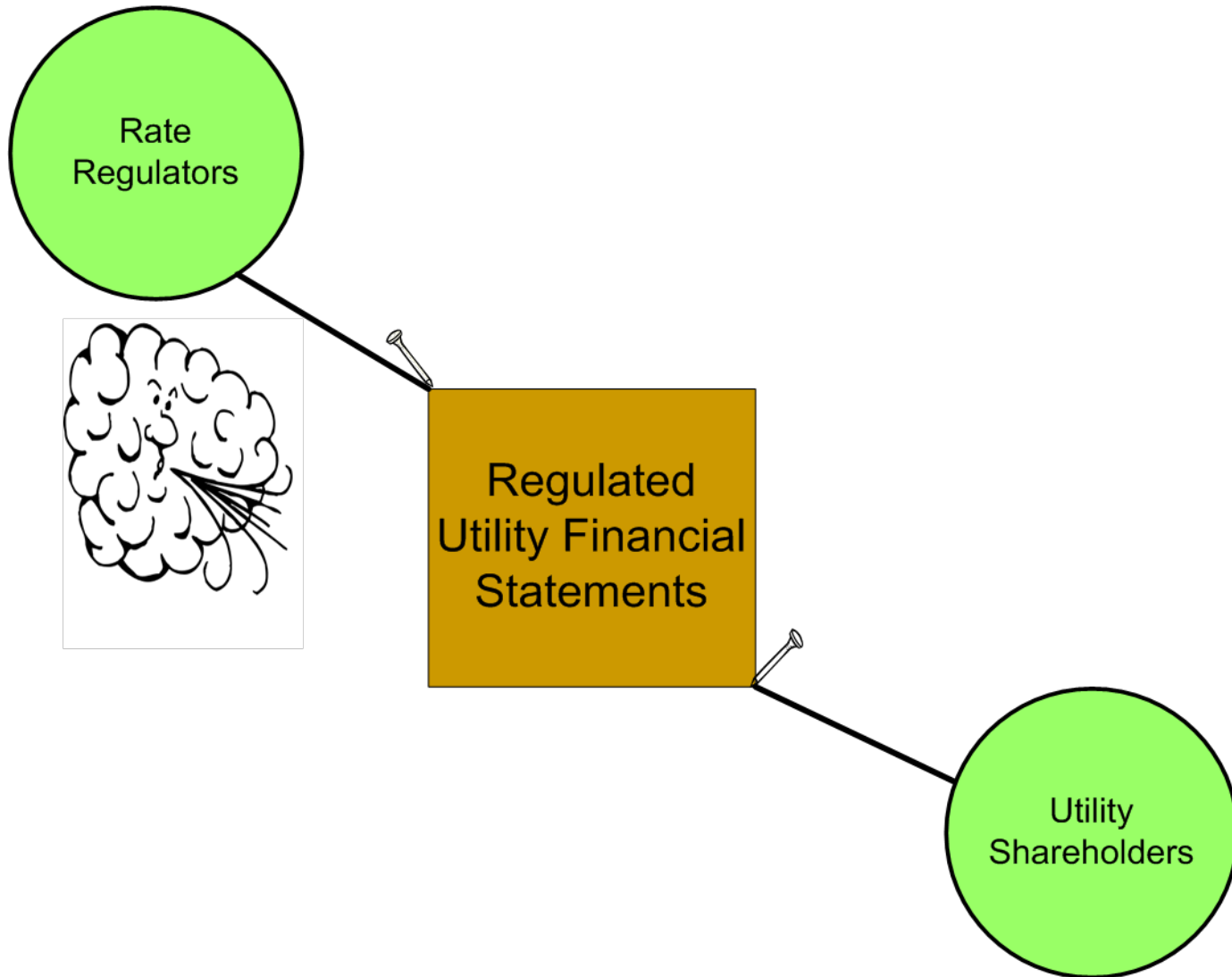
# Like Going Camping ...



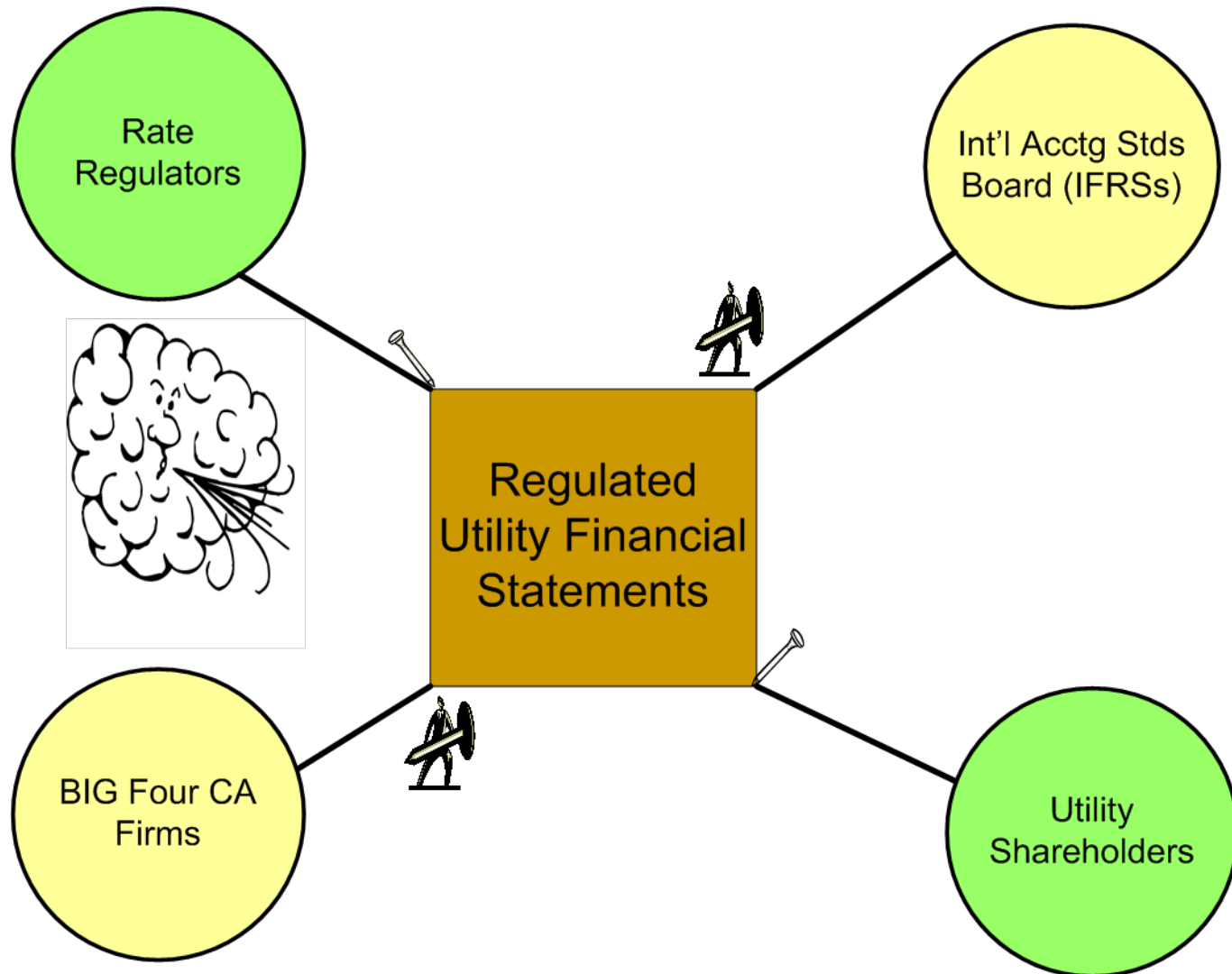
# But There is a Wind Blowing



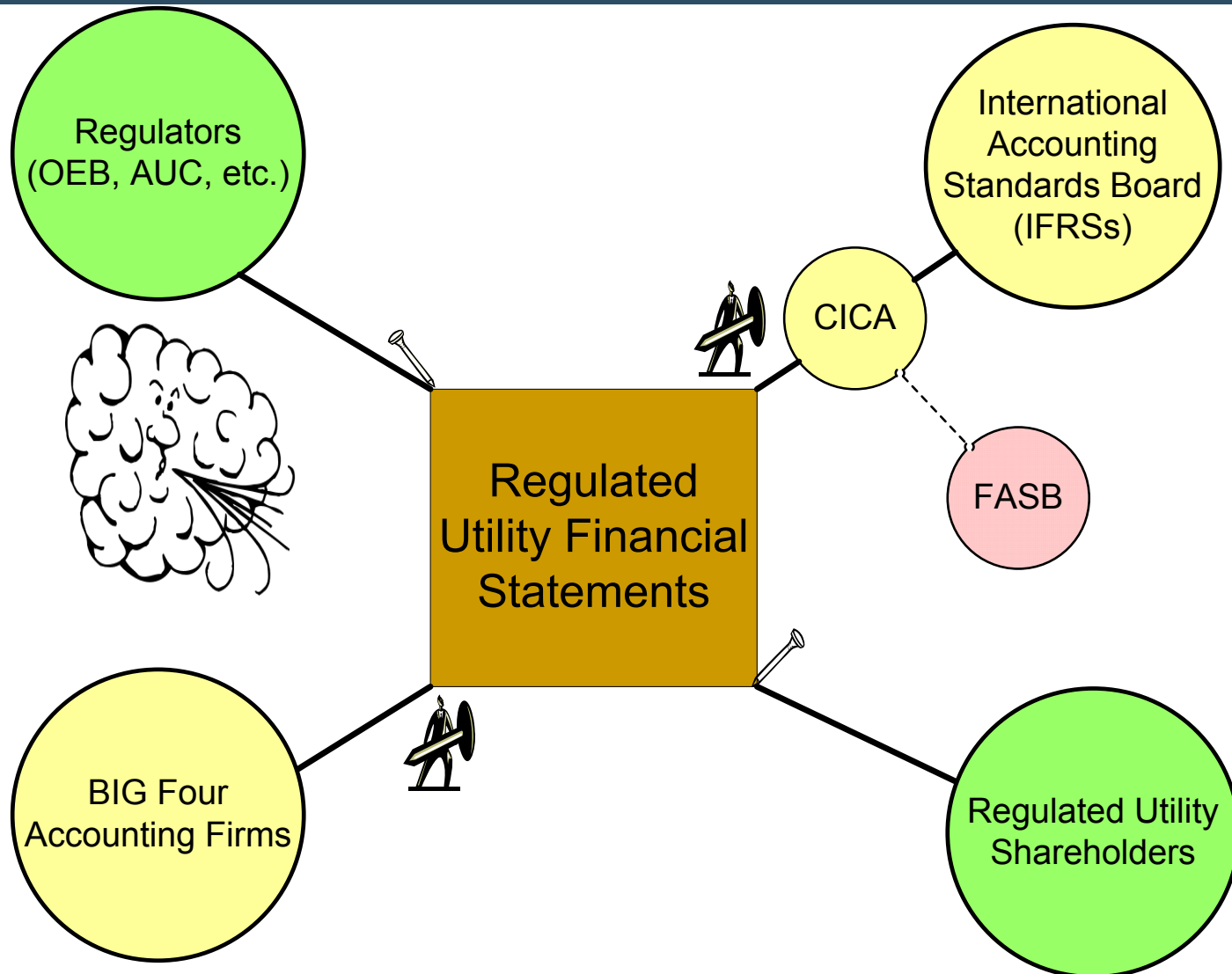
# After Four Years ....



# Two Corners Still Flapping ...



# Other Players



# Countdown to IFRS

1. What the Ontario Energy Board has done
2. Where OEB Staff see rub point
3. OEB Staff views on
  - What should be done
  - Who should do it

# What has the OEB Done?

1. Conferred with industry players and stakeholders in 2009 about
  - Transition of regulatory accounting
  - Timing of IFRS in rate applications
  - Periodic reporting requirements
2. Published position (Report, July 2009)
3. Issued one clarifying letter (February 2010)
  - Accounting for capitalized overhead

# What has the OEB Done?

4. Undertook initial depreciation study for electricity distributors
  - Many (about 75 out of 80) use 25 year useful life
  - A handful use 40+ year useful life
5. Board staff
  - Participated/supported Board in CAMPUT letter writing to IASB (with NS, Alberta, NEB and some from Regie)
  - Undertook other lobbying efforts
  - Active dialogue with industry players
6. With AUC tried to wake up other regulators



# Where OEB Staff See Rub Points

1. Need immediate resolution/mitigation of accounting uncertainty
  - Destabilizing to the industry
  - Difficult to establish rules for regulatory accounting and reporting
  - Building in flexibility has already cost a lot of money
2. Need adjudicators informed about changes, and rate impacts
3. Need regulatory staff knowledgeable about IFRS and what has changed
4. Ensure no discontinuity of numbers presented over time for adjudication
5. Need competent audit review of regulatory accounts

# Where OEB Staff See Rub Points

- More difficult when
  - Regulators influence accounting standards only indirectly
  - In a multi-utility jurisdiction
  - Accounting is not necessarily a prime knowledge area of adjudicators



# OEB Staff Views on ...

- What should be done
- Who should do it



# Who Should Do Something?

- Regulatory Board members
- Regulatory Board staff
- Regulated utilities
- Public accountants
- Canadian Accounting Standards Board
- International Accounting Standards Board
- CAMPUT

# What Should They Do?

- Regulatory Board members
  - Get familiar with the issues – moving target
  - Be careful who you ask – utilities, other regulators, professional accountants
  - Make sure regulatory tools and processes are up to the task, i.e., declare your requirements (≠ loose corner of the tent)
  - Make sure your staff are getting up to speed
- Regulatory Board staff
  - Get resources on staff who understand issues
  - Participate in training programs
  - Present information to your Board members
  - Think through issues, exposures and opportunities
  - Network to regulatory staff in other jurisdictions
  - Participate in keeping heat on IASB, Cdn AcSB, audit firms

# What Should They Do?

- **Regulated utilities**
  - Reporting issuers
    - Keep doing what you are doing
    - Keep the heat on the IASB, the Cdn AcSB and your auditors
    - Find holistic solution to IFRS transition – executive management problem, not just an accounting standards problem
  - Other rate-regulated utilities
    - Get tuned in (if not already) – remember January 1, 2010 is already in the past!
    - Find holistic solution to IFRS transition – executive management problem, not just an accounting standards problem
    - Make sure your board's of directors are informed!
    - Some may still be trying to figure out how IFRS does not apply to them – give it up, other Canadian GAAP is dead

# What Should They Do?

- Public Accountants
  - Big 4 (5 or 6)
    - Try to determine whether you have a common Canadian position
    - Advocate it to Cdn AcSB
    - *Then* sell it in your international firms
    - Stop hiding within international partnerships awaiting standards
    - Step up – client forums are not enough
  - Help clients find the minimum fix, not the maximum change
    - Get past promoting the big problems and the big fix
    - Get past the devil is in the details

# What Should They Do?

- Canadian Accounting Standards Board (AcSB)
  - Stay active in lobbying IASB
    - AcSB is truly lucid and clear on the accounting issues
    - Keep pressure on IASB to focus on the issue of reflecting economic events caused by regulatory actions, not just the technical question of whether regulatory deferral and variance accounts meet asset or liability criteria part of current IFRS
    - Encourage Canadian and North American CA firms to develop a common position
  - Buy and advocate the following reasoning
    - While the rate-regulator may have somewhat different objectives than the investor this is not a sufficient reason for having two views of the economic effect of regulatory decisions
      - Rate regulator's objective – ensure just and reasonable rates for the consumer (requires facilitating a financially viable industry)
      - Shareholder/investor's objective – get a fair return over the long run (among other things, implies having just and reasonable rates for consumers)

# What Should They Do?

- International Accounting Standards Board (IASB)
  - Successful progress is being made on a piecemeal basis in spite of diverse views
  - Stay active in chipping away at this rock
  - Make sure a workable interim solution is in place to avoid changing twice
    - once to de-recognize regulatory assets/liabilities in 2011
    - then potentially to re-recognize them again when standard finalized
  - Make sure you solve question of how to recognize economic impact of regulatory decisions, not just applying technical accounting criteria

# What Should They Do?

- **CAMPUT**
  - Need for a CAMPUT submission?
    - Likely not sufficient time or benefit
    - Not a constituency recognized as separate from “the industry”
    - While we care about the economic perception accorded enterprises we regulate, in the end, the regulator can require and obtain information that it requires without depending on the accountants
  - Member adjudicators and staff
    - Be active in knowing what is going on
    - Press public accountants for answers
    - Lobby individually for workable interim solution to avoid unnecessary two step change

# More Information

- OEB Report of July 2009
- Consultation proceedings
  - Sample before and after financial statements
  - Reconciliation of before and after to regulatory requirements of a Cost of Service application

[www.oeb.gov.on.ca](http://www.oeb.gov.on.ca)

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