



# THE SEVENTH ANNUAL AOSSG MEETING

*Building the future of IFRS together*  
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## Rate-regulated Activities

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WG members: Korea (Lead), India (Co-lead), Indonesia, Japan, Malaysia, Nepal and Sri Lanka

The views expressed in this presentation are those of the presenter, not necessarily those of the KASB.

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# Introduction

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- **In September 2014, the IASB has published the Discussion Paper ‘Reporting the Financial Effects of Rate Regulation’ and received comments from stakeholders by 15 January 2015.**
- The IASB discussed issues related with Rate-regulated Activities project based on received comments.
- **The IASB decided to retain the Research Programme and publish a second Discussion Paper for rate-regulated activities.**
- The IASB provides **illustrative example for developing an accounting model** for Rate-regulated Activities at the ASAF Meeting and IASB Meeting in July 2015.

# Objectives of this paper

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- In preparation for the AOSSG annual meeting, the KASB asked the **AOSSG members to provide their views on illustrative example.**
- But, this paper includes only the comments of five countries.
- The KASB wish to **introduce Rate-regulation practice in Korea** and **discuss** with other AOSSG members **various rate-regulation characteristics of each country.**
- By doing so, we hope to share the need for developing a Standard on rate-regulated activities.

# Illustrative Example

## Flood damage costs

- Because of unexpected flooding Entity W incurred additional costs
- Regulator has confirmed that these additional costs will be included in calculation of the revenue requirement for 20X6

### Method (a)

- **Korea and Malaysia** think method (a) is appropriate.
- **Defer the recognition of the costs** until it recover the amount through bills to customers in 20X6.

### Method (c)

- **Japan and New Zealand** think method (c) is appropriate.
- **The Flood damage costs should be expensed in 20X4.**

# Illustrative Example (cont'd)

## Research costs

- The rate regulator has allocated CU1.5 million per annum for three years in order to fund a research project
- Failure to meet the required target for the results will result in the reduction of future revenue requirement to 'refund' all or part of the funding

### Method (a)

- **Malaysia** thinks it is appropriate to defer the recognition of revenue/income equal to the CU1.25 million shortfall in the CU1.5million in the 20X4.

### Method (b)

- **Korea** thinks CU1.5million should be recognized as cost in 20X4 and the difference amount recognized as deferral account balance.

### Method (c)

- **Japan and New Zealand** agree with method (c).
- Entity W makes **no adjustment** to the existing predominant practice.

# Illustrative Example (cont'd)

## Construction costs

- During 20X3, the rate regulator approved plans for Entity W and has allocated CU8 million per annum for two years to the revenue requirement
- Entity W incurred construction costs of CU4.5 million during 20X4 and expects to spend a further CU16.5 million during 20X5

### Method (a)

- Malaysia thinks it is appropriate to recognize revenue equal to the **CU3.5 million shortfall** in the CU8 million in 20X4.

### Method (b)

- Korea thinks it is appropriate to defer the recognition of the **whole of the CU8 million** until Entity W completes the construction.

### Method (c)

- Japan and New Zealand agree with method (c).
- Entity W makes **no adjustment** to the existing predominant practice.

# Summary of comments

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**What is the appropriate method reflected financial effect of RRA?**

- **Korea and Malaysia** agreed on the **defer/accelerate recognition of the costs and/or revenue approach**. And agree to **development of separate standards** for RRA.
- **Pakistan** think that it would be more appropriate to **bring the accounting and disclosure requirements through existing standards**.
- **Japan and New Zealand** consider that only the information provided by way of comment in **disclosure is appropriate**. Also, New Zealand thinks that the IASB needs to develop a standard relating to the disclosures.

# Discussion Points

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- I. Does the combination of **the distinct right and obligation** under **the ‘defined rate regulation’** meet the **definition of assets and liabilities under the Conceptual Framework?**
  
- II. If you agree with Question 1, what is the appropriate method between **defer/accelerate the recognition of costs approach** and **defer/accelerate the recognition of revenue approach?**
  
- III. In case of **funding for construction**, Question 3 in illustrative example, **when should entity recognize revenue?**
  
- IV. Are there any features of your jurisdiction’s rate-regulatory environment that you would like to discuss or present?

# Appendix: Rate Regulation in Korea

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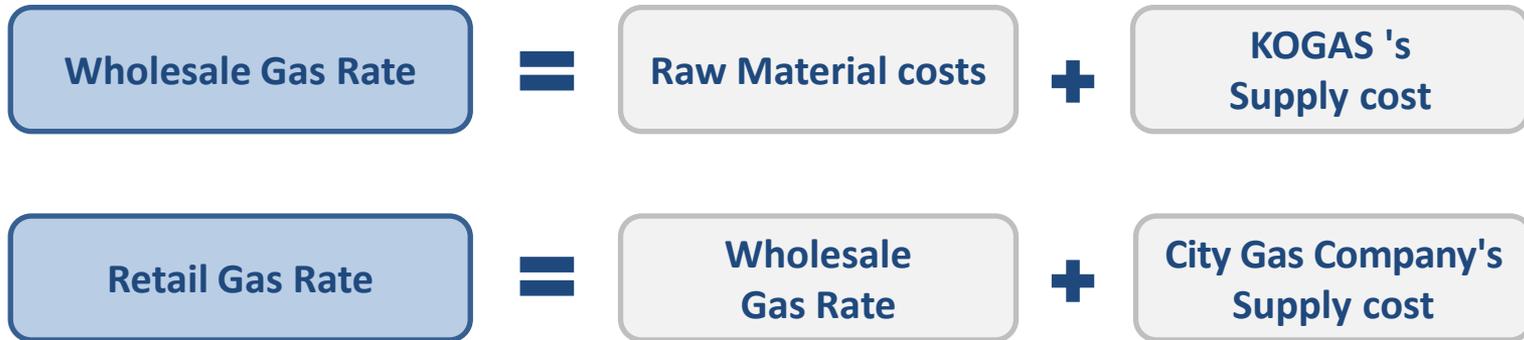
## Natural Gas Market in Korea

- The wholesale market and the retail market
- Relied on foreign imports
- Monopoly market
- KOGAS(Korea Gas Corporation) as a Korea's representative public energy company, imports and supplies approximately 96% of the total demands.

# Appendix: Rate Regulation in Korea (cont'd)

## Rate regulation in Natural Gas Market

- The wholesale gas rate and the retail gas rate



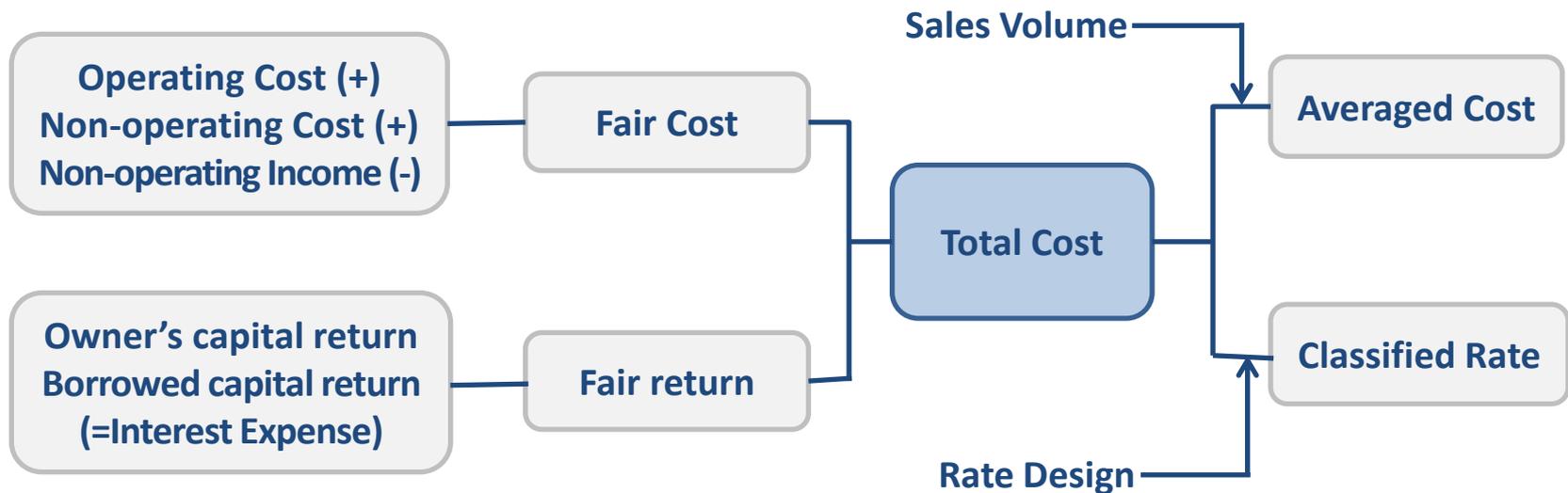
- **Raw material costs**
  - 'Pass-through' to customers
  - (LNG Price + Incidental cost)
  - Annual adjustment between “Billing” and “ Actual”
  - Determined by government (*The Urban Gas Business Act. Article 20*)

# Appendix: Rate Regulation in Korea (cont'd)

## Rate regulation in Natural Gas Market (cont'd)

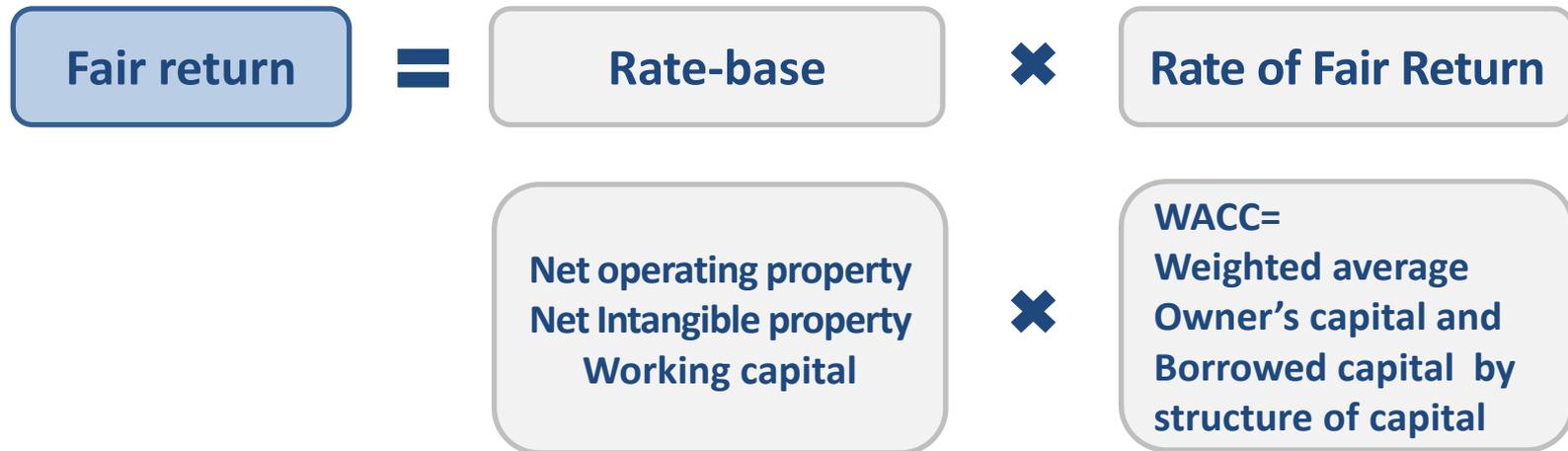
- **Supply cost**

- The total cost consisting of the reasonable costs and reasonable investment returns less the raw material cost



# Appendix: Rate Regulation in Korea (cont'd)

## Rate regulation in Natural Gas Market (cont'd)



# Appendix: Rate Regulation in Korea (cont'd)

## Regulator's role and enforcement

- Business License Approval
- Deliberate and approve Gas rate
  - The rate is adjusted if the import raw material costs fluctuates by more than  $\pm 3\%$  every two months
- Guarantee of cost recovery and required revenue
  - **The difference between actual raw material costs and billing raw material rates(receivable or payable) due to cost recovery deferral, and the oil price and exchange rates applied shall be settled through the adjustment reflected in the following year's rate.**

**THANK YOU**