



2015 Global Reporting Index

The following disclosures are culled from the [2015 Audited Financial Statements](#) relative to the Summary of Significant Accounting Policies under the Notes to Financial Statements (pp. 43-44).

Rate-Regulated Activities

Rate regulation is the setting by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where an entity has a monopoly or dominant market position that gives it significant market power. In the case of PSALM, this was applied to the treatment of the Universal Charge for Stranded Contract Cost.

IFRS 14, Regulatory Deferral Accounts, permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

The objective of IFRS 14 is to specify the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation. IFRS 14 is permitted, but not required, to be applied where an entity conducts rate-regulated activities and has recognized amounts in its previous GAAP financial statements that meet the definition of 'regulatory deferral account balances' (sometimes referred to 'regulatory assets' and 'regulatory liabilities').

Regulatory Assets (Current) - Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are expected to be recovered through revenue sources within one year or the normal operating cycle, if longer. Such costs are capitalized if they meet both of the following criteria: a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes. b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate

adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

Regulatory Assets (Non-Current) - Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are not expected to be recovered through revenue sources within one year or the normal operating cycle if longer.

Regulatory Liabilities (Current) - Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are expected to be incurred within one year or the normal operating cycle, if longer.

Regulatory Liabilities (Non-Current) - Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are not expected to be incurred through within one year or the normal operating cycle if longer.

IFRS 14 provides an exemption from paragraph 11 of PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors when an entity determines its accounting policies for regulatory deferral account balances. Paragraph 11 of PAS 8 requires an entity to consider the requirements of IFRSs dealing with similar matters and the requirements of the Conceptual Framework when setting its accounting policies.

The effect of the exemption is that eligible entities can continue to apply the accounting policies used for regulatory deferral account balances under the basis of accounting used immediately before adopting IFRS ('previous GAAP') when applying IFRSs, subject to the presentation requirements of IFRS 14.

Entities are permitted to change their accounting policies for regulatory deferral account balances in accordance with PAS 8, but only if the change makes the financial statements more relevant and no less reliable, or more reliable and not less relevant, to the economic decision-making needs of users of the entity's financial statements. However, an entity is not permitted to change accounting policies to start to recognize regulatory deferral account balances.

Improvements to Philippine Financial Reporting Standards (PFRS)/Financial Reporting Standards Council (FRSC)

The adoption of the following amendments resulted in changes to accounting policies but did not have significant impact on the financial position and performance of the Corporation.

- PAS 1, Presentation of Financial Statements, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

- PFRS 7, Financial Instruments - Disclosures, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- PFRS 12, Disclosure of Interests in Other Entities, contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows.
- Presentation of Items of Other Comprehensive Income (Amendments to PAS 1, Presentation of Financial Statements). The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard.
- PFRS 13, Fair Value Measurement, replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Corporation will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates or as applicable:

- PFRS 10, Consolidated Financial Statements, introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change.

PFRS 10 supersedes PAS 27, Consolidated and Separate Financial Statements (2008). The new standard is effective for annual periods beginning on or after 01 January 2013.

- PAS 19, Employee Benefits (amended 2011), includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The adoption of the amended or revised standard is required for annual periods beginning on or after 01 January 2013.
- PFRS 9, Financial Instruments (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 01 January 2012. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation - IFRIC 9, Reassessment of Embedded Derivatives. The adoption of the new standard is required for annual periods beginning on or after 01 January 2015.
- IFRS 14, Regulatory Deferral Accounts was issued on 30 January 2014, and is effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2016.

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