INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

STATUS UPDATE REPORT as at FEBRUARY 28 2010

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IFRS Status Update Report

Executive Summary

Manitoba Hydro (MH) will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) effective for its 2011/12 fiscal year with comparative information presented for 2010/11. There are a number of differences between Canadian Generally Accepted Accounting Principles (GAAP) and IFRS that will affect the timing of when costs are recognized in MH's net income, how business transactions are recorded, and how information is presented in MH's financial statements.

MH commenced its IFRS conversion project in 2008 with the establishment of a formal project structure including a project team, steering committee and an executive sponsor. The project was divided into four phases: initial assessment & project mobilization, detailed design, solution development, and implementation.

MH is managing the project internally with resources from across its business units and with assistance as necessary from external advisors. KPMG was engaged as the primary consultant on the project and to date has assisted with accounting gap analysis, identification of system and process impacts, and the interpretation of IFRS standards. MH's external auditors, Ernst & Young, have provided some initial assistance in the interpretation of IFRS standards, but have not yet provided any conclusions with respect to the interpretations and/or accounting policy decisions undertaken by MH to date.

Currently, the project focus is on detailed design and solution development activities. The project activities are generally carried out by accounting topic area, and the stage of completion varies by topic, as set out in section 4 of this report. Detailed gap analysis has been performed and an assessment of the impact of changes in accounting policies and the related options is currently being conducted.

The transition to IFRS is expected to result in an initial increase in annual operating and administrative expense, increased volatility in net income, the recognition of additional obligations on the balance sheet, some changes to the presentation of financial statements and more extensive note disclosure.

IFRS Status Update Report

The topics in the following table have been identified as having the highest potential impact to MH:

Topic	Issue
Rate Regulated Accounting	- IFRS does not currently recognize rate regulated accounting - A July 2009 International Accounting Standards Board (IASB) exposure draft (ED) allows for rate regulated accounting, but there is uncertainty as to its approval - In February 2010 the IASB requested further analysis as to whether rate regulated accounting meets the IFRS framework
Intangible Assets	- GAAP converged with IFRS effective for MH's 2009/10 financial statements - GAAP and IFRS are now more specific with respect to costs that may be recognized as intangible assets and require research and promotional costs to be expensed
Property, Plant & Equipment (PP&E)	- IFRS has proposed exemptions for carrying forward existing PP&E balances as of the transition date (for rate regulated entities) - IFRS is more rigorous in identifying separate components for depreciation - IFRS requires gains and losses on asset retirements to be charged to net income in the year incurred and does not allow, in the absence of an obligation, removal costs to be included in depreciation rates - IFRS requires a liability to be recorded for "constructive asset retirement obligations" - Under IFRS, customer contributions are recognized as revenue, either immediately or over the life of the asset
Capitalization of Overhead Costs	- IFRS specifically states that administration and general overhead costs are not eligible for capitalization - The IASB ED proposes that costs permitted by the regulator continue to be included in the costs of PP&E and intangible assets
Pension Costs	- IFRS does not permit the deferral of experience gains and losses for calculating expected fund returns - First time adopters have an option to adjust unrealized experienced gains or losses to equity
Employee Benefits	- IFRS requires the estimated obligation for the unvested portion of accumulating benefits to be recognized over the period of service - Benefits for past service must be expensed over the vesting period

As a result of changes in the standards for intangible assets, MH will expense approximately $12 million of research and promotional charges commencing in the 2009/10 fiscal year (previously charged to capital). The annual impacts to net income related to the changes in the standard for intangible assets will vary according to the degree of annual spending for these items.

With respect to the capitalization of overhead costs, MH has changed its capitalization policies to remove from capital such items as interest and overhead on inventory, executive costs and property taxes on facilities. The total of these items is approximately $9 million and will be reflected in the 2009/10 financial statements. Further reductions to capitalized overhead commencing in 2010/11 relate to interest on corporate facilities and other costs which total $17 million. An IFRS provision of $15 million has been included in the MH Integrated Financial Forecast.

Although several preliminary accounting choices have been made by MH, until the IASB makes a decision as to the future of rate regulated accounting, a number of final decisions on policy choices cannot be made. In addition, IFRS standards will continue to evolve both before and after the transition date. In the interim, MH will continue to review its accounting policies and design its systems and processes with sufficient flexibility to be able to capture required transactional data and meet the accounting and reporting requirements of the Corporation.

The next steps in the project will focus on advancing technical accounting analysis and resolution, ensuring that key systems and processes meet IFRS accounting and reporting requirements, and providing staff training. This work will continue to be performed by the project team with the assistance of MH's consultants and it will likely involve more detailed discussions with MH's external auditor, Ernst & Young.

IFRS Status Update Report

1.0 Introduction

The Canadian Accounting Standards Board (AcSB) has declared January 1, 2011 as the date for Canadian publicly accountable enterprises to commence using International Financial Reporting Standards (IFRS) as a replacement for Canadian Generally Accepted Accounting Principles (GAAP). The Public Sector Accounting Board (PSAB) also confirmed in October of 2009 that public-sector enterprises with self-sustaining commercial-type operations such as Manitoba Hydro (MH) will be required to follow IFRS. The transition to IFRS will be reflected in MH's financial statements for the fiscal year 2011/12, along with comparative information for the 2010/11 fiscal year.

Although IFRS and GAAP are both principles-based, there are a number of differences between IFRS and GAAP that can result in differences in the timing of when costs are recognized. IFRS contains a number of accounting policy choices and it is for individual entities to determine the most appropriate accounting policies that reflect their own facts and circumstances. As an underlying principle, MH is interpreting and applying IFRS in a manner that recognizes the long term nature of its business and the need, to the extent possible, to preserve the fundamental principles of intergenerational equity amongst the present and future energy consumers of the Province. This objective underlies the preliminary accounting policy decisions discussed in this report.

The overall impacts from conversion to IFRS can be summarized in the following three categories:

a) **Transitional Adjustments**

   The transition to IFRS will likely result in adjustments to opening retained earnings as IFRS generally requires retrospective application. This may be reduced significantly for rate regulated entities by way of the proposed standard for rate regulated accounting.

b) **Ongoing differences**

   There will be ongoing differences in the timing of recognition of certain transactions. In addition, IFRS may give rise to more volatility in earnings. This may be reduced significantly for rate regulated entities should the proposed standard for rate regulated activities be approved.

c) **Additional Costs**

   The initial conversion to IFRS will result in additional costs associated with internal resources, external consulting, assurance requirements, and information system costs.

2.0 Purpose of Report

The purpose of this report is to provide a status update on the areas of IFRS that will impact MH and the potential financial impacts to the extent that they are quantifiable at this time. The information provided also responds to the Manitoba Public Utilities Board (PUB) Order 32/09 which requested that:

"MH to file with the Board by February 28, 2010 an IFRS status update report detailing the support for changes in proposed accounting policies, including accounting policy options considered, transitional elections to be made, and the potential financial impact of such policies and elections on net income, retained earnings, customer rates, and key business and information technology processes as well as providing an updated 20-year IFF reflecting the financial impact of the proposed changes."

It is important to recognize that this document has been prepared as of February 28, 2010 and that further differences between IFRS and GAAP as applied to MH may be identified based on additional detailed analysis, the outcome of a final standard on accounting for rate regulated activities, and other future changes in IFRS standards.

3.0 Overview of IFRS Conversion Project

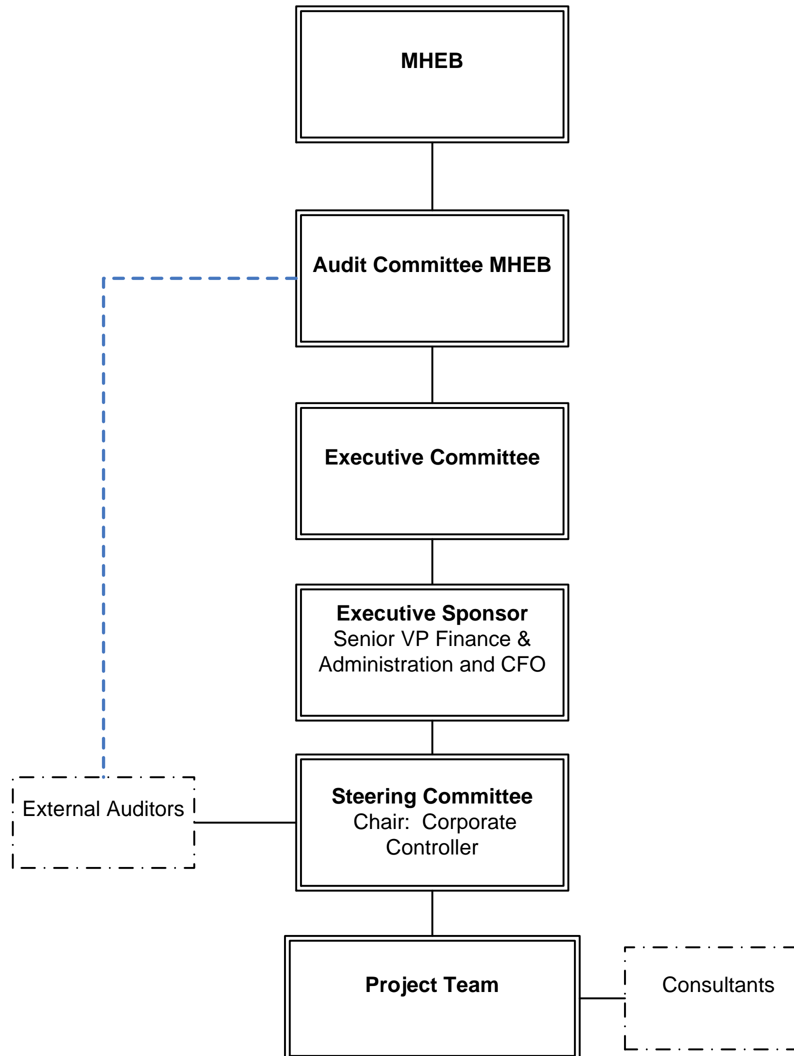
The following sections provide an overview of the MH IFRS conversion project structure, the project phases, and the roles of the external consultants and auditors engaged to assist MH with the adoption of IFRS.

3.1 Project Structure

In 2008, MH formed a project team to manage the overall conversion to IFRS. The team consists of a dedicated Project Manager, Conversion Lead, Project Coordinator and a Project Analyst. Project team members work closely with a number of other employees throughout the Corporation to analyze the technical accounting issues and possible impacts of available options. The time commitment for these employees varies according to the complexity of the topics being considered although the overall involvement has been substantial.

In addition to the project team, a Steering Committee was established comprised of senior management representing each business unit, as well as other senior MH finance staff and a representative from MH's external auditor, Ernst & Young. The Executive Sponsor of the IFRS conversion project is the Senior Vice-President Finance & Administration and Chief Financial Officer who has responsibility for the project and the communication of project results through the Executive Committee to the Audit Committee and the Manitoba Hydro Electric Board (MHEB).

MH's formal project structure is summarized as follows:



3.2 Project Phases

The IFRS conversion project was divided into four phases with the following primary objectives:

1) Initial Assessment & Project Mobilization

- Establish project structure and mobilize project team;
- Develop initial project plan; and
- Identify potential gap differences between MH's policies and IFRS.

2) Detailed Design

- Prepare detailed gap analysis between MH's policies and IFRS;
- Assessment of impact on key systems and related processes; and
- Update conversion plan.

3) Solution Development

- Develop comprehensive and detailed plans to convert systems and processes;
- Provide pro-forma financial statements and policies; and
- Develop detailed training programs.

4) Implementation

- Convert systems and processes;
- Prepare related documents and perform system testing; and
- Deliver IFRS training.

Phase 1 of the project was completed in November 2008 and the results of this phase are summarized in the KPMG Quick Scan report which is provided in Appendix 1. The Quick Scan report set out the preliminary assessment of the potential impact of MH's conversion from GAAP to IFRS and was based on MH's publicly reported financial information and discussions with management. The Quick Scan report was not intended to identify all the potential issues that would impact MH on conversion to IFRS, or to be a comprehensive summary of all the accounting differences between current GAAP and the requirements of IFRS. The report acknowledged that there could be changes resulting from further detailed analysis in the next stage of the project, as well as from subsequent changes to IFRS standards and interpretations.

Due to differences in the nature and complexity of each issue, not all issues will be in the same phase simultaneously. The resolution of some issues will require more analysis than others and the resolution of some issues are pending an IASB decision with respect to rate regulated accounting. Hence, as of the date of this report, some issues will be into phase 2 of the project while others will be into phase 3. Detailed gap analysis has been performed on all major areas and an assessment of the impact of changes in accounting policies on systems and processes and the related options is currently being assessed.

3.3 External Consultants

Through its project team and structure, MH is managing the IFRS conversion project internally with the assistance of its primary consultant KPMG. Specifically, to date, KPMG has assisted the MH project team with:

- Project plan development, establishing priorities, and monitoring progress;
- Detailed gap analysis of accounting and disclosure differences;
- Identifying accounting and system/process issues and raising awareness through educational sessions with management and staff;
- Application and interpretation of IFRS towards accounting policy and financial statement development;
- Assessment of information technology system requirements and possible solutions; and
- Detailed training and knowledge transfer.

There are also a number of technical areas involved in the IFRS project and MH has engaged Gannett Fleming Inc. and Ellement & Ellement to assist in the following areas:

Gannett Fleming Inc.:

- Application of IFRS as it applies to PP&E;
- Development of asset groupings that comply with IFRS componentization requirements;
- Development of IFRS compliant depreciation policies and practices applicable to each asset group; and
- Development of historic cost and accumulated depreciation for the new asset groups.

Ellement & Ellement:

- Actuarial services on employee benefit obligations; and
- Review of pension calculations.

3.4 External Auditors

MH's external auditor, Ernst & Young, has provided some initial assistance in the interpretation of IFRS standards, but has not provided any conclusions with respect to the interpretations and/or accounting policy decisions undertaken by MH to date.

In order to opine on MH's consolidated financial statements for the year ended March 31, 2012 under IFRS, Ernst & Young will be required to:

- Review MH's accounting policies under IFRS standards;
- Audit MH's opening balance sheet at April 1, 2010 under IFRS, perform audit procedures on individual IFRS adjustments and the restatement of comparative periods;
- Review information system, process and internal control changes; and
- Review and comment on financial statement presentation and disclosures under IFRS.

It is expected that after a decision by the IASB on the Rate-regulated Activities ED, MH will be in a position to finalize many of its accounting policy choices and adjustments under IFRS. At this time, it is expected that Ernst & Young will conduct their audit of MH's opening balance sheet in the last quarter of 2010.

4.0 Key Areas of Impact

The main topic areas of impact to MH upon conversion to IFRS include:

1. Rate Regulated Accounting
2. Goodwill & Intangible Assets
3. Property, Plant & Equipment
4. Capitalization of Overhead Costs
5. Pension Costs
6. Employee Benefits
7. Financial Instruments
8. Leases
9. Customer Contributions
10. IFRS 1 - Initial Adoption of IFRS

The following sections provide an overview of each of these main topic areas.

4.1 Rate Regulated Accounting

The following sections describe rate regulated accounting under GAAP and IFRS.

4.1.1 Rate Regulated Accounting under GAAP

MH recognizes the impact of rate regulation by applying various accounting policies that allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. This practice is commonly referred to as rate regulated accounting. In the absence of rate regulated accounting, these costs or credits may otherwise have been included in the determination of net income in the year incurred.

Effective January 1, 2009, GAAP was revised to remove a temporary exemption that permitted the recognition of assets and liabilities resulting from rate regulation. In the absence of specific guidance under GAAP, rate regulated entities in Canada are permitted to reference and apply US Statement of Financial Accounting Standards (FAS) No. 71 Accounting for the Effects of Certain Types of Regulation, which allows for the recognition of rate regulated assets and liabilities under the following circumstances:

a) The enterprise's rates for regulated services or products are established by or subject to approval by an independent, third-party regulator;
b) The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services; and
c) It is reasonable to assume that rates set at levels that will recover the enterprise's

costs can be charged to and collected from customers.

MH meets the requirements of FAS 71 and as such, does not believe there will be any impacts on its net income for 2009/10 related to the removal of the temporary exemption from GAAP.

4.1.2 IASB Exposure Draft on Rate-regulated Activities

Currently, IFRS does not include a specific standard that explicitly recognizes the economic effects of rate regulation. While IFRS does not preclude the recognition of regulatory assets and liabilities, it requires that an asset or liability must meet the existing framework for recognition. The application of the IFRS framework in other countries has not typically resulted in the recognition of regulatory assets and liabilities.

The absence of specific IFRS guidance for rate regulated accounting has been a significant concern of the Canadian utility industry since the AcSB decision to transition to IFRS was announced. This issue was on the agenda of both the International Financial Reporting Interpretation Committee (IFRIC) and the IASB in 2008. The IASB added this project to its agenda in December 2008 because of concerns that differences of views would emerge in practice about whether it was appropriate for entities to recognize assets and liabilities arising from rate regulation and because of the ongoing requests for guidance on this issue.

The IASB issued an Exposure Draft (ED), Rate-regulated Activities, on July 23, 2009. The proposed standard, if adopted, allows for assets and liabilities that arise from rate regulated activities (within the scope of the ED) to be recognized under IFRS.

Scope

The IASB ED is confined to those rate regulated entities that meet the following scope criteria:

a) Where an authorized body is empowered to establish rates that bind customers; and
b) Where rate regulation takes the form of cost-of-service regulation. In the ED, cost of service regulation is specifically defined as regulation for setting entities rates in which there is a cause and effect relationship between an entities specific cost and its revenues.

Recognition

The IASB proposes that because rate regulation governs an entity's relationship with its customer base as a whole, the actions of the regulator can create a right to receive from or an obligation to pay economic benefits to that aggregate customer base. In accordance with the ED, an entity would recognize regulatory assets and regulatory liabilities as a result of the actual or expected actions of the regulator for amounts that would otherwise have been recognized in earnings.

Measurement

The ED permits rate regulated entities an exception with respect to costs eligible for inclusion in the cost of self-constructed property, plant, and equipment or internally generated intangible assets. Under paragraph 16 of the ED, expenditures that would not be eligible for capitalization under IFRS can be included in the costs of self-constructed PP&E or internally generated intangible assets provided this practice is permitted by the regulator. This could include administration and other general overhead costs and also interest costs allowed by the regulator. These permitted costs would be included in the financial statement balances of tangible or intangible assets rather than separately identified as regulatory assets on the balance sheet.

The ED also proposes that regulatory assets and liabilities are measured on the basis of the future expected cash flows, which incorporates the time value of money and the risk specific to the asset.

Transitional Requirements (IFRS 1)

The ED permits rate regulated entities, who are first-time adopters of IFRS, to elect to carry forward the existing carrying amount of their PP&E or intangible asset balances where these balances include amounts that would otherwise be recognized as a regulatory asset in accordance with the proposals.

Current Status of ED

At this time, it is uncertain if the ED on rate regulated accounting will be adopted as currently written. The responses to the ED were submitted in November 2009 and were mixed in terms of those supporting and opposing the proposed standard. MH provided commentary to the IASB on the ED and also provided input into the Canadian Electrical Association, Canadian Gas Association and Canadian Energy Pipeline Association joint response. These responses are attached in Appendices 2 and 3.

The IASB met to discuss the comments received and to provide direction on the Rate-regulated Activities ED on February 17, 2010. At this meeting it was tentatively confirmed that entities subject to rate regulation should be allowed an additional exemption to IFRS to carry forward existing balances of PP&E and intangibles at transition to IFRS. However, no decision as to the future direction of the ED was reached. Rather, because of the diversity in responses to the ED and the concern that diversity may arise in practice, IASB staff were directed to conduct further analysis and research and to present their findings at a future meeting. It is currently unclear as to the likely outcome of this analysis. However, the completion of a standard by 2011 for Canadian adopters looks increasingly unlikely.

The outcome of the IASB decisions on the ED for rate regulated accounting could have a significant impact on the accounting policy choices of MH. A final assessment of the impact of the conversion to IFRS cannot be completed until the outcome of rate regulated accounting is known. Until the outcome is known for certain, MH will continue to analyze the requirements of IFRS and consider their applications both with and without the ED proposals, make preliminary accounting policy choices, and design its systems and processes to meet the accounting and reporting objectives of the Corporation.

4.1.3 Summary of Impacts

MH supports having financial statements that reflect the economic impacts of rate regulation. Such statements more accurately represent the expected cash flows and economic circumstances of the utility.

MH meets the current scope criteria in the ED based on the fact that its rates are regulated by the PUB and the cost of service rate making methodology that is employed in setting rates. The methodology used to set rates for MH is based on recovering the costs of providing service and includes a specific net income component.

MH's existing rate regulated assets and liabilities are recorded at cost. While detailed analysis is on-going, it is thought that there would not be a significant difference between MH's methodology and the ED provisions.

The following table summarizes the rate regulated assets and liabilities existing as at March 31, 2009:

Table 4.1 Summary of Rate Regulated Accounts
At March 31, 2009
(In millions of dollars)

Item	Electric	Gas	Consolidated
Site Restoration Costs	$38.0	$2.0	$40.0
Deferred Taxes	-	36.0	36.0
Acquisition Costs	24.0	-	24.0
Demand Side Management - Gas	-	27.0	27.0
Purchased Gas Variance Accounts	-	(11.0)	(11.0)
Rate Hearing Costs	-	1.0	1.0
	$62.0	**$55.0**	**$117.0**

Should the Rate-regulated Activities ED, pass but in a revised form, MH will revisit the appropriate accounting treatment for these items. If the ED is postponed, MH may be able to continue to apply rate regulated accounting in accordance with existing GAAP if permitted by the IASB. If the ED does not pass, these costs may need to be adjusted to retained earnings upon transition and may be expensed in the year incurred on a go forward basis.

4.2 Goodwill & Intangible Assets

Effective for MH's 2009/10 fiscal year, GAAP is converged with IFRS for the recognition and measurement of Goodwill & Intangible Assets (GAAP section 3064). The new standard requires retrospective application. For MH, retrospective application would be applied to the 2008/09 fiscal year.

4.2.1 Goodwill

MH acquired two companies - Centra Gas in June 1999 and Winnipeg Hydro in September 2002. As a result of these acquisitions, MH has recorded Goodwill in the amount of $108 million which has remained unchanged since March 31, 2003. In accordance with GAAP, goodwill is not amortized; it is tested for impairment on an annual basis unless all of the following criteria have been met:

a) The assets and liabilities that make up the reporting unit have not changed significantly since the most recent fair value determination;
b) The most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin; and
c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

The goodwill accounting requirements under GAAP and IFRS are converged however, GAAP uses a different impairment testing model from IFRS. IFRS determines an impairment loss as the excess of the carrying amount above the recoverable amount of the cash generating unit to which the goodwill is allocated, rather than the difference between carrying amount and fair value of the reporting unit's goodwill as required for GAAP.

Under IFRS, irrespective of whether there is any indication of impairment, an entity is required to test goodwill acquired in a business combination for impairment annually. Although IFRS allows for a reversal of an impairment loss for long lived assets, it does not permit an impairment reversal for goodwill.

MH will incorporate these changes into an annual impairment test for the goodwill resulting from the acquisition of Centra Gas and Winnipeg Hydro.

Transitional Requirements (IFRS 1)

In general, the requirements are applied retrospectively when an entity adopts IFRS. This means that MH would need to consider its past acquisitions and ensure they have been accounted for in accordance with IFRS which could impact the calculation of goodwill. Under IFRS 1, a first-time adopter has the option to not retroactively restate any business combinations. MH is currently assessing this option.

4.2.2 Intangible Assets

The new Canadian standard includes criteria for an expenditure to qualify for recognition as an intangible asset and stipulates that research related expenditures are to be expensed in the period incurred. Under GAAP and IFRS, an expenditure is recognized as an intangible asset only if it meets one of the following "identifiable" criteria:

a) Is separable (i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability); or

b) Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Examples of identifiable intangibles are franchise rights, patents, and licenses.

In addition to the "identifiable" requirement, an entity must demonstrate its ability to control and obtain the future economic benefits from the intangible asset. For internally generated intangible assets, the new section 3064 also requires the following "research" related activities to be expensed as incurred:

a) Activities aimed at obtaining new knowledge;

b) The search for, evaluation and final selection of, applications of research findings or other knowledge;

c) The search for alternatives for materials, devices, products, processes, systems or services; and

d) The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Activities incurred after the selection of a chosen alternative for the project are eligible for capitalization with the exception of:

- Selling, administrative and other general overhead expenditures unless this expenditure can be directly attributed to preparing the asset for use;
- Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
- Expenditures on training staff to operate the asset.

The following sections address the impact of the convergence of GAAP with IFRS for MH with respect to intangible assets.

Demand Side Management (DSM)

MH currently recognizes electric DSM program expenditures as deferred costs and natural gas DSM program expenditures as rate regulated assets.

MH determines the feasibility of a number of electric DSM programs and only implements those which meet specific criteria for achieving cash inflows in excess of the costs of that program. MH's electric DSM programs are a distinct and identifiable aspect of its operations that result in additional cash inflows to the company from the additional export market sales made available by the electricity conserved by domestic customers. For a number of reasons including MH's contractual arrangements with its customers, its monopoly position with respect to generation and transmission, and capacity for future export sales, MH believes that these programs meet the recognition requirements for an intangible asset.

MH's natural gas DSM programs effectively reduce energy costs for customers. MH does not have another market to sell any of the excess natural gas conserved by domestic customers through the DSM programs. As a result, any decrease in natural gas volumes from DSM programs result in an overall reduction to the total commodity requirements for Manitoba customers. As the conservation of natural gas commodity does not provide MH with additional cash inflows, there is no intangible asset.

The new standard 3064 and IFRS specifically identifies research, selling/promotion and indirect expenditures as ineligible costs for capitalization as an intangible asset. New DSM programs typically include research activities as well as promotional activities to introduce the DSM programs. The cost for these activities must now be expensed in the period incurred. For consistency, MH will apply the same accounting treatment to electric & natural gas DSM programs for general research and promotional activities.

The cumulative retained earnings adjustment associated with the March 31, 2009 DSM balance for ineligible charges is approximately $20 million. The expected annual increase to operating expense due to these changes is approximately $5 million.

Planning Studies

To comply with GAAP and IFRS, MH has also reviewed its planning study expenditures and has separated the expenditures into two categories:

a) Next generation and transmission studies; and
b) Emerging energy studies (i.e. wind studies to identify potential sites, hybrid electric vehicles).

The studies for next generation and transmission plant meet the criteria for recognition as an asset, but because such expenditures are intended to ultimately result in the construction of a tangible plant asset, deferral as an intangible asset is not appropriate. Therefore, these expenditures will be recognized as tangible construction in progress (CWIP) assets at the point in time when there is reasonable assurance that a commitment to construction will be made. Expenditures incurred prior to this point will be expensed in the period incurred.

Planning studies for emerging energies result in the accumulation of information and /or research data that enables MH to assess the impacts of energy options on its operations. Although emerging energy studies are necessary, the information generated from such studies does not normally result in the creation of separate or identifiable intangible assets and thus, does not meet the criteria for recognition as an asset. Therefore the costs associated with emerging energy activities will be expensed in the period incurred.

The cumulative retained earnings adjustment associated with the March 31, 2009 planning studies balance for ineligible charges is approximately $20 million. Due to these changes, it is estimated that annual operating expenses will increase by approximately $6 million.

Information Technology - Application Development

MH reviewed its computer system application development process and concluded that, for the most part, expenditures of this nature met the requirements for recognition as intangible assets. However, research and planning related activities involving the need for a new system (software / hardware) or the research and feasibility analysis of alternative solutions should be expensed in the period incurred.

The cumulative retained earnings adjustment associated with the March 31, 2009 Application Development Projects balance for ineligible charges is approximately $5 million. The expected annual increase to operating expense due to these changes is

approximately $1.0 million.

Presentation and Disclosure

GAAP and IFRS emphasize that intangible assets are separate and identifiable stand alone assets and as such, should be presented separately on the balance sheet rather than being classified in PP&E. Upon adoption of section 3064, MH will be reclassifying certain software and other intangibles assets (e.g. easements) out of PP&E for separate presentation on the balance sheet.

4.2.3 Summary of Impacts

The following tables summarize the estimated retained earnings adjustment and the estimated increase to annual operating expenses for intangible asset changes based on 2009/10 amounts:

Table 4.2.2 Summary of Transitional Adjustments to Intangible Assets - Charge to Retained Earnings 2009/10
(In millions of dollars)

Item	Electric	Gas	Consolidated
Demand Side Management - Research and Promotion	$19.0	$1.0	$20.0
Planning Studies	20.0	-	20.0
IT Application Development - Research	4.0	1.0	5.0
Estimated Decrease to Retained Earnings	**$43.0**	**$2.0**	**$45.0**

Table 4.2.3 Summary of Operating Impacts to Intangible Assets - 2009/10
(In millions of dollars)

Item	Electric	Gas	Consolidated
Demand Side Management - Research and Promotion	$4.5	$0.5	$5.0
Planning Studies	6.0	-	6.0
IT Application Development - Research	1.0	-	1.0
Estimated Annual Operating Expense Increase	**$11.5**	**$0.5**	**$12.0**

The annual impacts to net income related to the changes in the standard for intangible assets will vary according to the degree of annual spending for these items.

4.3 Property, Plant & Equipment (PP&E)

Amounts recognized as PP&E under IFRS can differ from current GAAP both at the time of initial transition and subsequent to the transition to IFRS.

4.3.1 Transitional Requirements (IFRS 1)

In general, IFRS requires retrospective application. There are exemptions available from this general requirement under IFRS 1. Specifically an entity may elect to measure an item of PP&E at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.

Under the proposed changes to IFRS 1 included in the Rate-regulated Activities ED, entities with rate regulated activities may hold items of PP&E or intangible assets for use in those activities. The carrying amount of PP&E and intangible assets includes amounts that were recorded under GAAP that may not be in accordance with IFRS. As described in section 4.1.2, a rate regulated entity that is a first-time adopter may elect to use the net carrying amount of these assets at the date of transition to IFRS as deemed cost. Therefore, no retroactive adjustment would be required to adjust any differences in capitalized costs.

MH supports that carrying forward historical cost is the appropriate treatment for a rate regulated entity as existing and future rates are largely based on historical costs. MH is planning to utilize the proposed exemption that a rate regulated entity can elect to use the historical carrying value of PP&E as its deemed cost on transition. Should the proposed exemption not be passed, MH would review the requirements to restate historical costs, where practicable, or evaluate the fair value option.

4.3.2 Subsequent to the Transition to IFRS

Under existing GAAP, PP&E is recorded based on actual historical costs, which represents historical capitalized costs net of accumulated depreciation. Under IFRS, a company has the option of choosing either the historical cost model or the revaluation model for recording PP&E. Under the cost model, PP&E is carried at cost less accumulated depreciation. Under the revaluation model, a class of PP&E can be carried at fair value less any subsequent accumulated depreciation. Determining the appropriate method of measuring fair value may require the use of professionally qualified valuators.

MH plans to continue with the cost model as the revaluation model would continuously change the value of PP&E, increasing the volatility of depreciation expense due to

changes in the fair value of the assets.

4.3.3 Componentization/Depreciation

Under GAAP, depreciation must be recognized in a rational and systematic manner over the estimated useful life of the asset. Depreciation methods and estimates of the life and useful life are reviewed on a regular basis; however, GAAP does not specify the frequency of a "regular" basis. MH currently completes a depreciation study every five years and at that time adjusts its depreciation methods and estimates as appropriate.

Under GAAP, if an item of PP&E is made up of significant separable component parts, its cost must be allocated to the parts when practicable and when estimates can be made of the lives of the separate components. MH's policy is to group assets and amortize them such that the combined cost of the assets is amortized over the estimated useful life of the group of assets.

IFRS requirements are similar to GAAP requirements. However, IFRS is more rigorous in terms of identifying separate components and addresses non-physical components of assets. To the extent assets include components with different lives that would materially impact depreciation, these components must be separately depreciated. IFRS permits the grouping of assets in determining the depreciation charge and assets can be grouped as long as they are from a homogeneous group, are individually insignificant in value, and have the same useful lives. MH is reviewing existing components to determine if further componentization is required.

The recognition of non-physical components means that the costs of major overhauls or inspections associated with a capital asset may need to be recognized separately and amortized over a shorter life than the life of the physical asset.

MH is currently working with its depreciation consultant, Gannett Fleming Inc., on the following:

- Reviewing existing components to determine if they are consistent with the requirements of IFRS;
- Quantifying opening asset balances for new and existing component groupings; and
- Determining new depreciation rates for the new component groupings that will be established and for the existing component groupings that will now have a different mix of assets.

4.3.4 Gains and Losses on Disposal of Assets

Canadian utilities defer gains or losses recognized on the disposal of assets either through accumulated depreciation or a deferral account. Therefore the gains or losses are not immediately recognized in the income statement. MH currently recognizes gains and loses on the retirement of plant assets in accumulated depreciation.

IFRS requires that gains and losses on disposal/retirement of assets be recognized immediately in income. MH is planning to recognize gains and losses on asset retirements to net income as they occur. The impacts on net income are not expected to be significant except when extraordinary retirements occur.

4.3.5 Negative Salvage

MH's depreciation rates currently include an amount for the costs to be incurred upon the removal of an asset. This is referred to as negative salvage value. The costs associated with the removal of an asset are charged to accumulated depreciation with no gains or losses reflected in net income.

Negative salvage is not an eligible cost of self-constructed PP&E or internally generated intangible assets under IFRS. There is no exemption under the ED to allow MH to continue including a provision for removal cost within the depreciation rate or to include disposal gains or losses within accumulated depreciation. As the Rate-regulated Activities ED allows for net book value to be carried over, any existing negative salvage amounts included in accumulated depreciation may form part of the deemed costs of assets on transition.

MH is currently reviewing the requirements of IFRS that impact negative salvage in conjunction with its review of componentization, gain & losses on disposal of assets, and asset retirement obligations.

4.3.6 Provisions - Asset Retirement Obligations (ARO)

The concept of provisions under IFRS encompasses a wider range of circumstances that may result in the recognition of more liabilities than GAAP. Under IFRS, the threshold for recognizing a liability or provision is whether the underlying event giving rise to the liability of provision is probable. This is lower than the "likely" threshold under GAAP and could lead to additional provisions being recognized under IFRS. In addition, under IFRS provisions must be recognized when they can be reliably estimated, and only in rare circumstances is it presumed that an estimate cannot be made.

Under GAAP, an asset retirement obligation is recorded if an entity has a legal obligation to incur an expenditure in the future associated with the retirement of an asset currently in use. IFRS requires a liability to be recorded for constructive obligations as well as for legal obligations. A constructive obligation is derived from an entity's actions by way of an established pattern of past practice, published policies or a specific current statement whereby the entity has indicated to other parties that it will accept certain responsibilities such that the other parties expect the entity to discharge its responsibilities.

Under GAAP, MH has recognized AROs for the decommissioning of two thermal generating stations and a hydraulic generating station, as well as for the removal and disposal of PCB's in HVDC converter station capacitors. MH is currently reviewing its circumstances to determine if any additional constructive obligations exist.

4.3.7 Capitalization of Borrowing Costs

Under current GAAP, carrying costs such as interest that are directly attributable to the construction of an asset may be capitalized (Interest During Construction or IDC). IFRS requires that actual borrowing costs for a period be capitalized to an asset that takes a substantial period of time to get ready for use. A substantial period of time is not a defined term and requires judgment in its application. MH has reviewed the average time period for construction of its major capital projects and has concluded that there will not be a significant change in projects eligible for interest capitalization.

IFRS requires the segregation of specific and generally financed capital projects where possible in order to determine the borrowing costs eligible for capitalization. Therefore, where debt is designated to finance a particular capital project, MH will capitalize interest to the asset based on the interest rate from that designated debt issue. For general asset additions, MH intends to apply a weighted average rate in accordance with IFRS requirements and is in the process of determining the impact of this change. The weighted average rate is based on the total general borrowings outstanding during the period.

Transitional Requirements (IFRS 1)

Under the proposed changes to IFRS 1 that are part of the Rate-regulated Activities ED, a first-time adopter may elect to use the net carrying amount of these assets at the date of transition to IFRS as deemed cost. Therefore, no retroactive adjustment is required to adjust the differences in capitalized borrowing costs.

4.4 Capitalization of Overhead Costs

Under GAAP, MH currently uses a full cost accounting methodology. Assets are stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs, and interest applied at the average cost of debt. Overhead costs allocated to capital include support staff (Finance, Human Resources, Information Technology, Corporate, Legal), management time, training, depreciation, interest, and facility related charges. This approach recognizes that MH is both a capital and operating company and thus, maintains integrated resources in order to sustain all aspects of its operations.

IFRS requires that an item of PP&E that qualifies for recognition as an asset shall be measured at its cost which includes direct costs, such as materials, and all indirect costs that can be directly attributable to a specific project. IFRS identifies costs that are not eligible for capitalization such as the following:

a) Costs of opening a new facility;
b) Costs of introducing a new product or service (including costs of advertising and promotional activities);
c) Costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
d) Administration and other general overhead costs.

Under the proposed Rate-regulated Activities ED, costs otherwise ineligible for capitalization may continue to be capitalized or deferred if the practice is endorsed by the regulator.

Based on a review of its existing cost capitalization practices, and considering industry trends to move away from full cost accounting, MH has eliminated, or is planning to eliminate, the following cost components from its capitalized overhead under GAAP:

Reduction to Capitalized Overheads in fiscal 2008/09:

Interest and Facilities Overhead on Stores	**$5.0 million**

Reduction to Capitalized Overheads in fiscal 2009/10:

Executive Costs from the Overhead Pool	$2.0 million
Property Taxes on Facilities	$2.0 million
	$4.0 million

Planned Reduction to Capitalized Overheads in fiscal 2010/11:

Interest on Common Assets (Facilities & Equipment)	$12.0 million
General and Administrative Departmental Costs	$5.0 million
	$17.0 million

There is little specific IFRS guidance to assist with the interpretation and application of the capitalization requirements under IFRS. MH is in the process of reviewing its overhead capitalization methodology which may identify additional costs not eligible for capitalization under IFRS. In MH's view, it is appropriate to continue to capitalize those costs that are directly in support of construction programs. MH may introduce business methodology changes to facilitate the direct charging of such costs in accordance with IFRS. Such changes will likely include more staff charging time to specified activities, orders or projects.

<u>Transitional Requirements (IFRS 1)</u>

Under the proposed changes to IFRS 1 that are part of the Rate-regulated Activities ED, a first-time adopter may elect to use the net carrying amount of these assets at the date of transition to IFRS as deemed cost. Therefore, no retroactive adjustment is required to adjust the differences in capitalized overhead costs.

The following table provides the estimated annual increase to operating costs related to planned reductions to capitalized overheads beginning in fiscal 2010/11 for the electric and natural gas operations:

Table 4.4 Summary of 2010/11 Adjustment to Operating Costs
(In millions of dollars)

Item	Electric	Gas	Consolidated
Interest on Common Assets	$11.0	$1.0	$12.0
General and Administrative Departmental Costs	$4.5	$0.5	$5.0
Total Estimated Increase to Operating Costs	**$15.5**	**$1.5**	**$17.0**

4.5 Pension Costs

There are a number of differences that will result from adopting IFRS for defined benefit pension plans. The components that make up the cost of defined benefit plans may be recognized on a different basis under IFRS than under existing GAAP.

4.5.1 Return on Plan Assets

The expected return on plan assets forms part of the annual pension expense. GAAP currently allows the expected return on plan assets to be estimated based on either fair value or a market-related value (moving average not exceeding a period of five years). A market-related value reduces the impact of the volatility of actuarial gains and losses on the expected annual return on plan assets and therefore, on annual pension expense. MH uses market-related values to estimate the expected return on plan assets and to apply experience gains and losses in the corridor calculation.

Under IFRS, the expected return on plan assets must be estimated using the fair value of assets at the beginning of the period. The use of fair value increases the volatility of the expected return on plan assets and will be highly dependant on the investment performance of the market.

4.5.2 Actuarial Gains and Losses

Under GAAP, companies have a policy choice in recording actuarial gains and losses. They can be recorded in income immediately, or amortized to income using the corridor method which accumulates gains and losses within a range (10% of the value of the fund assets or obligation, whichever is greater) and amortizes to pension expense any excess cumulative balance outside the range.

Under IFRS, companies will have an additional policy choice that permits recording actuarial gains and losses immediately to Other Comprehensive Income (OCI) without any charge to net income of the period.

As of the date of this report, MH is in the process of assessing the policy options including recording actuarial gains and losses immediately to OCI or to continue using the corridor calculation.

4.5.3 Past Service Costs

GAAP allows past service costs associated with plan improvements/amendments to be recognized over the average remaining service life of the employee group.

Under IFRS, past service costs must be amortized over the vesting period (average period until the amended benefits become vested) and recognized immediately for the portion of the amended benefit that is fully vested at the time the amendment is implemented.

MH has implemented pension plan improvements that contain both vested and non-vested components and is currently amortizing these improvements over the average remaining service life of the employee group. MH has engaged its actuary to assist with identifying past service costs existing in unamortized plan amendment balances so as to determine the value that must be charged to retained earnings upon transition to IFRS. This balance is not known as of the date of this report.

4.5.4 Transitional Requirements (IFRS 1)

The underlying principle in IFRS 1 is that a first time adopter should prepare and present financial statements as if it had always applied IFRS. Under this requirement, pension plan balances as at the transition date would be remeasured under IFRS with an adjustment to retained earnings.

Alternatively, a first time adopter of IFRS has the option to elect to recognize all cumulative actuarial gains and losses to retained earnings. This transition approach would eliminate the requirement to retroactively restate pension amounts up to the transition date. As well, this approach will result in the elimination of the future amortization of these balances in pension expense. If this approach is adopted, the corridor method can still be applied subsequent to transition.

MH is currently assessing this transitional election with the impact of these two options depending upon the March 31, 2010 final balances of cumulative unamortized actuarial gains and losses.

4.6 Employee Benefits

MH offers accumulating benefits for service and currently recognizes obligations for the vested portions only under GAAP.

IFRS recognizes an obligation as an employee renders service regardless of vesting criteria. Therefore, under IFRS, actuarial obligations must be recognized for all accumulating benefit plans such as sick leave and severance. The actuarially determined costs associated with the unvested obligation will be deferred and amortized over the average vesting period.

MH will be required to identify unamortized past service balances related to vested benefits that are being amortized over the average remaining service lives of the employees (e.g. Retirement Health Spending) under GAAP.

Under IFRS, experience gains and losses resulting from actuarial valuations for certain long-term employee benefits such as long-term disability must be expensed when determined. Under GAAP, these gains and losses may be amortized over the period until the next actuarial valuation (3 years for MH). Upon transition to IFRS, MH will adjust to retained earnings any unamortized gains and losses for such benefits.

MH will work with its actuary to identify these past service balances, unvested obligations and any related adjustments to retained earnings on transition.

4.7 Financial Instruments

For the most part, GAAP is substantially harmonized with IFRS with the introduction of sections 3855 and 3865, implemented by MH in the 2007/08 fiscal year. Under the existing IFRS guidance, Financial Instruments: Recognition and Measurement, MH's financial assets such as customer loans and accounts receivable would continue to be classified as loans and receivables, initially recorded at fair value and subsequently measured at amortized cost. Long term debt and other financial liabilities would continue to be initially recorded at fair value, and subsequently measured at amortized cost using the effective interest method. Any unrealized foreign exchange gains and losses would be recorded to net income when there is no accounting hedge in place.

U.S. sinking funds would continue to be classified as available-for-sale, however IFRS allows for a "natural" hedging of foreign exchange risk on foreign currency. Under IFRS, foreign exchange gains and losses related to available-for-sale monetary financial assets are recorded in net income. This means MH will continue to record foreign exchange gains/losses on its sinking fund investments in net income without the GAAP requirement to maintain a designated accounting hedge relationship between the U.S. sinking fund and the associated U.S. debt. Under both GAAP and IFRS, fair value changes related to changes in interest rates continue to be recorded in Other Comprehensive Income.

There is currently an IASB project in progress to replace IFRS for annual periods on or after January 2013. MH has the option to apply these new requirements as part of its 2011 transition and is currently considering the impacts of doing so.

4.7.1 Hedges

As described above, GAAP requires that foreign exchange gains and losses on available for sale sinking fund assets be recorded in Other Comprehensive Income. However, designating these investments in a fair value hedge relationship has allowed MH to record offsetting foreign exchange translation gains and losses on the U.S. sinking funds (hedged item) and corresponding U.S. debt (hedging item) to net income. Under IFRS, the monthly translation of U.S. sinking fund investments would be recorded in net income as will offsetting changes in fair value of the US debt, without the need for hedge accounting. Therefore, these fair value hedges are no longer required under IFRS.

MH's current cash flow hedges between anticipated U.S. revenues (hedged item) and U.S. debt (hedging item) are not expected to be impacted by the transition to IFRS.

4.7.2 Commodity Contracts

Under IFRS, commodity contracts that can be settled either in cash or by another financial instrument, and do not meet the "own-use" scope exception are within the scope of IAS 39 and should be accounted for as a non-financial derivative, consequently subject to fair value accounting treatment. The "own-use" exception relates to contracts for non-financial items that were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

In principle, this exemption provides MH with the ability to exclude the majority of its commodity contracts from fair value accounting treatment, as the majority of its

commodity contracts are used within the normal course of its business to deliver physical energy to and from varying locations. However, there are certain instances where the "own-use" exemption may not be available under IFRS. MH will continue to review commodity contract terms to determine if the exemption is available in all circumstances.

Natural gas fixed price swaps utilized in the Primary Gas Fixed Rate Service have been identified as financial derivatives and are currently being measured at fair value on the balance sheet with changes in fair value recorded to net income. There are no accounting changes required for these contracts under IFRS.

4.8 Leases

In general, the principles relating to accounting for leases under section 3065 and IFRS are converged, except that:

a) IFRS uses the term "finance lease" in the same manner as Section 3065 uses "capital lease";
b) IFRS does not subdivide finance leases into sales type leases and direct financing leases; and
c) The disclosure requirements differ.

Both standards classify leases based on whether or not substantially all the risks and rewards incidental to ownership are transferred. GAAP, however, provides more quantitative thresholds for evaluating whether a lease is a capital or operating lease. IFRS does not contain such quantitative thresholds. The interpretations provided under GAAP for determining whether an arrangement contains a lease are primarily the same under IFRS.

MH is in the process of reviewing its agreements to determine if any changes are required under IFRS.

4.9 Customer Contributions

Under GAAP, non-refundable contributions in aid of construction are separately recorded on the balance sheet and amortized to income on a straight-line basis as a reduction to depreciation over the life of the related item of PP&E. Refundable contributions are recorded in deferred liabilities and credits, and are refunded to customers if the criteria for the refund have been met.

Under IFRS, the customer contribution received is recognized as revenue in accordance with the obligation to the customer that underlies that transaction. Depending on the contract, customer contributions are recognized as revenue either immediately or over a period of time such as a contract period or the life of the underlying asset. Contributions not yet recognized as revenue are presented as liabilities.

MH is in the process of assessing the IFRS requirements for customer contributions in order to determine the impact on its existing accounting policies.

4.10 IFRS 1 - Initial Adoption of IFRS

IFRS 1 requires an entity to comply with all IFRS effective at the reporting date of the entity's first annual financial statements prepared and presented in accordance with IFRS. New accounting policies must be retrospectively applied (unless the relevant election is available and chosen) and adjustments made at the start of comparative period. Thus, for an entity adopting IFRS for the first time on April 1, 2011, it will be necessary to prepare and present a comparative opening balance sheet under IFRS as at April 1, 2010. In the comparative opening balance sheet, an entity must:

- Recognize all assets and liabilities that IFRS require be recognized;
- Derecognize from assets and liabilities those items for which IFRS do not permit recognition;
- Reclassify items when, in accordance with the GAAP previously followed by the entity, they would have been presented differently from how they would be presented in accordance with IFRS; and
- Apply IFRS in remeasuring all recognized assets and liabilities.

The underlying principle in IFRS 1 is that a first time adopter should prepare and present financial statements as if it had always applied IFRS, i.e., retrospective adjustment of accounts; however, there are certain exemptions and/or elections to this general principle which would allow prospective application. IFRS 1 prohibits retrospective application in certain areas. Exemptions are and will continue to be included in

amendments to IFRS 1.

There are IFRS 1 elections for areas including financial assets and liabilities, hedge accounting, business combinations, insurance contracts, value of PP&E, leases, employee benefits, financial instruments, decommissioning liabilities, and borrowing costs. Where applicable, MH has addressed the transitional elections it is reviewing in the various sub-sections of this report.

5.0 Financial Reporting & Disclosure

There are a number of differences in the disclosure requirements of GAAP compared to IFRS. Set out below is a summary of the major differences that are likely to arise on an on-going basis.

5.1 On-Going Disclosures - Primary Statements

Under IFRS, there will be a number of changes to the primary financial statements which include the income statement, balance sheet, and cash-flow statement. The following section outlines these changes.

Income Statement

Under IFRS, the presentation of the income statement will be similar to GAAP. However, MH may choose to present its expenses based on their nature or by function. In addition, disclosure will be required of all employee benefit expenses and finance costs.

Statement of Financial Position (Balance Sheet)

There will not be any substantive changes to the current presentation of the statement of financial position, although balances currently disclosed as "other assets" and "other liabilities" will need to be classified according to their type.

Cash-Flow Statement

Under IFRS, MH will have the choice of presenting its cash-flow on a direct or indirect basis. Currently MH discloses on a direct basis. In addition, MH will have the choice of presenting cash-flows from interest received as either operating or investing activities and cash-flows from interest paid as either operating or financing activities.

Incremental disclosures include:

- Separate disclosure of disposal proceeds and capital contributions received;
- Disclosure of total amount of interest paid (whether expensed or capitalized); and
- Reconciliation of cash-flows from operating activities to net income.

Other

In addition, MH will be required to present a separate statement of changes in equity. This will incorporate information currently presented in the statement of retained earnings and the statement of accumulated other comprehensive income.

5.2 On-Going Disclosures - Notes to the Financial Statements

Under IFRS, there will be a number of changes to the notes to the financial statements which are outlined below.

Regulatory Assets and Liabilities

The Rate-regulated Activities ED proposed disclosures over and above those required by GAAP. In particular, it is expected that regulatory assets and liabilities will need to be presented separately on the face of the statement of financial position and split between current and non-current. In addition, a detailed reconciliation, or continuity schedule for each category of regulatory asset/liability will be required. This will need to show the remaining period of recovery, and include a discussion of the significant assumptions used to measure the expected present value of such assets/liabilities.

Property, Plant and Equipment

The main incremental disclosure will be the requirement to present a detailed continuity schedule for each class of PP&E. In addition, assuming that MH will elect to deem its net book value on transition as its opening cost under IFRS, this will require that accumulated depreciation be set to zero.

The Rate-regulated Activities ED also proposed that disclosure be made of any borrowing costs capitalized into PP&E that would not have been permitted under IFRS, absent the ED.

Pension Assets and Liabilities

IFRS requires that the amount recognized as a defined benefit liability should be the net total of the defined benefit obligation, unrecognized actuarial gains/losses, unrecognized past service costs, and the fair value of plan assets. Currently, these are presented separately by MH.

IFRS also requires disclosure of the amounts for the current and previous four periods of: the present value of the defined benefit obligation; the fair value of plan assets, any surplus or deficit in the plan; and experience adjustments on plan liabilities and plan assets. A first time adopter can elect to only disclose 2 years of information and it is likely that MH will elect to do this.

MH will also be required to disclose its best estimate of future contributions expected to be paid to the plan.

Provisions and Asset Retirement Obligations

IFRS requires disclosure of detailed continuity schedules for each class of provisions.

Other

IFRS requires disclosure of related party information, including details of the entity's parent and controlling party.

IFRS also requires uniform accounting policies to be applied to all entities in a consolidated group and requires greater disclosure of judgments and estimates in the financial statements.

5.3 Initial adoption of IFRS (IFRS 1)

The first accounts that are prepared under IFRS are required to include a number of extensive reconciliations and narratives showing the effects of the transition from GAAP to IFRS. This information must include details of key changes in accounting policies, IFRS 1 elections made and measurement differences from GAAP.

MH has not yet determined its choices with respect to disclosures. This will be completed in phase 3 of this project.

6.0 Key Systems & Processes

As identified early in this project, the conversion to IFRS could have significant impacts on systems and related business processes. MH established an information technology (IT) team to identify and address these impacts. As part of this work, MH reviewed the capability of its SAP system to produce the required financial information for the 2010/11 fiscal period and forward. Through this review, MH concluded that, with modifications, the existing SAP system is capable of meeting the financial reporting requirements under IFRS. MH is also reviewing financial systems that interface with SAP to ensure they will also be capable of meeting the financial reporting requirements.

The extent of modifications to SAP and other systems is somewhat dependant on the outcome of the IASB's decision on the Rate-regulated Activities ED. Thus, MH's approach has been focused on making adjustments within its existing systems and accounts to capture data in such a way as to meet the comparative year reporting requirements for the 2010/11 fiscal year. MH is currently reviewing its costing methodologies and other related policies and practices and anticipates making further changes for the 2010/11 fiscal year. These changes will provide MH with the flexibility to deal with the uncertainty with the ED.

7.0 Future IFRS Changes

MH is required to prepare its first set of IFRS financial statements in accordance with the standards that are in effect as at the end of the first year of adoption of IFRS. MH chooses its accounting policies based on these standards and then applies them from the beginning of the comparative period, i.e. from April 1, 2010. MH's preliminary accounting policy choices as set out in this report, should not therefore, be considered final and may continue to evolve as the IFRS standards themselves change both before and after the transition date.

The IASB has a very active agenda and a number of projects may impact MH significantly. Set out below is a summary of the active projects that are relevant to MH. It is important to note that the vast majority of mandatory IFRS requirements will not change between now and 2011. However, there are some significant changes to IFRS expected to be published in 2010 which may be available to be early adopted by MH and therefore may be applied by MH as it transitions to IFRS. This includes the proposed changes to accounting for financial instruments. IFRS that are issued in 2010 or 2011 are not likely to require mandatory application at transition date.

Table 7.1 Relevant IASB Active Projects

Topic	Issues	Timing
Financial Instruments	Reconsideration of classification and measurement of financial instruments, impairment of financial instruments and hedge accounting.	Requirements re classification and measurement of financial assets issued in Nov 2009 (IFRS 9). Proposals on impairments issued Nov 2009. Expect proposals on measurement of financial liabilities in 2010. Expect proposals on hedging Q1 2010. Expect final standards by end of 2010. Must be applied by 2013.
Fair Value Measurement Guidance	Potential guidance on definition and measurement of "fair value".	Proposals re fair value measurement issued in May 2009. Expect final standard Q3 2010.
Liabilities	Change in recognition criteria for all liabilities. "Stand ready obligations" must be recognized. Measurement based on expected present value. New rules for measuring obligations re services (e.g. decommissioning liabilities).	Initial proposals issued in 2005. Limited scope amendments reissued in Dec 2009. Expect final standard re general provisions in Q3 2010. Expect final standard re employee benefits in Q1 2010.
Post Employee Benefits	Fundamentally revisit accounting for employee benefits.	Expect proposals on recognition and presentation aspects of defined benefit plans in Q1 2010. Expect standard in 2011.
Emission Trading Schemes	Covers all tradable emission rights and obligations under various schemes.	Expect proposals Q2 2010. Expect final standard 2011.
Financial Statement Presentation	Fundamental reconsideration of the contents of primary financial statements.	Expect proposals Q2 2010. Expect final standard 2011.
Leases	Reconsideration of accounting for leases. Move to eliminate operating and finance lease classifications. All leases recognize a "right of use" asset and an obligation to pay.	Expect proposals Q2 2010. Expect final standard 2011.
Revenue Recognition	Development of single comprehensive set of principles for revenue recognition.	Expect proposals Q2 2010. Expect final standard 2011.

8.0 Next Steps

The next steps in the project will focus on advancing all topics to phase 3 and ensuring that key systems and processes meet the accounting and reporting requirements for the 2010/11 comparative year and forward. This work will be performed with the assistance of MH's consultants. In addition, the next steps will involve more detailed discussions with MH's external auditor in order to obtain preliminary confirmation that MH has interpreted and applied IFRS consistent with their interpretation of IFRS, as well as planning for the audit of the opening balance sheet under IFRS.

8.1 Advancing Topics to Phase 3

The primary accounting topic that requires resolution prior to finalizing other accounting issues is rate regulated accounting. There is considerable uncertainty associated with whether or not a rate regulated standard will exist at the time of conversion. The IASB proposed standard for rate regulated accounting impacts many of the other accounting topics identified such as intangible assets, the capitalization of overheads, gains and losses on asset retirements, and employee future benefits and other transitional adjustments (IFRS 1).

As discussed in section 4.1.2, the latest meeting of the IASB did not provide utilities with certainty that they will be able to continue to recognize regulatory assets and liabilities. Further, it is unlikely to expect a final standard in time for 2011 adopters of IFRS. At this stage, it is therefore uncertain if the IASB will allow Canadian rate regulated entities to continue with their current rate regulated accounting practices. MH will closely monitor the deliberations of the IASB on this topic and once more information is known, will determine the impact of the various accounting options available.

As is outlined in various sections of this report, there are ongoing assessments of a number of other topic areas required in order to finalize MH's accounting policy choices under IFRS.

8.2 Changes to Key Systems and Processes:

For each accounting topic analyzed by MH, key systems and related processes and interfaces were identified. Once policy choices have been finalized for each topic, MH will commence the process of developing pro-forma financial statements. Financial reporting requirements can often influence the required system and process related changes.

Once all pertinent changes to systems and processes have been identified,

documentation of the systems and the necessary changes will be made and detailed plans for conversion will be developed and implemented. The overall staging of the implementation by topic will take into consideration the size of the change, the number of systems and processes to be changed, as well as the interrelationships between systems.

8.3 Training Programs

Throughout the project, MH has incorporated training into the various phases. During the development of the Quick Scan report, MH and KPMG provided presentations and workshops to finance staff throughout the organization so as to educate them on the key gap differences between IFRS and GAAP and to obtain their input into identifying where changes in accounting policy may be required. Workshops on the various topics were also provided to non-finance staff who were knowledgeable of the operational aspects associated with the key topics.

The next phase of the training process is to formalize detailed training programs so as to embed IFRS into the "business as usual" practices of MH. It is expected that this form of training will focus on the accounting policies that are changing, the reason for the change, and the impact on the systems and processes, as well as additional training for staff that are the most impacted on a day to day basis.

Appendix 1

KPMG Quick Scan Report

IFRS ADVISORY SERVICES

Quick Scan
Manitoba Hydro

January 26, 2009

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AUDIT ▪ TAX ▪ ADVISORY

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An introduction to our Quick Scan approach

Objectives of the Quick Scan

This Quick Scan is a high level diagnostic and qualitative assessment designed to identify the main IFRS areas that Manitoba Hydro needs to address. It is designed to address the following two basic questions

- What are the areas where implementation of IFRS could have the most significant impact on Manitoba Hydro?
- How difficult will it be for Manitoba Hydro to apply IFRS?

While it is designed to assist Manitoba Hydro to focus on the areas where the impact may be the greatest, it is not designed to identify all the potential issues that would impact Manitoba Hydro on conversion to IFRS, nor to be a comprehensive summary of all the accounting differences between current Canadian GAAP and the requirements of IFRS.

Scope and Approach

This report is subject to the terms and conditions of our engagement letter dated May 23, 2008.

This report sets out our preliminary assessment of the potential impact of Manitoba Hydro's conversion from Canadian GAAP to IFRS and is based on Manitoba Hydro's publicly reported financial information and discussions with management. It could be subject to changes based on further detailed analysis in the next stage of your project as well as due to subsequent changes to IFRS standards and interpretations. We have reviewed the Company's accounting policies and compared them with the requirements of IFRS. We have given high level consideration to the disclosures required under IFRS. Such an analysis is, by nature, limited and its objective is to identify the most significant issues rather than to develop an exhaustive inventory of accounting and disclosure differences. However, this approach provides Manitoba Hydro with a clear and concise format for understanding and communicating the effects of implementing IFRS to senior management, the Audit Committee and the Manitoba Hydro Board. Reference to the relevant standards and other authoritative material should be made and specific advice taken before acting on any of the analysis in this report.

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Accounting differences form the basis for assessing broader IFRS impacts

Accounting and Reporting

- Identify GAAP differences
- Identify additional IFRS disclosure requirements
- Update accounting policies and procedures
- Assess impact on tax, statutory and regulatory reporting
- Modify financial statements presentation and regulatory reporting
- Revise and/or design and implement templates for data gathering

Systems and Processes

- Identify information “gaps” for conversion
- Assess impact on internal controls/ SOx processes
- Identify current system functionality/ suitability, related new IT system needs, and period-end close contingency plans
- Tailor chart of accounts considering regulatory and IFRS accounting needs

Business

- Develop communication plans for all stakeholders including
  - Audit Committee/Board
  - Corporate units
  - Regulators
  - Stakeholders/debt holders/analysts
  - External auditors
- Assess internal reporting and KPIs
- Assess impact on general business issues such as contractual terms, treasury practices, risk management practices, etc.

People

- Develop and execute training plans for all corporate units and lines-of-business
  - IFRS technical topics
  - New accounting policies and reporting procedures
  - Changes in processes and controls
- Revise performance evaluation targets and measures and communicate to affected personnel
- Consider impact on incentive compensation programs

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Our Quick Scan analysis of key areas of impact

The key financial statement impacts identified for Manitoba Hydro and its subsidiaries are as follows:

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
Property, Plant and Equipment (PP&E)					▪ Manitoba Hydro is operating in a capital intensive industry; PP&E represents over 75% of total assets. ▪ Certain general overhead and administrative costs cannot be capitalized as part of the cost of PP&E under IFRS such as end-user training for new or modified PP&E. Manitoba Hydro will need to review its capitalization policies, including its costing methodology used in charging costs to capital projects, as part of the transition to IFRS. ▪ IFRS requires significant components of assets to be capitalized and appropriate depreciation policies applied to each identified component. A separate component may be a physical component such as a major spare part, or a non-physical component such as a major inspection or overhaul. Separate component accounting is more rigorously applied and broader under IFRS than under Canadian GAAP. Manitoba Hydro may need to further componentize their PP&E when adopting IFRS. ▪ Collecting details to apply the IFRS components approach may require in-depth technical knowledge of the assets both within and outside of the accounting department and be time-consuming to implement initially and on a go-forward basis. ▪ Alongside component accounting, IFRS has specific guidance around the accounting for replacing components. If an entity recognizes in the carrying amount of an item of PP&E the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. Canadian GAAP is silent and differences in practice occur. Manitoba Hydro's practices will need to be revisited upon transition to IFRS. ▪ IFRS requires that the carrying amount of an item of PP&E be derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of an item shall be included in profit or loss when the item is derecognized. ▪ IFRS requires single item depreciation but allows for a pooling of assets in certain circumstances. The method used by Manitoba Hydro to depreciate its PP&E may not be acceptable under IFRS and will need to be reconsidered. ▪ Effective in 2009, IAS 23 (revised in 2007) will require borrowing costs directly
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					attributable to the acquisition of “qualifying” assets to be capitalized. IFRS has more specific guidance around the types of costs to be capitalized and the timing of when capitalization should commence and terminate. For example, IAS 23 specifies that a qualifying asset is an asset that necessarily takes a “substantial period of time” to get ready for its intended use or sale. Manitoba Hydro will need to review its policies in this area to ensure compliance with IFRS upon transition. ▪ Assets acquired or constructed with financial assistance in the form of capital contributions from customers are treated as a contra account under Canadian GAAP. The IFRIC issued recently a draft D24 – *Customer Contributions*: The proposal is that the asset contributed should be measured at fair value and a corresponding obligation be established. The obligation shall be reduced and revenue recognized over the period which the entity has an obligation to continue to provide access to the network, not exceeding the economic life of the asset. Upon transition, customer contributions may be required to be reclassified to provisions. This guidance is, however, being further considered by IFRIC. ▪ The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by Manitoba Hydro. IFRS requires estimates of useful life and residual value and the method of depreciation to be reviewed at least at each annual reporting date. ▪ Subsequent to initial recognition, IFRS permits companies to revalue a class of PP&E to fair value if fair value can be measured reliably. If an asset’s carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus along with corresponding increases in future depreciation.
First-time Adoption of IFRS					▪ IFRS 1 sets out all transitional requirements and exemptions available on first-time adoption of IFRS as well as additional disclosures/reconciliations requirements. ▪ An opening balance sheet is prepared at the date of transition to IFRS. ▪ Accounting policies are chosen from IFRS in effect at the reporting date and are generally applied retrospectively. ▪ In selecting IFRS accounting policies, Manitoba Hydro has the option to evaluate its current financial reporting and make accounting policy decisions that could significantly affect its future financial reporting. ▪ In addition to the selection of IFRS accounting policies, there are several transitional decisions to be considered. These decisions include the careful consideration of 14
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					elective exemptions available under IFRS 1. With these elective exemptions Manitoba Hydro can avoid the otherwise required full retrospective application of IFRS, which can significantly affect its conversion efforts. ▪ The most significant of these elective exemptions that Manitoba Hydro may wish to avail itself of are: – the option to eliminate all unamortized pension fund actuarial gains/losses on transition – the option to adopt the new IAS 23 *Borrowing Costs* prospectively and reverse, rather than restate, the interest costs capitalized on items of PP&E – the option to avoid the restatement of past business combinations – the option to use fair value at the date of transition as deemed cost for individual items of PP&E rather than reconstructing the cost base of assets under IFRS – the option to designate any financial asset or liability as at fair value through profit & loss and any financial asset as available-for-sale at transition date. ▪ Under a mandatory IFRS 1 exemption, Manitoba Hydro will need to review its hedge accounting to ensure hedge relationships continue to meet the conditions for hedge accounting at the transition date ▪ The disclosure requirements of IFRS 1 are onerous and need to be carefully considered in your project plan. Your first IFRS financial statements will require full disclosure of the IFRS accounting policy choices, elective exemptions taken, as well as detailed historical reconciliations of previously reported Canadian GAAP earnings and equity to that reported under IFRS. ▪ In September 2008, an Exposure Draft was issued that proposed additional exemptions to IFRS 1, including: – a rate regulated entity could elect to use the carrying amount of items of property, plant and equipment held, or previously held, for use in such operations as their deemed cost at the date of transition to IFRS if both retrospective restatement and using fair value as deemed cost are impracticable. ▪ Manitoba Hydro will need to be flexible in its transition plans, as it is unlikely the final amendments, if passed, will be available until late in 2009. Furthermore there is concern that the proposed amendment for the rate regulated entities will not be effective since the impractability test is an onerous test to satisfy.

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
Regulatory Assets and Liabilities					▪ Regulatory accounting is generally not applied under IFRS at this time. IFRS does not, however, preclude the recognition of regulatory assets and liabilities. IFRS requires entities to apply existing standards, including the IFRS *Framework*, carefully to the items they are considering recognizing. IFRS does not permit the automatic application of the US GAAP model for regulatory accounting, as it is not fully compliant with the IFRS *Framework*. In order for assets or liabilities to be recognized under IFRS, they must meet the definition of an asset or a liability. – "An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity." – "A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits." ▪ In December 2008, the IASB decided to add to its agenda a project on rate-regulated activities. The issue to be examined is whether regulated entities could or should recognize an asset or a liability as a result of rate regulation imposed by regulatory bodies or governments.
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Intangible Assets					▪ IFRS specifically prohibits the capitalization as intangible assets of: "research" type costs, including costs to develop customer lists, start-up costs, and expenditures incurred on training or advertising and promotional activities. Canadian GAAP currently does not have a specific prohibition on costs to develop customer lists or expenditures incurred on training or advertising and promotional activities. Manitoba Hydro should review its practices for capitalizing such amounts ▪ Manitoba Hydro will also need to review whether certain items currently included in PP&E should be more appropriately classified and measured as intangible assets (e.g. rights of way, easements). ▪ The company should prioritize this review as these differences will be eliminated upon adoption of the new CICA requirements for intangible assets effective for Manitoba Hydro April 1, 2009.
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Employee Benefits					▪ Manitoba Hydro provides employee future benefits, including pension and other post-retirement benefits, to both existing and retired employees, through various plans (CSSB, EBBP, Centra Gas). The EBBP is a defined benefit pension plan with multiple participating employers. Many differences exist when accounting for defined benefit plans under IFRS as compared to Canadian GAAP.
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					▪ The multi-employer defined benefit plan (EBBP) may need to be accounted for as defined benefit plans if sufficient information exists. ▪ If an entity applies defined contribution plan accounting to a multi-employer defined benefit plan and there is an agreement that determines how a surplus in the plan would be distributed or a deficit in the plan funded, then an asset or liability that arises from the contractual agreement is recognized. ▪ Past service costs are recognized on a straight-line basis over the expected future years of service of active participants under Canadian GAAP, whereas under IFRS these should be recognized immediately if vested and on a straight-line basis over the average remaining vesting period if unvested. This can increase the volatility in the income statement depending on Manitoba Hydro's practice of granting such benefits to its employees or retirees. ▪ Differences exist with respect to the calculation of the asset ceiling. Under IFRS there are certain limitations around the amount of changes in valuation allowance to be recognized immediately in net income when changes arise from actuarial losses in the period. ▪ The use of market-related values to calculate the expected return on plan assets is not permitted under IFRS; the expected return on plan assets must be calculated based on the fair value of plan assets. Manitoba Hydro currently uses market-related values. ▪ IFRS provides a number of accounting policy choices for recognition of actuarial gains and losses. Manitoba Hydro can choose to record all actuarial gains and losses directly in equity on an ongoing basis, it can choose the corridor method, or it can choose another method that will result in faster recognition in the income statement than the corridor method. Additionally, IFRS requires the use of a consistent policy for accounting for actuarial gains and losses from plan to plan. ▪ IFRS 1 allows companies to reset unamortized actuarial gains and losses for all defined benefit plans to zero on transition against opening retained earnings. Past service costs do not qualify for this exemption. Given the difficulties in retroactively applying IFRS, many companies availed themselves of this first time adoption exemption. Manitoba Hydro should assess this option on transition, including the impact to equity and future earnings. ▪ Manitoba Hydro will also need to review accounting policies for other employee future benefits currently recorded and amortized through deferred charges upon transition to IFRS.

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
Asset Retirement Obligations (AROs)					▪ Manitoba Hydro has recognized AROs under Canadian GAAP for the decommissioning of two thermal generating stations and for the removal and disposal of PCBs in HVDC converter station capacitors. ▪ Canadian GAAP requires a provision for asset retirement obligations only when there is a legal obligation. The definition of a provision is broader under IFRS and requires a liability to be recorded for constructive obligations as well as for legal obligations. A constructive obligation is an obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. ▪ Further, IFRS differs in respect of the timing of recognition in that obligations are only recognized to the extent they are probable of occurring. Whereas under Canadian GAAP, all asset retirement obligations are recognized at fair value regardless of the likelihood of them occurring. Uncertainties around whether or not the obligation will occur are factored into the measurement of the obligation under Canadian GAAP. ▪ Under IFRS, the basis of measurement also differs in that asset retirement obligations are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date; whereas these obligations are measured based on fair value under Canadian GAAP. Further, changes in the estimated amount of the obligation are treated differently. Specifically, IFRS requires the obligation to be remeasured each period for changes in the discount rate. Changes in the discount rate alone are not remeasurement events under Canadian GAAP and changes in estimate are treated differently depending on whether the change results in an increase or decrease to the obligation. ▪ IFRS states that in the extremely rare case where no reliable estimate can be made - then that liability is disclosed as a contingent liability. ▪ Manitoba Hydro will need to review whether additional obligations will be recognized on transition and whether adjustments to the carrying amounts of existing obligations may be required.
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Financial Instruments – Recognition & Measurement & Hedging					▪ Canadian GAAP for financial instruments and hedging has recently been substantially converged with IFRS. There are, however, a number of differences, and given the complexity of Manitoba Hydro's financial instruments, the applicability of each should be evaluated.
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					▪ Manitoba Hydro uses various derivatives to hedge its exposure to gas price risk (swaps, call options and cashless collars) and also participates in various energy trading activities (e.g. renewable energy credits; Financial Transmission Rights; Ancillary services market). In addition, under its Exposure Management Program, Manitoba Hydro hedges exposure to foreign exchange risk on U.S. denominated sales and cash flow hedge accounting is applied. There are some differences between IFRS and Canadian GAAP in respect of hedging. For example, under IFRS, the use of the short-cut method or critical terms match is not permitted and hedge effectiveness must be measured. This may require modification to existing hedge documentation prior to the transition date. ▪ Differences exist with the accounting for hedges of anticipated transactions when there are delays in the hedged transaction. Canadian GAAP permits a 2-month grace period before accumulated gains and losses from the hedging relationship must be recognized in profit or loss. Under IFRS, if the anticipated transaction is not expected to occur within the original time period or a relatively short period thereafter (a period that will be less than two months), then accumulated gains and losses are recognized in profit or loss. ▪ Canadian GAAP requires that contracts to buy or sell non-financial items should be accounted for as financial instruments (i.e., non-financial derivatives). However, contracts that were entered into and continue to be held for the purpose of receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements are not required to be accounted for as non-financial derivatives provided there is appropriate documentation supporting the fact that the purpose of the contracts is for receipt or delivery of a non-financial item in accordance with its expected purchase, sale or usage requirements (i.e., the "normal purchase/sale" exemption). If there is no documentation to support the normal purchase/sale exemption, the contracts are accounted for as derivatives. Such documentation requirements are not prescribed under IFRS. Hence the normal purchase/sale exemption is elective under current Canadian GAAP, but not elective under IFRS. ▪ Certain differences can exist on the initial classification of financial instruments. Manitoba Hydro should re-evaluate these classifications upon transition. ▪ There are also different requirements for the accounting for foreign currency translation gains and losses relating to monetary assets that are classified as Available-For-Sale (AFS). Under Canadian GAAP, the entire change in fair value of a monetary AFS asset, including foreign exchange gains and losses, is recognized directly in other

Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					comprehensive income. Under IFRS, such foreign exchange gains and losses are required to be recognized in the income statement. Accordingly, Manitoba Hydro will need to review the accounting for the changes in fair value of its U.S. sinking fund investments. ▪ IFRS requires impairment losses to be reversed if the circumstances giving rise to the impairment change in the future. Under IFRS reversal of impairments are recorded immediately in profit or loss, except for available-for-sale equity securities for which the reversal is recorded through equity. Reversal of impairment losses under Canadian GAAP are prohibited, except in the case of loan losses.
Financial Instruments – Disclosures					▪ Canadian GAAP for Financial Instruments - *Disclosures* will be converged with IFRS and will be applicable to Manitoba Hydro for fiscal 2009 with the implementation of CICA Sections 3862 and 1535. ▪ The objective of the new Section 3862 is to require entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. ▪ The disclosure requirements focus on the risks that arise from financial instruments. These risks typically include credit risk, liquidity risk in addition to market risk. ▪ Qualitative disclosure: for each type of risk arising from financial instruments, Manitoba Hydro shall disclose (a) the exposure to risk and how they arise; (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and (c) any changes in (a) or (b) from the previous period. ▪ Quantitative disclosure: for each type of risk arising from financial instruments, Manitoba Hydro shall disclose (a) summary quantitative data about its exposure to that risk at the balance sheet date, including sensitivity analysis. This disclosure shall be based on the information provided internally to key management personnel of the entity; (b) concentrations of risks if not apparent from (a). ▪ The objective of the new Section 1535 – *Capital Disclosures* is to require entities to provide disclosures in their financial statements that enable users to evaluate objectives, policies and processes for managing financial capital. Manitoba Hydro will need to review their existing disclosures to assess their compliance with the new standard.
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
Provisions and Contingencies					▪ The threshold for recognizing a provision under IFRS is lower than Canadian GAAP as probable is defined under IFRS as "more likely than not" and IFRS requires recognition of constructive obligations. Examples of where constructive obligations sometimes reside can include AROs and obligations under employee benefit plans. ▪ Measurement differences also exist between the two standards. For example, under IFRS, provisions are measured based on management's best estimate of the amount required to settle the obligation; whereas Canadian GAAP requires measurement based on a reasonable estimate of the amount to be paid, other than where specifically required to be measured at fair value in certain circumstances. Also, under IFRS, discounting is required on all provisions where the effect of the time value of money is material. The unwinding of the discount in subsequent periods is presented as interest expense rather than as operating expense. Provisions must be remeasured when discount rates change. ▪ Under IFRS, when a range of estimates exists, and no single estimate within the range is better than another, the obligation is measured at the mid-point of the range, rather than the low end of the range as required by Canadian GAAP. A range of estimates is often encountered with legal claims and can introduce additional volatility in reported earnings period over period. ▪ Provisions for loss-making executory contracts (i.e. onerous contracts) are also required under IFRS. For example, for losses on subleases that are considered onerous, a provision would be required to be set-up under IFRS. Manitoba Hydro will need to evaluate its agreements such as long-term purchase and supply contracts and various leasing arrangements to assess whether provisions would be required under IFRS.
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Impairment					▪ IFRS contains a single comprehensive impairment standard under which assets are tested for impairment either individually or within cash-generating units (CGUs). ▪ Establishing CGUs is the most difficult part of the standard. IFRS requires management to identify CGUs based on the smallest group of assets that is capable of generating largely independent cash inflows, which may differ from asset groups under Canadian GAAP. CGUs may be identified for each production plant, each transmission network, each distribution network, or another basis, depending on the company's facts and circumstances. ▪ With respect to goodwill, a CGU is not necessarily the same as a reporting unit or asset group identified under Canadian GAAP. Typically CGUs are identified at a lower level within the organization than reporting units which may result in more
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					frequent impairment charges under IFRS. ▪ Impairment charges relating to long lived assets may be more frequent under IFRS as the cash flow test for recoverability is based on discounted cash flows. Under Canadian GAAP recoverability of long lived assets is initially assessed using undiscounted cash flows. Also there is a presumption under IFRS that the growth rate used in extrapolating the cash flow projections beyond a five year period is generally not reliable and therefore a steady or declining growth rate should be used. ▪ Differences exist when measuring an impairment charge. For assets other than goodwill, Canadian GAAP requires measurement based on fair value; whereas IFRS uses the recoverable amount, which is the higher of fair value less costs to sell and value in use for all assets or CGUs. ▪ Under IFRS, reversal of impairment charges other than for goodwill is required if the circumstances / estimates leading to the impairment have changed. Such recoveries are prohibited under Canadian GAAP
Consolidation					▪ IFRS requires the use of consistent accounting policies across subsidiaries, equity-method investees and joint ventures. Manitoba Hydro will need to review the accounting policies of its subsidiaries and align accounting policies where applicable. ▪ Under IFRS, non-controlling interests in the balance sheet are classified within equity and presented as an allocation of net profit or loss in the income statement rather than as a deduction in arriving at profit or loss.
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Presentation of the Statement of Operations					▪ IFRS requires expenses to be presented either by nature or by function on the face of the statement of operations or in the notes (in practice, this is presented most often on the face of the statement). Therefore, the format of Manitoba Hydro's statement of operations will need to be reviewed in advance upon transition to IFRS. ▪ Finance income and expense is presented separately under IFRS.
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Related Parties					▪ IFRS has no special recognition or measurement requirements for related party transactions, unlike Canadian GAAP. Related party transactions are recognized and measured in accordance with the applicable accounting sections, and subject to the requirements of both the relevant accounting standard and disclosure required in the related party standard. ▪ Both IFRS and Canadian GAAP require extensive disclosure of related party transactions. IFRS also requires disclosure of the compensation of key management personnel for each of the following categories: employee benefits, post-employment
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Potential Impact	P&L	Balance Sheet	Disclosure	Difficulty	Comments
					benefits, other long-term benefits, termination benefits and share-based payments.
Lease Accounting					▪ Manitoba Hydro has long-term supply agreements for wind generation and for transportation and storage of gas. Upon transition to IFRS, Manitoba Hydro will have to determine whether these arrangements contain a lease in accordance with IFRIC 4 / IAS17. ▪ IFRS gives primary indicators for which the presence of any one indicator would point to classification as a finance lease. These primary indicators are the same as those under Canadian GAAP; however, they are not necessarily interpreted as "bright line" rules, but rather, as guidelines. IFRS also provides additional indicators, beyond those explicitly addressed in Canadian GAAP, which may lead to the conclusion that the lease is a finance lease. Some of these secondary indicators include the lessor's losses associated with the cancellation of a lease being borne by the lessee, changes in the fair value of the residual being borne by the lessee and bargain renewal options. Further, there can be differences in the way the present value of the minimum lease payments is calculated. Arrangements such as power/gas purchase and sale agreements will need to be analyzed under IFRS. In addition, Manitoba Hydro will need to reassess existing lease classifications at the IFRS transition date based on circumstances existing at the inception of the lease, and at the date the agreement was modified, if applicable. ▪ The IASB currently has a project on leases which proposes substantial change to lessee accounting, expected to be effective in 2013. A Canadian entity can address these changes subsequent to 2011. The extent of change in 2011 is expected to be less significant.
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Revenue					▪ Revenue recognition guidance under IFRS is less detailed and requires more judgment in its application. IAS 18 addresses revenue recognition for the sale of goods, rendering of services and the use of an entity's assets by another party. If IAS 18 does not apply to a specific situation, other authoritative literature can be applied as long as it is not inconsistent with the IASB framework. ▪ Manitoba Hydro should review its revenue recognition policies, including accounting for gas distribution agreements, power sale agreements, and any multiple element arrangements, to ensure they comply with IFRS, or assess whether there are any benefits to modifying its policies on adoption of IFRS.
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Appendix 2

MH Response to IASB Exposure Draft on Rate-regulated Activities

2009 11 20 ***email: www.iasb.org***

Technical Director
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH

Dear Sir or Madam:

Re: Invitation to Comment - Exposure Draft on Rate-regulated Activities

Manitoba Hydro appreciates the opportunity to comment on the Exposure Draft on Rate-regulated Activities. For your information, Manitoba Hydro is a provincial Crown Corporation, providing electricity to 522,000 customers throughout the province and natural gas service to 261,000 customers in various communities in Manitoba. The Corporation also exports electricity to wholesale markets in Canada and the mid-western United States. The prices charged for the sale of electricity and natural gas within Manitoba are subject approval by the Public Utilities Board of Manitoba.

Manitoba Hydro's comments to the questions in the exposure draft reflect, for the most part, our agreement with the proposed standard. While we agree that the decisions of a regulator can significantly influence the economic outcomes of a regulated utility, we also believe that it is important to recognize that management is ultimately responsible for the selection of accounting policies and the preparation of the financial statements. This point could provide context to the scope criteria in terms of the responsibilities of the regulator and management when setting policy and preparing financial statements.

Manitoba Hydro would further like to comment that the overall transition to IFRS for Canadian rate regulated entities and their stakeholders will be significantly more efficient should the IASB be able to complete the standard in time for companies to incorporate into their IFRS transition plans.

Manitoba Hydro's comments on the questions raised in the Exposure Draft are attached to this letter. We would also like to indicate our support for the combined response submitted from the Canadian Energy Pipeline Association (CEPA), the Canadian Gas Association (CGA), and the Canadian Electricity Association (CEA). We hope our comments will be useful to the IASB on their deliberations. If you have any questions on Manitoba Hydro's comments, please feel free to contact me at (204) 360-4640 or e-mail me at vawarden@hydro.mb.ca.

Yours truly,

Vince Warden, CMA, FCMA
Senior Vice-President
Finance & Administration
and Chief Financial Officer

VAW/mm
Att.

Manitoba Hydro's comments on the specific questions outlined in the exposure draft are provided below.

Question 1

The exposure draft proposes two criteria that must be met for rate-regulated activities to be within the scope of the proposed IFRS (see paragraphs 3–7 of the draft IFRS and paragraphs BC13–BC39 of the Basis for Conclusions).

Is the scope definition appropriate? Why or why not?

Manitoba Hydro agrees that the scope criteria stipulated in the exposure draft is appropriate for rate regulated entities. The scope is consistent with the underlying principle of cost of service rate regulation.

Question 2

The exposure draft proposes no additional recognition criteria. Once an activityis within the scope of the proposed IFRS, regulatory assets and regulatoryliabilities should be recognised in the entity's financial statements (see paragraphs BC40–BC42 of the Basis for Conclusions).

Is this approach appropriate? Why or why not?

Manitoba Hydro believes that the approach proposed in the exposure draft is appropriate and that no additional recognition criteria are necessary.

Question 3

The exposure draft proposes that an entity should measure regulatory assets and regulatory liabilities on initial recognition and subsequently at their expected present value, which is the estimated probability-weighted average of the present value of the expected cash flows (see paragraphs 12–16 of the draft IFRS and paragraphs BC44–BC46 of the Basis for Conclusions).

Is this measurement approach appropriate? Why or why not?

Manitoba Hydro believes that the approach proposed in the exposure draft may be appropriate for most circumstances, but we do recognize there may be circumstances when this approach may be problematic in application; as identified in the joint response from the CEPA, the CGA, and the CEA.

<u>Question 4</u>

The exposure draft proposes that an entity should include in the cost of self-constructed property, plant and equipment or internally generated intangible assets used in regulated activities all the amounts included by the regulator even if those amounts would not be included in the assets' cost in accordance withother IFRSs (see paragraph 16 of the draft IFRS and paragraphs BC49–BC52 of the Basis for Conclusions). The Board concluded that this exception to the requirements of the proposed IFRS was justified on cost-benefit grounds.

Is this exception justified? Why or why not?

Manitoba Hydro strongly supports the exception proposed by the Board in the exposure draft. Including amounts allowed by the regulator in the cost of property, plant and equipment appropriately reflects the economic substance of regulated operations and the basis upon which rates are set.

Manitoba Hydro also strongly agrees that this exception is justified on cost-benefit grounds. In addition, this exception promotes consistency in financial statement presentation for a significant aspect of a rate regulated utility's operations which will assist the users of the financial statements upon the transition to IFRS.

<u>Question 5</u>

The exposure draft proposes that at each reporting date an entity should consider the effect on its rates of its net regulatory assets and regulatory liabilities arising from the actions of each different regulator. If the entity concludes that it is not reasonable to assume that it will be able to collect sufficient revenues from its customers to recover its costs, it tests the cash-generating unit in which the regulatory assets and regulatory liabilities are included for impairment in accordance with IAS 36 Impairment of Assets. Any impairment determined in accordance with IAS 36 is recognised and allocated to the assets of the cash-generating unit in accordance with that standard (see paragraphs 17–20 of the draft IFRS and paragraphs BC53 and BC54 of the Basis for Conclusions).

Is this approach to recoverability appropriate? Why or why not?

Manitoba Hydro agrees with the approach to recoverability proposed in the Exposure Draft as it is consistent with the existing impairment standard and places the ultimate responsibility for the determination of future recoverability on the entity.

<u>Question 6</u>

The exposure draft proposes disclosure requirements to enable users of financial statements to understand the nature and the financial effects of rate regulation on the entity's activities and to identify and explain the amounts of regulatory assets and regulatory liabilities recognized in the financial statements (see paragraphs 24–30 of the draft IFRS and paragraphs BC59 and BC60 the Basis for Conclusions).

Do the proposed disclosure requirements provide decision-useful information? Why or why not? Please identify any disclosure requirements that you think should be removed from, or added to, the draft IFRS.

Manitoba Hydro believes that the disclosure requirements proposed in the exposure draft will provide information that will assist the users of the financial statements in understanding the financial impacts of rate regulation.

<u>Question 7</u>

The exposure draft proposes that an entity should apply its requirements to regulatory assets and regulatory liabilities existing at the beginning of the earliest comparative period presented in the period in which it is adopted (see paragraph 32 of the draft IFRS and paragraphs BC62 and BC63 of the Basis for Conclusions). Any adjustments arising from the application of the draft IFRS are recognised in the opening balance of retained earnings.

Is this approach appropriate? Why or why not?

Manitoba Hydro believes that the approach proposed by the Board is appropriate. It is consistent with the general standard requiring retrospective application when a standard is first adopted to promote consistency in application of IFRSs by an organization.

<u>Question 8</u>

Do you have any other comments on the proposals in the exposure draft?

As identified in the cover letter to this response, Manitoba Hydro is generally supportive of the proposed standard, but would like to emphasize that management is ultimately responsible for the selection of accounting policies and the preparation of the financial statements. Certainly, the decisions of a regulator can significantly influence the economic outcomes for a regulated utility, but the scope within which the regulator can create these outcomes is limited to the regulatory framework governing the relationship between the entity and the regulator. We reference the joint response to question 1 on scope from the CEPA, the CGA and the CEA with respect to defining the "operating activity" at an appropriate level based on the utility's individual facts and circumstances.

Appendix 3

Joint CEPA, CGA, CEA Response to IASB Exposure Draft on Rate-regulated Activities

November 18, 2009

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH

Dear Sir or Madam:

Re: Exposure Draft on *Rate-regulated Activities*

The Canadian Energy Pipeline Association (CEPA), Canadian Gas Association (CGA) and Canadian Electricity Association (CEA) are pleased to submit their comments in response to the Invitation to Comment on the Exposure Draft on *Rate-regulated Activities* as issued by the International Accounting Standards Board (IASB).

CEPA represents Canada's transmission pipeline companies. Through an extensive network of pipeline systems, our members transport 97 per cent of the total crude oil and natural gas produced in Canada. This includes delivering two-thirds of all the energy consumed in Canada each day.

Founded in 1907, CGA is the voice of Canada's natural gas delivery industry. The Association is made up of over 125 companies, organizations and individuals who are involved in the delivery of natural gas in Canada and the United States. CGA members are typically local gas distribution companies from coast to coast, transmission companies, related equipment manufacturers, and other service providers.

CEA founded in 1891, is the voice of Canadian electricity, and the only national association representing the views of both public and private companies engaged in the use of all fuels across the generation, transmission, distribution, customer and power marketing sectors. CEA represents over 35 electric utilities in Canada which account for about 90 percent of all generation, and about 95 percent of all transmitters, distributors and customer services providers.

CEPA, CGA, and CEA support the goal of a single set of high-quality accounting standards that are accepted and applied globally. We strongly support and congratulate the IASB on the steps it has taken to publish its Exposure Draft on Rate-regulated Activities and the concepts that have been included. We agree with the Board's Basis for Conclusions that the regulator's actions do create future economic outcomes that are appropriately reflected by regulatory assets and liabilities, a conclusion which is further supported by the guidance in IFRIC 12 *Service Concession Arrangements*.

Our primary concern is for the IASB to approve the Rate-regulated Activities standard within its proposed timeframe. We understand that the IASB has many projects on its current agenda and given resource constraints; we are concerned that the potential volume of responses may delay the publication of the standard. This is a significant standard for the rate regulated

industry as a whole and we would like to see a standard published so that regulated entities adopting IFRS effective January 1, 2011 have sufficient time to incorporate this new standard into their IFRS implementation plans. We appreciate that the Exposure Draft intends to address global application versus a unique set of circumstances (i.e. country specific and regulator specific). Our comments on the Exposure Draft as expressed in this response, although important to our members are considered secondary to the need for such a standard at the January 1, 2011 conversion date; we view these concerns as application and implementation issues.

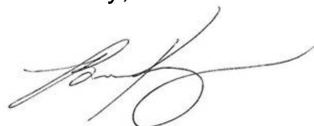
Consistent with the above concern, if there is a delay in this timetable, we would respectfully request that the IFRS 1 exemption related to regulatory activities as proposed in the final IFRS 1 exemption, be published in accordance with the current timeline proposed by the IASB.

Our comments on selected questions raised in the Exposure Draft are included in the Appendix attached to this letter. Our principle implementation concern is that, while we agree that measuring assets and liabilities at their net present value reflects the time value of money, discounting in some instances proposed by the IASB will result in an inconsistency in measurement. Please refer to our response to Question 3 in the Appendix.

As further evidence of the need for this standard, according to a published report, without rate regulated accounting, analysts such as Standard & Poor's who follow the regulated industry have stated they "…may adjust equity, if disclosures allow, reflecting the economic reality so that the apparent leverage ratios of U.S. electric utilities remains unaffected by the IFRS's reporting requirements."[1] This statement provides strong support for the continued recognition of regulatory assets and liabilities that do reflect the economic reality of our industry.

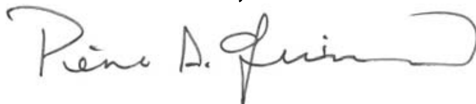
CEPA, CGA and CEA hope that our comments will be useful to the IASB in its deliberations. If you have any questions or would like to discuss any of these matters, please do not hesitate to contact us.

Sincerely,



CEPA – President, Brenda Kenny

CGA – President, Michael Cleland



CEA – President, Pierre Guimond

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[1] Sherman A. Myers and Gabe Grosberg "Will IFRS Affect U.S. Electric Utilities' Credit Quality?" Standard & Poor's Rating Direct, May 4, 2009

APPENDIX – Response to the *Rate-regulated Activities Exposure Draft*

Our responses to the questions raised in the Exposure Draft are set out below.

Scope

Question 1

The exposure draft proposes two criteria that must be met for rate regulated activities to be within the scope of the proposed IFRS (see paragraphs 3-7 of the draft IFRS and paragraphs BC13-BC39 of the Basis for Conclusions).

Is the scope definition appropriate? Why or why not?

CEPA, CGA and CEA believe the scope definition proposed by the board in the exposure draft is appropriate, but would like to suggest the inclusion of application guidance with regards to defining operating activities. We appreciate the Board's efforts as it is very difficult to define a scope to encompass all regulatory regimes and therefore we believe the scope definition proposed by the Board should allow flexibility for entities to define operating activities at an appropriate level based on their individual facts and circumstances.

In particular, we are concerned that if an operating activity is defined at an aggregate level such as an entity or enterprise, it could exclude certain cost of service rate regulated activities that we believe should be in scope. Due to the evolution of regulatory regimes around the world there are relatively few operations in existence that continue to follow pure cost of service regulation, where there is a one for one flow through of all costs. If an operating expenditures basis were used to determine scope it could yield a significantly different result from an entity basis under various cost of service regulatory regimes. If an operating activity were defined on a line item basis, costs incurred based on cost of service regulation and that are approved by the regulator for recovery in future rates would be within scope. We recommend that application guidance give entities the ability to define operating activities at a line item basis which will likely result in the most consistent application of the Exposure Draft. This application guidance would not preclude an entity from defining operating activities at a higher level if the entity determines that level to be most appropriate based on their individual facts and circumstances.

Recognition and measurement

Question 2

The exposure draft proposes no additional recognition criteria. Once an activity is within the scope of the proposed IFRS, regulatory assets and regulatory liabilities should be recognized in the entity's financial statements (see paragraphs BC40-BC42 of the Basis for Conclusions).

Is this approach appropriate? Why or why not?

We believe that the approach proposed in the exposure draft is appropriate. A minimum threshold criterion is not required as it is incorporated through the measurement guidance proposed in the Exposure Draft.

Question 3

The exposure draft proposes that an entity should measure regulatory assets and regulatory liabilities on initial recognition and subsequently at their expected present value, which is the estimated probability-weighted average of the present value of the expected cash flows (see paragraphs 12-16 of the draft IFRS and paragraphs BC44-BC46 of the Basis for Conclusions).

Is this measurement approach appropriate? Why or why not?

We agree with the Board's conclusions stated in the Basis for Conclusions paragraphs BC16-BC25 that regulatory assets and regulatory liabilities meet the criteria of assets and liabilities under the IFRS Framework. While we agree that measuring assets and liabilities at their net present value reflects the time value of money, discounting in some instances proposed by the IASB will result in an inconsistency in measurement. In cases where the regulator requires taxes be recovered based on taxes payable rather than the normalized approach, cash for income taxes is collected from customers in the same year it is paid to the taxation authorities. To the extent that a company recognizes a regulatory asset or liability to offset a deferred tax liability or asset, there will be an inconsistency in the measurement of the regulatory asset or liability under this standard at its discounted present value as compared to the measurement of the related liability under IAS 12 which prohibits discounting. IAS 12 does not permit the discounting of deferred tax asset or liability. Discounting is not permitted under IAS 12 because it is considered highly complex or impracticable due to the scheduling of the timing of the reversal of each temporary difference. The impracticability of measuring the deferred tax asset or liability applies equally to the related regulatory asset or liability since it will be recovered over the same time frame as when the deferred tax balance will be drawn down. Therefore, we propose that an exemption from calculating the expected present value of the regulatory asset or liability offset to the deferred tax liability or asset be permitted for the same reasons as already outlined for the deferred tax balance.

Question 4

The exposure draft proposes that an entity should include in the cost of self-constructed property, plant and equipment or internally generated intangible assets used in regulated activities all the amounts included by the regulator even if those amounts would not be included in the assets' cost in accordance with other IFRSs (see paragraph 16 of the draft IFRS and paragraphs BC49–BC52 of the Basis for Conclusions). The Board concluded that this exception to the requirements of the proposed IFRS was justified on cost-benefit grounds.

Is this exception justified? Why or why not?

We strongly believe the exception proposed by the Board in the exposure draft is justified because it truly reflects the economic substance of the transaction. These costs are approved by the regulator as part of the rate base, which is the basis for determining return on the company's operations.

Question 5

The exposure draft proposes that at each reporting date an entity should consider the effect on its rates of its net regulatory assets and regulatory liabilities arising from the actions of each different regulator. If the entity concludes that it is not reasonable to assume that it will be able to collect sufficient revenues from its customers to recover its

costs, it tests the cash-generating unit in which the regulatory assets and regulatory liabilities are included for impairment in accordance with IAS 36 Impairment of Assets. Any impairment determined in accordance with IAS 36 is recognized and allocated to the assets of the cash-generating unit in accordance with that standard (see paragraphs 17–20 of the draft IFRS and paragraphs BC53 and BC54 of the Basis for Conclusions).

Is this approach to recoverability appropriate? Why or why not?

We agree with the approach to recoverability proposed in the Exposure Draft as it is consistent with the impairment standard.

Disclosures

Question 6

The exposure draft proposes disclosure requirements to enable users of financial statements to understand the nature and the financial effects of rate regulation on the entity's activities and to identify and explain the amounts of regulatory assets and regulatory liabilities recognized in the financial statements (see paragraphs 24–30 of the draft IFRS and paragraphs BC59 and BC60 of the Basis for Conclusions).

Do the proposed disclosure requirements provide decision-useful information? Why or why not? Please identify any disclosure requirements that you think should be removed from, or added to, the draft IFRS.

We believe that the disclosure requirements proposed in the exposure draft do provide decision useful information and are consistent with the IASB goal to develop high-quality accounting standards that are accepted and applied globally.

Transition

Question 7

The exposure draft proposes that an entity should apply its requirements to regulatory assets and regulatory liabilities existing at the beginning of the earliest comparative period presented in the period in which it is adopted (see paragraph 32 of the draft IFRS and paragraphs BC62 and BC63 of the Basis for Conclusions). Any adjustments arising from the application of the draft IFRS are recognized in the opening balance of retained earnings.

Is this approach appropriate? Why or why not?

We believe that the approach proposed by the board is appropriate. It is consistent with the general standard requiring retrospective application when a standard is first adopted to promote consistency in application of the IFRSs by an organization.

Other comments

<u>Question 8</u>

Do you have any other comments on the proposals in the exposure draft?

We have no further comments.