

Consultative Group for Rate Regulation

Date **13 October 2023**

The Consultative Group for Rate Regulation (CGRR) supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

The Consultative Group for Rate Regulation (CGRR) held a virtual meeting on 13 October 2023. These notes are prepared by the staff of the International Accounting Standards Board (IASB) and summarise the discussion.¹

CGRR members who attended the meeting

| <i>Member</i> | <i>Organisation</i> | <i>Country/Region</i> |
|---------------------------|--|-----------------------|
| Giorgio Acunzo | Ernst & Young | Italy |
| Michael Dixon | National Grid | United States |
| Anil Kumar Gautam | NTPC Limited | India |
| Sharon Lee | CLP Power Hong Kong Limited | Hong Kong |
| Sureta Moolman | Eskom Holdings SOC Ltd | South Africa |
| Pascale Mourvillier | PAM Expertise | France |
| Michel Picard | KPMG | Canada |
| Stefanie Voelz (observer) | Moody's Investors Service Ltd | United Kingdom |
| Ralph Welter (observer) | European Financial Reporting Advisory Group (observer) | Europe |

About the meeting

1. The purpose of the meeting was:
 - (a) to discuss feedback on the proposals in the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (Exposure Draft) related to discounting estimated future cash flows; and
 - (b) to gather feedback from CGRR members to help develop staff recommendations for the IASB.

¹ The papers discussed with the CGRR and a recording of the meeting can be found on [the IFRS Foundation website](#).

Regulatory interest rate as the discount rate

2. CGRR members discussed:
 - (a) circumstances in which a regulatory agreement:
 - (i) does not provide or charge a regulatory interest rate for a regulatory asset or regulatory liability;
 - (ii) does not specify a time frame over which a regulatory asset or regulatory liability would be recovered or fulfilled; or
 - (iii) provides regulatory compensation for both the present value of the cash flows arising from a provision and the unwinding of the related discount with a two-year time lag.
 - (b) a possible exemption from discounting regulatory assets and regulatory liabilities.
3. CGRR members reported diversity in whether regulatory agreements in their jurisdictions specify a regulatory interest rate for regulatory assets and regulatory liabilities. Members said that:
 - (a) in Canada, regulators in the electricity and gas industries typically provide or charge a regulatory interest rate on regulatory assets and regulatory liabilities, except for specified categories of regulatory assets and regulatory liabilities. However, regulators do not provide a regulatory interest rate between when an entity incurs an expense—and hence, recognises a regulatory asset—and when the regulator approves that expense. The time lag between when the expense is incurred and approved is typically a few months but the time lag between when the expense is approved and recovered may be a few years.
 - (b) in Germany, the regulatory agreements provide or charge a regulatory interest rate on regulatory balances and those balances are not recognised as an asset or a liability applying IFRS Accounting Standards.
 - (c) in other jurisdictions, regulatory agreements provide a return on an entity's regulatory capital base but may not specify a regulatory interest rate separately for regulatory assets and regulatory liabilities. For example, regulators do not provide or charge a regulatory interest rate for:
 - (i) most or all regulatory assets and regulatory liabilities in India and South Africa; or
 - (ii) specified regulatory assets and regulatory liabilities—for example, those arising from items of expense or income that had not resulted in cash outflows or inflows in the United States, or those that are recovered or fulfilled within the next few years in the United Kingdom.
 - (d) a member from an accounting firm said there is insufficient information from other jurisdictions about whether regulatory agreements provide or charge a regulatory interest rate on regulatory

assets or regulatory liabilities. This may be because entities do not currently collect the information when applying IFRS Accounting Standards.

4. A member from an accounting firm said the proposals are unclear if a regulatory agreement provides a return on an entity's regulatory capital base but does not specify a regulatory interest rate separately for regulatory assets and regulatory liabilities. This member said it is unclear for these regulatory assets and regulatory liabilities, whether an entity is required to discount future cash flows and to determine the discount rate by applying the minimum interest rate proposals.
5. A member said that in India, regulatory assets and regulatory liabilities for which the regulatory agreement does not specify a time frame for recovery or fulfilment are common. These regulatory assets and regulatory liabilities arise from items of expense or income that the regulator approves on a case-by-case basis following a prudence review.
6. A few members provided their views on possible approaches to measuring a regulatory asset related to a provision that the regulator treats as allowable on an accrual basis with a two-year time lag:
 - (a) all members who commented supported using the measurement basis applied to the provision to measure the regulatory asset. A few members, including a user of financial statements, said this approach would reflect better the future cash flows than the approach proposed in the Exposure Draft.
 - (b) a member from an accounting firm said this approach is similar to IFRS 3 *Business Combinations* requirements relating to indemnification assets.²
 - (c) a member, a user of financial statements, said additional information about how the finance costs reported in financial statements would result in future cash flows would also be useful.
7. All members who commented supported introducing an exemption from discounting regulatory assets and regulatory liabilities, recovered or fulfilled within 12 months of recognition.

Minimum interest rate

8. CGRR members discussed:
 - (a) circumstances in which the regulatory interest rate for a regulatory asset may be insufficient to compensate an entity for the time value of money and uncertainty in the amount and timing of future cash flows;

² IFRS 3 requires an acquirer to measure an indemnification asset on the same basis as the indemnified item, subject to any contractual limitations on the indemnified amount and the need for a valuation allowance for uncollectible amounts.

- (b) circumstances in which differences in timing give rise to a regulatory asset in some periods and a regulatory liability in others; and
 - (c) possible alternatives to the minimum interest rate proposals.
9. A member said in Canada, there are few regulatory assets with regulatory interest rates that may be insufficient. However, another member from an accounting firm said there is a lack of information about how common and significant regulatory assets with insufficient regulatory interest rates may be because entities do not currently collect the information. Such regulatory assets may arise, for example, if the regulatory interest rate is not reset in response to changes in market interest rates. This member said in determining whether a regulatory interest rate is sufficient, an entity could consider the market interest rates or the frequency with which the regulatory interest rate is reset. This would, however, require entities to put in place processes to track these changes.
10. A member said in Canada, differences in timing that give rise to a regulatory asset in some periods and a regulatory liability in others often arise from costs recovered on a pass-through basis. These pass-through balances may be significant and can regularly change between regulatory assets and regulatory liabilities, often within months.
11. A member, a user of financial statements, said applying the minimum interest rate proposals would result in less understandable information than using the regulatory interest rate as the discount rate. Such information would not reflect regulatory interest rates specified by regulatory agreements and comparable outcomes for regulatory assets and regulatory liabilities.
12. All members who commented supported removing the minimum interest rate proposals. A few members said they would not rule out an alternative of restricting the proposals to some long-term regulatory assets. These members acknowledged that the effects of time value of money could be significant for those regulatory assets, however, it would be difficult to define the regulatory assets to which the proposals should apply.

Uneven regulatory interest rate

13. CGRR members discussed:
- (a) circumstances in which a regulatory agreement does not provide (charge) a regulatory interest rate for a regulatory asset (regulatory liability) between when an entity recognises the regulatory asset (regulatory liability) and when the regulator allows the entity to start recovering (fulfilling) the regulatory asset (regulatory liability); and
 - (b) how an entity should discount the estimates of future cash flows arising from such a regulatory asset (regulatory liability).

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14. A few members provided examples of circumstances in which there is a time lag between the recognition of a regulatory asset or regulatory liability and the accrual of regulatory interest:
- (a) a member said there are no apparent examples in Canada in which the regulatory agreement specifies uneven regulatory interest rate for a regulatory asset or regulatory liability. It is common, however, for the regulator to provide or charge a regulatory interest rate only once an item of expense or income is approved, rather than for the full life of the regulatory asset or regulatory liability (see paragraph 3(a)).
 - (b) a member from an accounting firm said feedback from the network firms did not identify any examples of such circumstances.
15. A few members provided their views on how an entity should discount the estimates of future cash flows arising from such a regulatory asset or regulatory liability. Almost all members who commented did not support applying the proposals on uneven regulatory interest rate and said the accounting should reflect the regulatory interest rates as specified by the regulatory agreement. However, one member expressed support for the proposals, acknowledging that in India regulatory agreements generally do not provide or charge a regulatory interest rate on regulatory assets and regulatory liabilities and that regulatory assets and regulatory liabilities are generally recovered or fulfilled within two years.
16. A few members provided additional comments on the proposals on uneven regulatory interest rate:
- (a) a member said a regulatory agreement could have specified increasing regulatory interest rates over the life of a regulatory asset or regulatory liability to reflect increasing level of risks over time. If this were the case, it would be unclear why an entity would be prohibited from discounting the estimates of future cash flows in a way that reflected the regulatory interest rates as specified by the regulatory agreement.
 - (b) a member, a user of financial statements, said in some cases the regulator determines performance incentives based on an entity's performance over multiple reporting periods. The regulator provides or charges a regulatory interest rate on the performance incentives only after the end of the performance period. The member said that it is also unclear how the proposals would apply in such cases.

Next steps

17. The staff will consider the feedback from the members of the CGRR when developing recommendations for future IASB meetings.
18. The IASB will consult the CGRR in November 2023 on the proposed disclosure requirements.