



IFRS® Foundation

Regulatory Assets and Regulatory Liabilities

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 1
March 2022

Purpose of this session

Agenda ref 1

Purpose

- Provide an update on the IASB's discussion on the next steps of the project.
- Seek advice from ASAF members on the next steps of the project.

Questions for ASAF members

- Slide 15 includes questions for ASAF members.

Plan for redeliberations

IASB's tentative decisions to date

Appendix—Summary of the model and feedback received



Plan for redeliberations

Plan for redeliberations

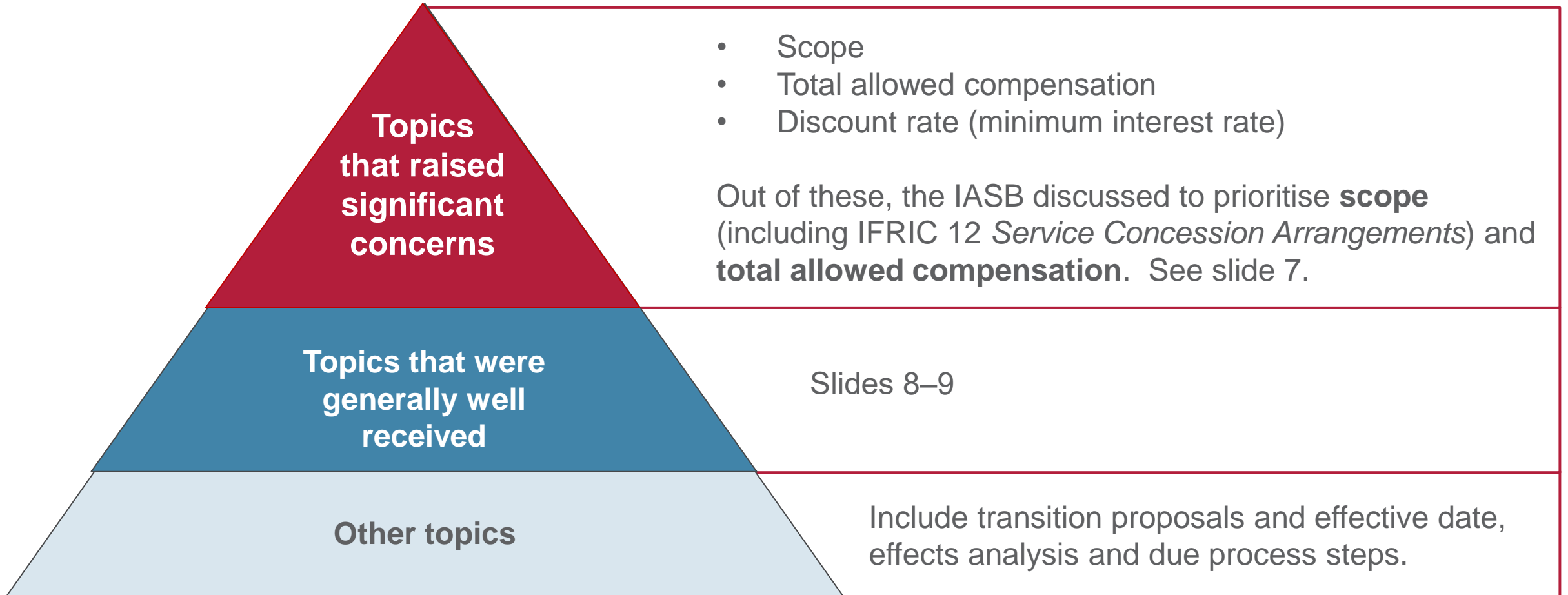
Agenda ref 1

- The IASB discussed plans for redeliberating the Exposure Draft proposals at its meeting in December 2021.⁽¹⁾
- Slide 6—Based on feedback received, the following workstreams were identified:
 - ❖ Topics that respondents raised significant concerns about;
 - ❖ Topics that were generally well received; and
 - ❖ Other topics.
- In addition, the IASB also discussed using the Consultative Group for Rate Regulation during the redeliberations of the following aspects of the model: total allowed compensation, scope, discount rate and disclosure. The Consultative Group has met on 4 March 2022 to explore possible courses of action the IASB may consider in responding to feedback and redeliberating its proposal on regulatory returns on construction work-in-progress.

(1): See [Agenda Paper 9](#) discussed by the IASB at its meeting in December 2021.

Prioritising feedback received²

Agenda ref 1



(2): The Appendix includes a summary of feedback received on these topics.

Topics that raised significant concerns

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Total allowed compensation

- ❖ Explore whether and, if so, how to:
 - address concerns about proposed accounting for returns on construction work in progress.
 - amend the guidance on total allowed compensation for allowance-based regulatory schemes.
 - amend the accounting for regulatory assets and regulatory liabilities arising from differences between the regulatory recovery pace and the asset's useful lives.

Scope

- ❖ Assess the interaction of the proposed model with IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*.
- ❖ Develop illustrative examples on how to account for regulatory assets and regulatory liabilities in service concession arrangements in the scope of IFRIC 12 *Service Concession Arrangements*.
- ❖ Consider feedback received on the definitions of 'regulatory agreement' and 'regulated rate' and develop a definition for 'regulator'.

Discount rate

- ❖ Explore whether and, if so, how to amend the proposals on minimum interest rate.
- ❖ Explore whether to provide exemption from discounting.

Topics that were generally well received

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Recognition, unit of account and derecognition

- Explore whether any changes are needed on the facts and circumstances to consider when assessing the existence of enforceable rights and enforceable obligations.
- Assess the need for a higher threshold for recognition in some circumstances.
- Explore whether to provide guidance on derecognition of regulatory assets and regulatory liabilities.

Measurement (estimating future cash flows)

- Consider clarifications relating to the boundary of the regulatory agreement.
- Consider whether the chosen method for estimating uncertain cash flows should be applied consistently from initial recognition to recovery of a regulatory asset or fulfilment of a regulatory liability.

Items affecting regulated rates only when cash is paid or received

- Consider how income and expenses are treated as allowable or chargeable using a criterion other than cash basis.
- Consider whether presentation proposed in paragraph 69 of the ED should be extended to items using a criterion other than cash basis.

Topics that were generally well received (Contd.)

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Interaction with other Standards, including amendments to other Standards

- Address concerns and provide recommendations related on the interaction with other IFRS Accounting Standards.

Presentation

- Consider whether to permit entities to classify all regulatory income minus all regulatory expense as revenue.

Disclosure

- Consider whether to develop a broader overall disclosure objective.
- Address concerns about appropriate level of aggregation and disaggregation of the information to be disclosed and on some proposed disclosure requirements.



IASB's tentative decisions to date

Redeliberation of topics within scope

Agenda ref 1

Items	February 2022 ³
Overview of topics for the IASB's redeliberations on the scope	Agenda Paper 9A
<ul style="list-style-type: none">• Specific aspects of the scope proposals dealing with the conditions for a regulatory asset or regulatory liability to exist• Determining whether a regulatory agreement with particular features is in the scope	Agenda Paper 9B
Role of the regulator	Agenda Paper 9C

Next topics

- Interaction with IFRS 9 and IFRS 17.
- Application questions about the definition of 'regulatory agreement' and the term 'customers'.
- Boundary between financial instruments and regulatory assets and regulatory liabilities.
- Interaction with IFRIC 12.
- Enforceability of rights and obligations to adjust future regulated rates—to be discussed when redeliberating recognition and measurement.

(3): See [Agenda Papers](#) discussed by the IASB at its meeting in February 2022.

Scope—February 2022

Agenda Paper 9B February 2022

Determining whether a regulatory agreement is within the scope of the proposals

The IASB tentatively decided:

- to require an entity to apply the Standard to all its regulatory assets and regulatory liabilities.
- that the Standard will apply to all regulatory agreements and not only to those that have a particular legal form.
- to confirm the conditions necessary for a regulatory asset or a regulatory liability to exist.
- to not explicitly specify in the Standard which regulatory schemes would be within or outside its scope.
- to clarify in the Standard that a regulatory agreement:
 - may include enforceable rights and enforceable obligations to adjust the regulated rate beyond the current regulatory period.
 - that creates either regulatory assets or regulatory liabilities, but not both, is within its scope.
 - that causes differences in timing when a specified regulatory threshold is met creates regulatory assets or regulatory liabilities.
 - is not required to determine a regulated rate using an entity's specific costs for the regulatory agreement to create regulatory assets or regulatory liabilities.

Scope—February 2022

Agenda Paper 9C February 2022

Definition of a regulator

The IASB tentatively decided to:

- include the existence of a regulator as part of the conditions necessary for a regulatory asset or a regulatory liability to exist.
- define a regulator as ‘a body that is empowered by law or regulation to determine the regulated rate or a range of regulated rates’.
- include guidance to clarify that:
 - self-regulation is outside the scope of the Standard.
 - a situation in which an entity or its related party determines the rates, but does so in accordance with a framework that is overseen by a body empowered by law or regulation, is not self-regulation for the purposes of the Standard.



Questions for ASAF members

Questions for ASAF members

Agenda ref 1

1

Do ASAF members have any questions or comments about the IASB's proposed approach to redeliberations?

2

Do ASAF members agree the IASB should prioritise the redeliberation of proposals relating to scope and total allowed compensation?

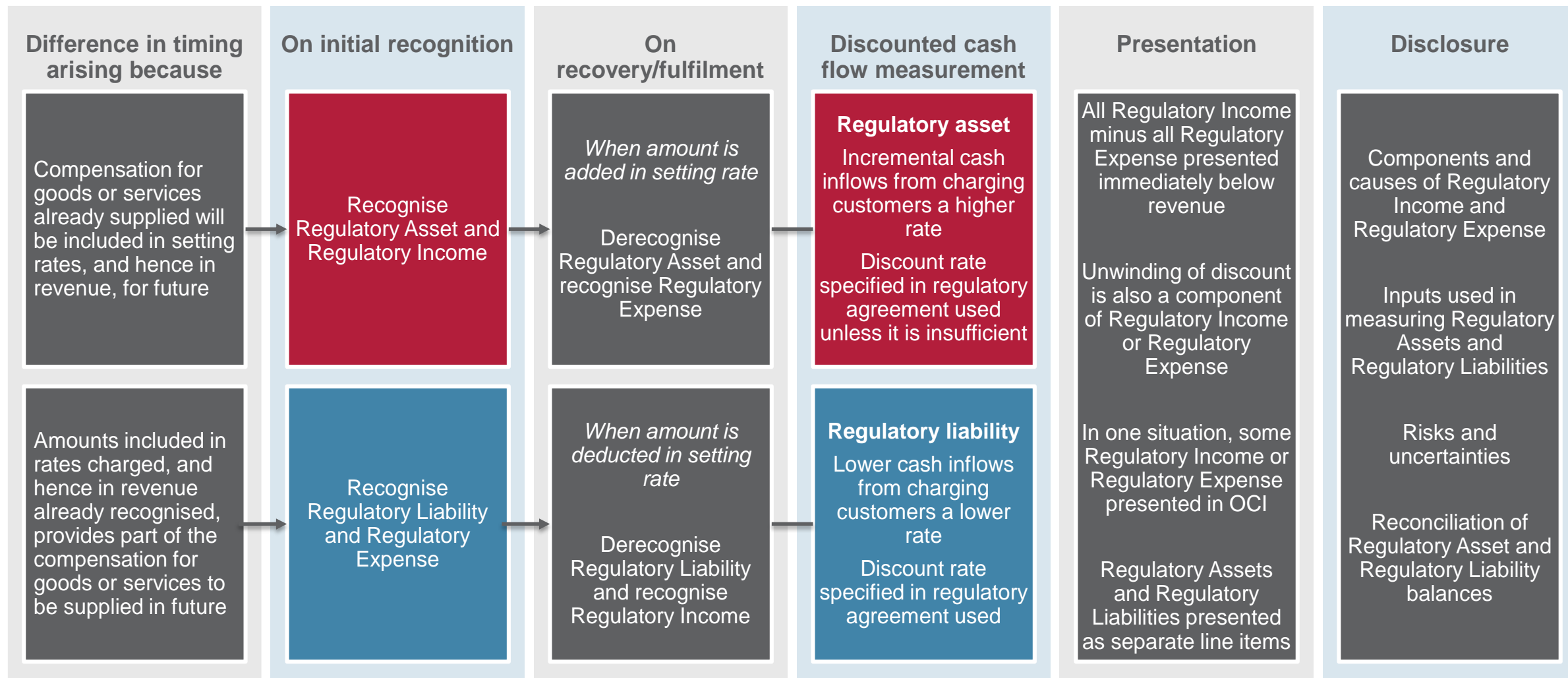
3

Given the IASB's discussions on the scope so far, do ASAF members have any suggestions in approaching next IASB discussions for this topic?



Appendix—
Summary of the model and
feedback received

Summary of the model



Aspects of the model that were generally well received

- Objective of the Exposure Draft.
- Proposed definitions of regulatory assets and regulatory liabilities.
- Recognition threshold of 'more likely than not'.
- Use of cash-flow-based measurement technique and the regulatory interest rate as the discount rate.
- Proposed presentation requirements.
- The focus on providing information on differences in timing on an entity's financial performance and financial position.

(4): The staff provided ASAF members with a summary of the feedback received in June and October 2021.

Summary of feedback (Contd.)

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Scope

- Scope may be broader than intended because of lack of clarity about:
 - agreements or activities in the scope;
 - interaction with IFRS 15, IFRS 9, IFRS 17 and IFRIC 12; and
 - whether the existence of a regulator is required.
- Respondents were uncertain about the interaction with IFRIC 12.

Total allowed compensation

- Concerns about reflecting returns on assets not yet available for use during the operating period:
 - does not reflect the economic substance;
 - costly to implement; and
 - inconsistent with US GAAP.
- Similar concerns were raised on the accounting for regulatory assets/regulatory liabilities arising from differences between regulatory recovery pace and assets' useful lives.

Discount rate

- Concerns about:
 - the costs to implement the proposal would outweigh any benefits; and
 - the asymmetric treatment of regulatory assets and regulatory liabilities.

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