

## STAFF PAPER

September 2017

## ASAF Meeting

Project	Rate-regulated Activities		
Paper topic	Cover note		
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**Purpose of the session**

1. The purpose of this session is to update ASAF members on the International Accounting Standards Board (Board) discussions to develop the underlying basis for a new accounting model (the model) for rate-regulated activities. The update covers the Board's discussions since the last ASAF meeting (July 2017).
2. The papers for this meeting, which should be read in conjunction with each other, include:
  - (a) **Agenda Paper 6A—Update of the Board's discussions:** The paper summarises the topics the Board discussed in its April-July 2017 meetings, together with a summary of the research and stakeholder feedback that underpins the description of defined rate regulation. This paper is provided for information only.
  - (b) **Agenda Paper 6A: Developing the model—measurement of regulatory assets:** The paper explores measurement issues to help identify factors to support future recommendations for the selection of a measurement basis for regulatory assets. The analysis focuses on a regulatory asset that arises when an entity incurs costs as it carries out a required activity delivering regulated goods or services to customers

and the regulatory agreement gives the entity a right to increase the rate charged to customers to the extent needed to recover those costs.

## Summary

3. In the Board's June 2017 meeting Agenda Paper 9B *Rate adjustment examples*, we presented five illustrative examples. The purpose of these examples was to show how the rate-adjustment mechanism contained in a regulatory agreement creates rights and obligations that the model seeks to recognise as regulatory assets and regulatory liabilities. Through these examples, we also showed how the model could derecognise the regulatory assets and regulatory liabilities as the rights are consumed and the obligations are fulfilled. In addition, we showed how an entity would account for the regulated rate adjustment component of the regulated rate, both using existing IFRS Standards and using the proposed model.
4. At the Board's July 2017 meeting, we presented further analysis of the concept of control within the definition of an asset; and clarification that the model is not merely trying to achieve matching in the timing of recognition of income and related expenses. In Agenda Paper 9B for that meeting, we considered the recognition criteria expected to be included in the forthcoming revised *Conceptual Framework for Financial Reporting* and discussed the role of different types of uncertainty when deciding whether to recognise regulatory assets and regulatory liabilities.
5. In Agenda Paper 9B for the Board's September 2017 meeting, we present illustrative examples to explore measurement issues. The examples focus on a regulatory asset that arises when an entity incurs costs as it carries out a required activity delivering regulated goods or services to customers and the regulatory agreement gives the entity a right to increase the rate charged to customers to the extent needed to recover those costs.

## Questions for ASAF members

6. When responding to the following questions, please consider the contents of Agenda Papers 6A and 6B together.

### Questions for ASAF members

1. Do you have any comments on whether a loss should be recognised on initial recognition of a regulatory asset when the entity is not expected to be fully compensated for the time value of money (paragraphs 29-34 of AP6B)?
2. Do you have any comments on whether a gain should be recognised on initial recognition of a regulatory asset when the entity is expected to earn a return, as well as being fully compensated for the time value of money (paragraphs 35-45 of AP6B)?
3. Do you have any comments on whether:
  - a. the nature of the regulatory asset is more appropriately reflected by measuring it at:
    - i. the nominal amount of the costs incurred that will be included in the calculation of the future rate; or
    - ii. the present value of the related future cash flows?
  - b. accruing interest that will not be included in the rate until a later period should be recognised in profit or loss as it accrues or only when it is billed to customers in the rate (paragraph 46-53 of AP6B)?
4. Do you have any other comments on issues discussed in Agenda Paper 6B?