

STAFF PAPER

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IASB 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 discuss:
 - (a) the staff's recommendations for the measurement of regulatory assets that are recognised in the model we are developing for defined rate regulation (the model)—**Agenda Paper 9B**. The **Appendix** to this paper includes all the staff's recommendations in that paper.
 - (b) the staff's initial views on a high-level presentation and disclosure objective for the model and possible presentation formats for the statement(s) of financial performance—**Agenda Paper 9C**. This paper is provided for educational purposes.
2. **Agenda Paper 9A** provides background information about the model, summarises the Board's tentative decisions to date and provides an overview of the project plan. This paper is provided for information purposes.

Next steps

3. At a future meeting, we will discuss with the Board additional aspects of the model (see **Appendix B of Agenda Paper 9A** for more information).

APPENDIX—staff’s recommendations on measurement in Agenda Paper 9B

- A1. The following paragraphs reproduce the staff’s recommendations included in **Agenda Paper 9B** on the measurement of the model.

Question for the Board**Measurement recommendations**

Does the Board agree with the staff’s recommendations in paragraphs A2-A9?

Estimating future cash flows (slide 15)

- A2. We recommend for each regulatory asset recognised, an entity should:
- a. estimate future cash flows using either the most likely outcome method or the expected value method, depending on which method the entity concludes will better predict the amount and timing of the cash flows arising from a particular timing difference; and
 - b. apply the same method consistently from the origination through reversal of the timing difference.
- A3. We also recommend that an entity should determine whether to consider the outcome of each timing difference separately or together with one or more other timing differences based on which approach better predicts the amount and timing of the resulting future cash flows.

Significant financing component and discount rate (slides 29-30)

- A4. We recommend that if the regulatory agreement does not provide explicit compensation for the effects of time between origination and reversal of a timing difference, an entity uses judgement to determine, based on its particular facts and circumstances, whether the financing component of the timing difference is significant.

- A5. When the financing component is significant, we recommend an entity should measure the regulatory asset by discounting estimated future cash flows using the interest/ return rate established by the regulatory agreement for those cash flows **unless**:
- a. there is clear evidence to show that the regulatory interest/ return rate is set at a level that provides an excess or deficit in compensation because of an identifiable transaction or event; or
 - b. the regulatory asset is not fully recoverable.
- A6. We recommend that when the entity has clear evidence that the excess/ deficit in compensation arising from a regulatory interest/ return rate that is set significantly above or below a ‘reasonable rate’ results from an identifiable event or decision, including a partial disallowance, the entity should:
- a. measure the excess/ deficit directly, if that value can be measured by reference to the identifiable event or decision; or
 - b. measure the excess/ deficit indirectly as the difference between:
 - i. the amount of the originating timing difference; and
 - ii. the present value of the regulatory asset, measured by discounting the future cash flows expected to result from the originating timing difference using a ‘reasonable rate’.
 - c. recognise the excess or deficit in profit or loss:
 - i. for a partial disallowance—immediately; and
 - ii. for other events or decisions—in the period in which the identifiable event or decision occurs.

Changes in estimated cash flows, including changes caused by changes in the discount rate (slides 36 and 40)

- A7. We recommend the model should adopt the treatment required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to account for changes in estimated future cash flows. This means:
- a. The effects of changes in estimates of future cash flows should be accounted for prospectively in profit or loss in:
 - i. the period of change, if the change affects only that period; or
 - ii. the period of change and future periods, if the change affects both.
 - b. If the change gives rise to a change in a regulatory asset or regulatory liability, adjust the change in carrying value of the related asset or liability in the period of change.
- A8. When the regulator changes the interest or return rates used to compensate the entity for the period between the origination and reversal of timing differences, we recommend the entity should:
- a. measure the outstanding regulatory asset balance using the revised interest or return rate to discount the estimated future cash flows; and
 - b. recognise any resulting change in the carrying amount of the regulatory asset in the period of change.

Measurement of regulatory liabilities (slide 46)

- A9. We have not identified issues that would require regulatory liabilities to be measured on a different basis than regulatory assets. Consequently, we recommend the model should apply the same measurement requirements for regulatory liabilities as for regulatory assets.