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STAFF PAPER

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IASB® Meeting

Project	**Rate-regulated Activities**		
Paper topic	Principles of the model: a summary		

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Purpose of this paper

1. This paper is based on Agenda Paper 9A *Principles of the model: a summary* for the May 2019 Board meeting and provides:
   (a) some background as to why the Board is developing an accounting model (the model) for regulatory assets and regulatory liabilities arising when an entity subject to defined rate regulation supplies goods and services; and
   (b) a summary of the principles underlying the model.
2. In addition, this Agenda Paper provides further clarification on the following aspects of the model:
   (a) goods or services supplied (paragraphs 27–28); and
   (b) unit of account (paragraphs 36–43). This paper also includes a recommendation relating to this aspect of the model (see paragraph 3).

> The staff have highlighted additional material by placing it in boxes (paragraphs 3, 27–28, 36–43, 50, 56 and 61).
>
> Other minor editorial changes have been made.

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The papers discussed in May 2019 did not ask the Board to make any decisions. Revised question for the Board has been included in paragraph 43.

Staff recommendations

3. Staff recommend that the model does not include a general statement that the unit of account is individual timing differences (paragraph 43).

Structure of the paper

4. This paper is structured as follows:

   (a) Defined rate regulation—background (paragraphs 6–18)

   (b) The problem we are trying to solve (paragraphs 19–21);

   (c) Purpose of the model (paragraphs 22–23);

   (d) The model's core principle (paragraphs 24–30);

   (e) Scope principles (paragraph 31);

   (f) Unit of account (paragraphs 32–43);

   (g) Recognition principles (paragraphs 44–45);

   (h) Measurement principles (paragraphs 46–50);

   (i) Presentation principles (paragraphs 51–56); and

   (j) Disclosure principles (paragraphs 57–61).

5. The appendix to this paper includes:

   (a) Diagram 1—comparing total allowed compensation and the total regulated rate

   (b) Diagram 2—the financial statements' effects of recognising regulatory assets and regulatory liabilities

Defined rate regulation—background

6. In defined rate regulation, the regulatory framework establishes a **binding regulatory agreement** through which:

   (a) the entity has a right to:

      (i) supply specified goods or services; and

      (ii) charge for those goods or services a rate(s) that is designed to compensate the entity for the goods or services it supplies to customers with the aim of making it viable for the entity to fulfil specified requirements for quality, quantity and availability of supply of the goods or services;

   and in exchange

   (b) the entity is obliged to:

      (i) fulfil the specified requirements for supplying goods or services; and

      (ii) accept the basis established in the regulatory agreement for setting rates.[1]

7. The regulatory agreement establishes the **total allowed compensation** that the entity is entitled to charge to customers for the goods or services supplied during the period. The total allowed compensation is an amount that typically consists of the following components (see paragraphs 26–30(b)):

   (a) specified 'allowable' expenses incurred; and

   (b) a target profit, which may incorporate one or more of:

      (i) an interest rate or return rate applied to a base specified by the regulatory agreement;[2]

      (ii) margins on allowable costs; and

      (iii) incentive rewards (bonuses) or penalties.

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[1] An entity's ability to challenge through the courts the regulator's interpretation of the regulatory agreement does not negate the entity's obligation to accept the basis established by the regulatory agreement.

[2] The base is typically based on regulatory carrying amounts—reflecting amounts invested in the regulated business in, for example, property, plant and equipment—but may differ from the carrying amounts of those items determined using IFRS Standards.

8. The target return rate is a key source of income for entities subject to defined rate regulation.[3] This component of the target profit is typically aimed to support the entity's ongoing rate-regulated activities, including incentivising continuous investment and protecting the entity's financial viability.

9. The regulatory agreement not only establishes the **total allowed compensation** for the goods or services supplied during a period but also determines **when** (ie in which periods) that total allowed compensation is included in the rate(s) charged to customers.

10. Typically, the regulatory agreement aims to charge customers the total allowed compensation for goods or services supplied during the **same** period in which the entity supplies those goods or services. However, in some cases, the regulatory agreement includes some of the total allowed compensation in the rate(s) charged to customers in a **different** period, causing timing differences that will be 'trued-up' later. This may occur either:

    (a) because the rate calculation uses estimated amounts (paragraphs 13–14); or

    (b) because the regulatory agreement creates other timing differences (paragraph 15).

11. Because of these timing differences, the total amount charged to customers during the current period using the rate determined for the period differs from the total allowed compensation for the goods or services supplied during the period, as shown in Diagram 1 in the appendix.

12. The determination of **when** all or part of the total allowed compensation is included in the rate(s), with the resulting timing differences that will be trued-up later, is an important feature that distinguishes 'defined rate regulation' from other forms of rate regulation.

[3] In its document *'Financeability and financing the asset base – a discussion paper'* published in 2010, Ofwat, the regulator of the water sector in England and Wales, showed that 'return on capital' represented approximately 26.8 per cent of the revenue requirement for 2010-2015.

Timing differences caused by estimation variances

13. The rate charged to customers reflects many estimated amounts and is typically fixed for the duration of a specified period to help achieve regulatory objectives of price stability and price predictability for customers. The regulatory agreement establishes which variances between estimated and actual amounts used in the rate calculation are at the risk of the entity and which are at the risk of customers. Variances at the risk of the entity do not create rights or obligations for the entity to adjust the future rate(s) charged to customers.

14. In contrast, for variances between estimated and actual amounts used in the rate calculation that are at the risk of customers, the total allowed compensation is subsequently 'trued-up' by adding allowable variances to, and deducting chargeable variances from, future rate calculation(s). Consequently, the variances that exist at the end of an entity's reporting period create rights or obligations for the entity to adjust the future rate(s) charged to customers as a result of the goods or services already supplied.

Other timing differences

15. In addition to estimation variances, the regulatory agreement may create other differences (both positive and negative) between the time when an entity supplies goods or services to customers and the time when the entity is able to exercise its right to include in the rate(s) charged to customers some or all of the related total allowed compensation for those goods or services. Such timing differences are typically created to help achieve regulatory objectives, including price stability and price predictability for customers (eg by decelerating cash inflows to the entity) or financial viability for the entity (eg by accelerating cash inflows to the entity).

Common causes of timing differences

16. Commonly, timing differences arise when:

    (a) allowable expenses have been incurred when supplying goods or services to customers, but the related total allowed compensation is spread through the rate(s) charged to customers over several periods;

(b) the rate charged to customers includes an amount designed to pre-fund allowable expenses that have not yet been incurred and relate to the future supply of goods or services to customers;

(c) the entity is subject to performance incentives and has (has not) achieved specified performance targets for a specified period that reward/ (penalise) the entity with a bonus/(penalty) amount that will be added to/ (deducted from) the rate(s) in future period(s); or

(d) the regulatory agreement uses different principles than those used by IFRS Standards to define when allowable expenses are 'incurred' for the supply of goods or services to customers—typically this arises when allowable expenses are incurred as the entity supplies goods or services to customers and the entity recognises in its IFRS financial statements the expense and the resulting liability, but the regulatory agreement does not include the allowable expenses in the rate(s) charged to customers until the entity pays cash to fulfil the liability.

Rights and obligations arising when goods or services are supplied

17. When, during the current reporting period, an entity subject to defined rate regulation supplies regulated goods or services to customers, the entity obtains one or more of the following:

(a) a present right to charge customers in the current period at the rate established to be charged to customers for the goods or services supplied during the same period;

(b) a present right to add an amount to the rate(s) to be charged to customers in future periods because ~~some or all of~~ the total allowed compensation for the goods or services already supplied exceeds the amount already charged to customers; and

(c) a present obligation to deduct an amount from the rate(s) to be charged to customers in future periods because ~~some or all of~~ the total allowed compensation for the goods or services already supplied is lower than the amount already charged to customers.

18. It is important to understand that neither estimation variances nor other timing differences affect the rights or obligations of customers who have received goods or services from the entity during the period in exchange for the regulated rate(s) set for that period. Instead, the estimation variances and other timing differences create for the entity a present right to add an amount to, or a present obligation to deduct an amount from, the future rate(s) for the goods or services already supplied.

The problem we are trying to solve—unrecognised present rights and present obligations

19. IFRS 15 *Revenue from Contracts with Customers* provides users of financial statements with relevant information that faithfully represents the entity's right described in paragraph 17(a), ie the right to charge customers at the regulated rate(s) established for the current period in exchange for the goods or services supplied to customers during the same period. This right is incorporated in the entity's contracts with individual customers.

20. However, IFRS 15 does not provide information about the entity's right described in paragraph 17(b) or obligation described in paragraph 17(c). These rights and obligations arise through the regulatory agreement, rather than through the contracts with customers, and so are incremental to those reported using IFRS 15. These incremental rights and obligations require the entity to add amounts to or deduct amounts from the future rate(s) charged to customers because amounts already charged to customers do not fully reflect the total allowed compensation to which the entity is entitled in exchange for the goods or services it has already supplied. Although the adjustments to the future rate(s) will give rise to incremental future cash flows, the right or obligation to make that adjustment does not give the entity the right to receive cash or obligation to pay cash. Consequently, the incremental rights and obligations are not financial instruments and so are not within the scope of IFRS 9 *Financial Instruments*.

21. Not recognising these incremental rights as assets and incremental obligations as liabilities gives users of financial statements incomplete information about an entity's financial position and financial performance and may create artificial volatility in the entity's statement(s) of financial performance that could mask any

real volatility. For example, an entity may recognise an expense for wasted materials in the current period and, during the same period, charge a rate to customers that includes an amount that pre-funds future allowable expenses. If the regulatory agreement disallows the current period expense because the cost of the wasted materials was avoidable, the disallowed expense will not be passed on to customers. However, the financial effect of the disallowed expense in the current period is masked by the pre-funding amount of future allowable expenses in the rate charged to customers in the current period. Consequently, without information about the incremental rights and obligations mentioned in paragraph 17(b)–17(c), users of IFRS financial statements find it difficult:

(a) to understand the reported financial performance of entities subject to defined rate regulation;

(b) to compare the reported financial performance of such entities (ie to compare between different reporting periods for an entity and between different entities in the same reporting period); and

(c) to assess the effects of those incremental rights and obligations on the entity's prospects for future cash flows arising from the future rate(s) to be charged to customers.

Purpose of the model

22. The purpose of the model being developed is to **supplement** the information provided by IFRS 15 and other IFRS Standards by reflecting, in the current period, the incremental rights and obligations identified in paragraphs 17(b)–17(c) to 'true-up' the total allowed compensation for the goods or services supplied during the period by adding amounts to, or deducting amounts from, the future rate(s).

23. Having this additional information will help users of financial statements:

(a) to understand and assess an entity's reported financial performance, and

(b) to assess the amounts, timing and uncertainty of (prospects for) its future cash flows.

The model's core principle

24. The core principle of the model is that an entity recognises:

    (a) as an asset (**regulatory asset**): the entity's present right to add an amount to the future rate(s) to be charged to customers because the total allowed compensation for the goods or services already supplied exceeds the amount already charged to customers (paragraph 17(b));[4]

    (b) as a liability (**regulatory liability**): the entity's present obligation to deduct an amount from the future rate(s) to be charged to customers because the total allowed compensation for the goods or services already supplied is lower than the amount already charged to customers (paragraph 17(c)); and

    (c) as regulatory **income** or **regulatory expense**, the movement between opening and closing carrying amounts of regulatory assets and regulatory liabilities. The movement reflects the origination and subsequent reversal (ie recovery or fulfilment) of regulatory assets and regulatory liabilities during the period ~~(see Diagram 1 at paragraph 11)~~, plus other changes, for example changes in estimated cash flows.

25. Diagram 2 in the appendix illustrates the origination and reversal of regulatory assets and regulatory liabilities and their financial statements effects.

Identifying the total allowed compensation for goods or services already supplied

26. As noted in paragraph 9, the regulatory agreement specifies the basis for determining the amount of the total allowed compensation for the goods or services supplied by the entity and also determines the period(s) when that total allowed compensation is included in the rate(s) charged to customers. The total allowed compensation for the goods or services supplied typically consists of the following components (see paragraph 7):

[4] The definitions of regulatory assets and regulatory liabilities provided in May 2019 were ~~have been~~ revised from definitions previously discussed with the Board (see AP9A discussed at the December 2018 Board meeting and additional details in AP9B *Scope and recognition principles*).

(a) specified 'allowable' expenses incurred; and

(b) a target profit, which may consist of one or more of the following: interest or a return on a base amount, a margin on allowable expenses and an incentive bonus or penalty.[5]

27. For the purposes of identifying the total allowed compensation for the goods or services already supplied, the staff think it would be worth clarifying the following two elements:

    (a) the goods or services supplied (see paragraph 28); and

    (b) the period when those goods or services are supplied (see paragraphs 29–30(b)).

Goods or services supplied

28. The goods or services supplied encompass:

    (a) direct supply of good or services to customers; and

    (b) other activities that are also contemplated in the regulatory agreement that may be related indirectly to the goods or services supplied to customers, such as:

        (i) satisfying other government objectives: this can involve reducing greenhouse gases or other pollutants, switching to renewable energy sources or changing customer behaviour to manage demand; or

        (ii) standing ready to repair damage to the network and restore services to customers after storms or other contingent events.

The period when those goods or services are supplied

29. For ~~many~~ allowable expenses relating to the direct supply of goods or services to customers, such as costs of raw materials used in production, it is clear whether those expenses relate to goods or services already supplied rather than to goods or services to be supplied in the future. Consequently, it is also clear what the effect of those expenses is on the total allowed compensation (allowable expenses plus related margin and/ or incentive) for the goods or services already supplied.

30. However, for ~~other~~ allowable expenses that may be attributable to the supply of goods or services only indirectly it may be less clear in which period those goods or services are supplied. The fact that the regulatory agreement treats the

[5] Agenda Paper 9C *Measurement principles* includes further details on the target profit.

expenses as allowable establishes that they relate to goods or services supplied in **some** period.[6] In such cases, an entity needs to determine whether an allowable expense is part of the total allowed compensation for goods or services **already** supplied or is part of the total allowed compensation for goods and services to be supplied in the **future**. The model applies the judgements made in applying IFRS Standards to establish to **which** period that part of the total allowed compensation relates, which supports consistency of application and minimises the amount of judgement needed. For example:

(a) IAS 16 *Property, Plant and Equipment* identifies acceptable methods for allocating the depreciable amount of an item of PPE over its useful economic life. The resulting depreciation expense recognised is intended to depict the cost of the portion of the PPE consumed during the current period, and the carrying amount of the PPE is intended to depict the cost of the unconsumed portion of the PPE. The model treats the cost of the portion of the PPE consumed in the current period as relating to goods or services supplied in that period, and the carrying amount of the PPE as relating to goods or services to be supplied in future periods.

(b) IAS 16 and IAS 2 *Inventories* identify what types of overheads are included in the initial cost of an asset. In a manner similar to the treatment of depreciation, the model treats allowable overheads that are included in the carrying amount of an asset, such as PPE or inventory, as relating to the **future supply** of goods or services, irrespective of the period in which those overheads are included in the rate(s) charged to customers. On the other hand, for allowable overheads that are recognised using IFRS requirements as an expense in the current period, the model treats those overheads as relating to goods or services supplied in that period.

[6] Expenses that are **not** determined to be incurred in supporting the supply of those goods or services or that have not been incurred in a prudent manner (eg avoidable expenses) are typically disallowed by the regulatory agreement and so are not passed on to customers through the rate(s).

Scope principle

31. The scope of the model establishes that the basis for setting the rate gives rise to rights and obligations that are enforceable. Agenda Paper 9B *Scope and recognition principles* includes proposed changes to the previously used description of the basis for setting the rate. The changes are designed to improve the specificity and clarity of the scope principle, while retaining the intended meaning of the original description.

Unit of account

32. Paragraphs 4.48–4.55 of the *Conceptual Framework* provides guidance to help select a unit of account. That guidance acknowledges that different units of account may be appropriate for different purposes.

33. The Board tentatively decided in February 2018 that the model will use as its unit of account the individual timing differences that create the incremental rights and obligations arising from the regulatory agreement. At the time the Board made this tentative decision, it was focusing on the general approach of the model, rather than detailed requirements. In particular, the Board was considering whether to focus on the incremental rights and incremental obligations now described in paragraphs 17(b)–17(c) (ie the rights and obligations now defined as regulatory assets or regulatory liabilities) or to also recognise other rights and obligations established by the regulatory agreement, perhaps as a single intangible asset.

34. In developing the model and refining our description of it, we have identified that:

    (a) the model does not account for timing differences—it accounts for the incremental rights and incremental obligations that come into existence as a result of timing differences; and

    (b) groups of incremental rights and incremental obligations can have similar characteristics and risks, with similar implications for the prospects of future cash flows; and

    (c) ~~since February 2018, the Board has tentatively decided that~~ it may be appropriate to group items with similar characteristics, risks and expiry

patterns for measurement, presentation and disclosure (see Agenda Paper 9G *Summary of tentative decisions made to date* for further details).[7]

35. We consider that identifying the individual timing differences is still important to identify what incremental rights and incremental obligations arise (ie exist) as a result of those timing differences. However, we suggest that the model does not describe the unit of account as 'individual timing differences'. Instead, we consider the Board's tentative decisions that identify what unit of account is most appropriate for applying the specific requirements for measurement, presentation and disclosure are consistent with the *Conceptual Framework* and with the general principles of the model.

36. At the May 2019 Board meeting, Board members expressed concerns about the model having for measurement purposes a different unit of account than the individual timing differences, as it could be inferred from paragraph 35. In addition, Board members argued that for presentation or disclosure, rather than the model considering a different unit of account, the model allowed the individual timing differences to be aggregated.

37. We concur with the Board members' view that for presentation or disclosure the model allows individual timing differences to be aggregated. The Board discussed aggregation for presentation and disclosure purposes at its meeting in November 2018.[8] The following analysis focuses on the unit of account for recognition and measurement purposes.

38. In February 2018, the Board tentatively decided that the model will use as its unit of account the individual timing differences that create the incremental rights and incremental obligations. This decision was useful when analysing whether these incremental rights and incremental obligations satisfied the definitions of assets and liabilities in the *Conceptual Framework*. However, we also acknowledge that that decision may have been premature because at that point in time we had not

[7] Agenda Paper 9D discussed at the May 2019 Board meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2019/may/iasb/ap9d-rate-regulated-activities.pdf

[8] Agenda Paper 9C *Presentation* and Agenda Paper 9D *Disclosure objectives and requirements* discussed with the Board at its meeting in November 2018 can be found at the following link: https://www.ifrs.org/news-and-events/calendar/2018/november/international-accounting-standards-board/

discussed yet with the Board the recognition and measurement requirements of the model. Aligned with this consideration, the *Conceptual Framework* 'explains that the unit of account and recognition and measurement requirements for a particular item are all considered at the same time.'[9]

39. We note that the *Conceptual Framework* also states that:

> 4.51 A unit of account is selected to provide useful information, which implies that:
>
> (a) […] treating a group of rights and obligations as a single unit of account may provide more relevant information than treating each right or obligation as a separate unit of account if, for example, those rights and obligations:
>
> (i) cannot be or are unlikely to be the subject of separate transactions;
>
> (ii) cannot or are unlikely to expire in different patterns;
>
> (iii) have similar economic characteristics and risks and hence are likely to have similar implications for the prospects for future net cash inflows to the entity or net cash outflows from the entity; or
>
> (iv) are used together in the business activities conducted by an entity to produce cash flows and are measured by reference to estimates of their interdependent future cash flows.

40. When developing the model, the Board has discussed aspects relating to the unit of account whenever this has been necessary. For example, the Board has:

(a) discussed that groups of incremental rights and incremental obligations can have similar characteristics and risks, with similar implications for the prospects of future cash flows; and

(b) tentatively decided that an entity should estimate future cash flows using either the 'most likely amount' method or the 'expected value' method, depending on which method the entity concluded would better predict the amount of the cash flows arising from a particular timing difference or group of timing differences (see Agenda Paper 9C *Measurement principles*).

[9] Paragraph BC4.74 of the *Conceptual Framework*.

41. We intend to consider in drafting whether the Board's tentative decision summarised in paragraph 40(b) should apply not only for measurement but also, in cases of existence uncertainty, for recognition purposes.

42. The Board has already specified the appropriate unit of account to consider for all particular decisions for which this is necessary. Thus, we do not think that it will serve any purpose to include a general statement that the unit of account is the individual timing differences that create the incremental rights and incremental obligations. Furthermore, we have not defined what is meant by 'individual timing differences', and do not believe it would be useful or easy to do so. Including a general statement that the unit of account is individual timing differences would cause confusion and uncertainty for no benefit.

43. On the basis of the analysis in paragraphs 36–42, we recommend that the Board does not include in the model a general statement that the unit of account is individual timing differences.

Questions for the Board

Unit of account
1. Do Board members agree with the staff's recommendation that the Board does not include in the model a general statement that the unit of account is individual timing differences?

Recognition principles

44. The model requires the recognition of regulatory assets or regulatory liabilities if it is more likely than not that they exist—the model sets a symmetrical threshold in cases of existence uncertainty.

45. The model does not set any recognition thresholds relating to low probability of an inflow or outflow of economic benefits or high measurement uncertainty. The model considers those aspects in measurement rather than recognition. See further details in Agenda Paper 9B and Agenda Paper 9C.

Measurement principles

46. As highlighted in paragraphs 24(a)–24(b), an entity using the model would recognise:

    (a) a regulatory asset reflecting the entity's present right to add an amount to the future rate(s) charged to customers because the total allowed compensation for the goods or services already supplied exceeds the amount already charged to customers; and

    (b) a regulatory liability reflecting the entity's present obligation to deduct an amount from the future rate(s) charged to customers because the total allowed compensation for the goods or services already supplied is lower than the amount already charged to customers.

47. The nature of regulatory assets and regulatory liabilities does not fit neatly into any of the defined categories of assets and liabilities accounted for using IFRS Standards. Although the right to add an amount to or obligation to deduct and amount from the future (rate) to be charged to customers gives rise to incremental cash flows, the right or obligation is not a right to receive cash or obligation to pay cash (paragraph 20). The model reflects the unique nature of regulatory assets and regulatory liabilities by using a cash-flow-based measurement technique that would require an entity to:

    (a) estimate the future cash flows arising from regulatory assets or regulatory liabilities, updating those estimates if changes occur; and

    (b) discount the estimated future cash flows, keeping the discount rate established at initial recognition unchanged, unless the regulatory agreement changes the future cash flows by changing the interest rate or return rate.

48. We ask the Board in Agenda Paper 9C *Measurement principles* to decide whether to describe this measurement technique as applying a modified historical cost basis or applying a modified current value basis ~~in Agenda Paper 9C~~.

Identifying the discount rate

49. Once an entity has estimated the amount and timing of the future cash flows arising from a regulatory asset or regulatory liability, the entity would then

consider the effects of the time value of money and risks inherent in the cash flows for the period between ~~the~~ when the regulatory asset (or regulatory liability) arises and when it is recovered (or fulfilled) through subsequent inclusion (deduction) in determining future rate(s) charged to customers.

50. Agenda Paper 9D *Discounting estimated cash flows* includes additional details on the measurement of regulatory assets and regulatory liabilities.

Presentation principles

51. As noted in paragraph 22, the purpose of the model is to provide financial information that supplements the information provided by other IFRS Standards, including IFRS 15, by recognising the incremental rights and obligations that, as identified in paragraphs 17(b)–17(c), 'true-up' the total allowed compensation for the goods or services supplied during the period by adding amounts to, or deducting amounts from, the future rate(s). Consequently, the model uses a 'supplementary approach'. This means that existing IFRS Standards are to be applied first and, subsequently, the model will be applied to recognise the incremental rights and incremental obligations arising from the timing differences.

Statement of financial position

52. The model requires regulatory assets and regulatory liabilities to be presented in the statement of financial position in separate line items beyond the line items required by IAS 1 *Presentation of Financial Statements* because the nature of regulatory assets and regulatory liabilities do not fit neatly into any of the defined categories of assets and liabilities accounted for using existing IFRS Standards.

Statement(s) of financial performance

53. Regulatory assets and regulatory liabilities arise when an entity supplies goods or services in one period but some amounts relating to those goods or services are charged to customers through the rate and, are consequently, recognised and presented as revenue, in a different period. Consequently, the model requires the net movement between opening and closing balances of regulatory assets and

regulatory liabilities to be presented as a regulatory income/ (regulatory expense) line item immediately below the revenue line items presented by applying IAS 1.

54. The model requires an entity's compensation/ charge arising from regulatory interest or regulatory return (see paragraph 7(b)) to be presented within the regulatory income/ (regulatory expense) line item, rather than with financing. This is because this compensation/ charge is intended to achieve the regulatory objectives (see paragraph 8).

55. Some regulatory income or regulatory expense arises when income or expense is recognised in other comprehensive income (OCI). There could be two approaches to such regulatory income or expense, and the Staff ~~will~~ asks the Board at ~~a future~~ this meeting to choose between them:

   (a) approach 1, tentatively decided by the Board in November 2018—present it in profit or loss immediately below revenue, like all other regulatory income and regulatory expense; or

   (b) approach 2—present it in OCI so that the regulatory income or regulatory expense and the underlying income or expense are both presented outside profit or loss.

56. Agenda Paper 9E *Presentation and Disclosure* asks the Board to reconsider the presentation of regulatory income or regulatory expense in OCI in specific circumstances.

Disclosure principles

57. The model identifies an overall disclosure objective, supported by more granular specific disclosure objectives and disclosure requirements supporting the specific disclosure objectives. A similar approach is being developed in the Targeted Standards-level Review of Disclosure project. (Agenda Paper 9G sets out all the Board's tentative decisions and includes the disclosure objectives and disclosure requirements that the Board tentatively agreed in November 2018.)

58. The overall disclosure objective does not focus on reporting all effects of defined rate regulation but is instead linked tightly with the purpose of the model, ie to recognise regulatory assets, regulatory liabilities and movements in their balances. Consequently, the overall disclosure objective of the model focuses on providing

financial information that will help users of financial statements to understand how the origination and subsequent recovery/ fulfilment of regulatory assets and regulatory liabilities has affected the entity's financial performance and financial position.

59. The specific disclosure objectives focus on the following areas:

    (a) financial performance;

    (b) amount, timing and uncertainty of future cash flows from regulatory assets and regulatory liabilities; and

    (c) changes in the carrying amounts of regulatory assets and regulatory liabilities.

60. We have not identified a need for the Board to change its tentative decisions made to date about disclosure requirements as a result of the refinement of the description of the model. We may need, however, to provide more guidance about the application of those requirements.

61. In Agenda Paper 9E *Presentation and Disclosure* we propose providing additional guidance for disclosure of regulatory interest or return.

Appendix

Diagram 1—comparing total allowed compensation and the total regulated rate

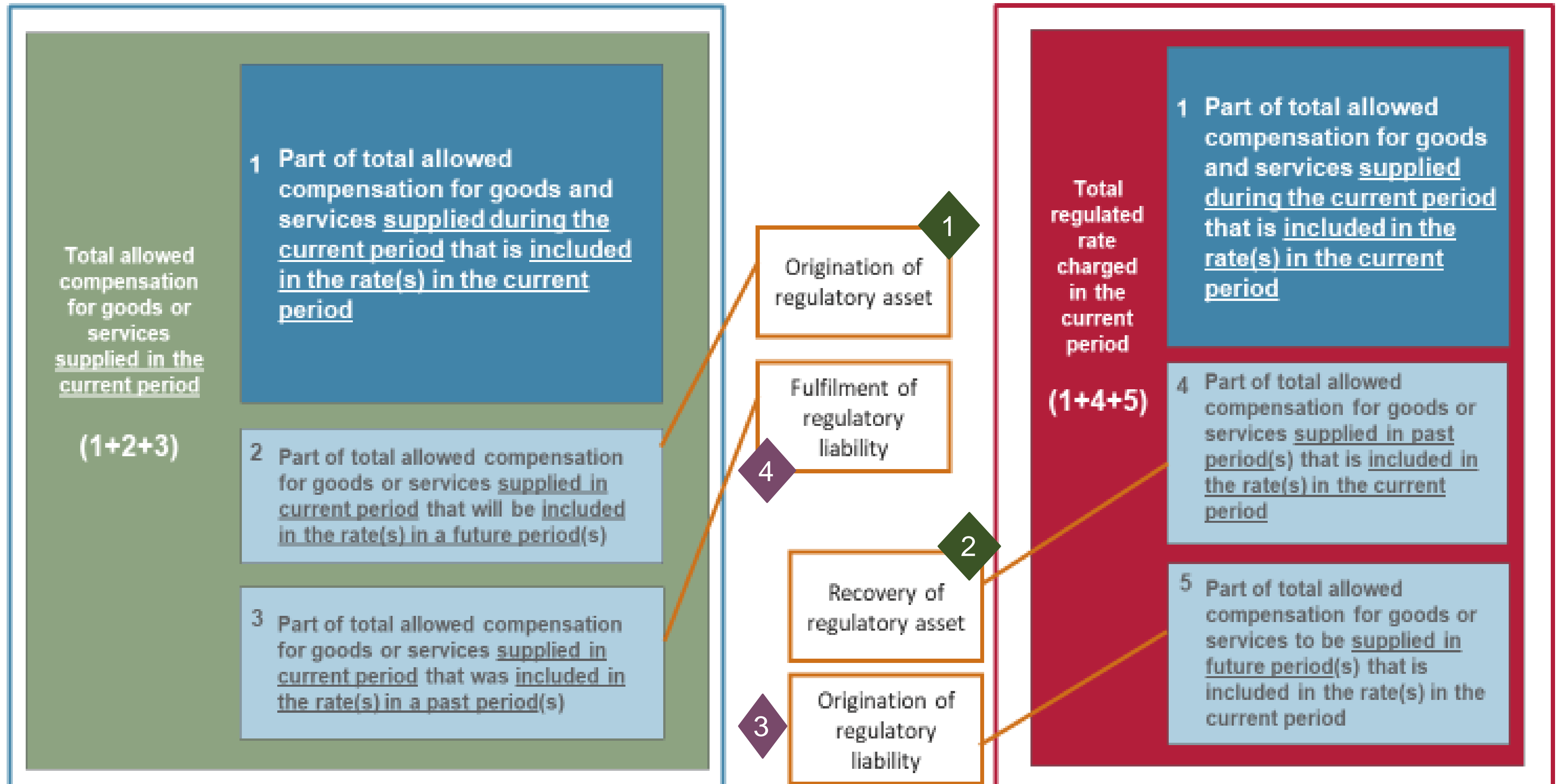

Diagram 2—the financial statements' effects of recognising regulatory assets and regulatory liabilities[10]

Supply of goods or services (G/S)	Charging period	Rights and obligations	Effect on financial performance	Effect on financial position
1 Current period	Future period(s)	Entity has right to add an amount to the rate(s) to be charged to customers in the future because some or all of the total allowed compensation (TAC) for G/S already supplied exceeds the amount already charged to customers	Regulatory income	Recognise regulatory asset for right to add an amount to future rate(s) because of goods or services already supplied
Current period	4 Previous period(s)	Entity charged customers in the past for G/S supplied in the current period	Regulatory income	Derecognise regulatory liability because obligation is fulfilled by deducting an amount from the rate(s) charged in the current period
2 Previous period(s)	Current period	Entity charged customers in the current period for G/S supplied in the past	Regulatory expense	Derecognise regulatory asset because it is recovered by adding an amount to the rate(s) charged in the current period
Future period(s)	3 Current period	Entity charged customers in the current period for G/S it will supply in the future	Regulatory expense	Recognise regulatory liability for obligation to deduct an amount from the rate(s) to be charged to customers in the future because some or all of the TAC for G/S already supplied is lower than the amount already charged to customers

[10] Diagram 2 is an updated version of Diagram 2 included in Agenda Paper 9C discussed at the May 2019 Board meeting. This version incorporates terminology more closely aligned to the refinements to the model presented to the Board in May 2019.