STAFF PAPER

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Project	**Rate-regulated Activities**		
Paper topic	Measurement principles		
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Purpose of this paper

1. The purpose of this paper is to:

   (a) discuss measurement aspects of the model that were not articulated with enough clarity in December 2018 so that the Board has an opportunity to reconsider previous tentative decisions. The staff recommendations for those measurement aspects are in paragraph 3(a) and 3(c); and

   (b) recommend how to describe the measurement basis that underlies the measurement technique that the model uses (see recommendation in paragraph 3(b)).

2. This paper is based on Agenda Paper 9C *Measurement Principles* for the May 2019 Board meeting. The sections of that paper dealing with the model's measurement principles and their application to the regulatory assets and regulatory liabilities are included in Agenda Paper 9D *Discounting estimated cash flows*.

> The staff have highlighted additional material by placing it in boxes (paragraphs 3, 7–10, 16(a), 20, 26–27, 39–46 and 52–54).

Other changes have also been to paragraph 17 to help clarify the content. Other minor editorial changes have been made.

The papers discussed in May 2019 did not ask the Board to make any decisions. Revised questions have been included in paragraphs 20, 46 and 56 to ask the Board whether it agrees with the staff's recommendations.

Staff recommendations

3. Staff recommend:

   (a) to measure all regulatory assets and regulatory liabilities, except those covered in (c) below, by:

      (i) considering all the estimated future cash flows arising from the regulatory assets, including the cash flows relating to the regulatory interest or return; and

      (ii) discounting the estimated future cash flows using the regulatory interest or return rate unless there is any indication that the regulatory interest or return rate is not adequate (paragraph 20);

   (b) to describe the measurement basis as a modified historical cost measurement basis (paragraph 46); and

   (c) to measure regulatory assets and regulatory liabilities that relate to expenses or income that will be included in/deducted from the future rate(s) when cash is paid/received by (paragraph 54):

      (i) using the same measurement basis that the entity uses when measuring the related liability or related asset; and

      (ii) adjusting the measurement of the regulatory asset or regulatory liability to reflects any risks that are not present in the related liability or related asset.

4. This paper is structured as follows:

   (a) background—total allowed compensation and the regulatory interest rate or return rate (paragraphs 5–15);

(b) the Board's previous tentative decisions (paragraphs 16–20);

(c) the features of the measurement technique (paragraphs 21–22);

(d) estimating the future cash flows (paragraphs 23–29);

(e) the measurement basis (paragraphs 30–46); and

(f) measuring regulatory assets and regulatory liabilities that relate to expenses or income that will be included in/ deducted from the future rate(s) when cash is paid/ received (paragraphs 47–56).

Background—total allowed compensation and the regulatory interest rate or return rate

5. As mentioned in paragraph 7 of Agenda Paper 9A *Principles of the model: a summary*, the total allowed compensation typically consists of allowable expenses incurred plus a target profit. The target profit may incorporate one or more of:

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

   (b) margins on allowable costs; and

   (c) incentive rewards (bonuses) or penalties.

6. The regulatory interest rate or return rate is applied to a base specified by the regulatory agreement. ~~Regulatory assets and regulatory liabilities typically form a relatively small portion of that base.~~ The base is typically based on regulatory carrying amounts (regulatory capital base, RCB)—reflecting amounts invested in the regulated business in, for example, property, plant and equipment (PPE)—but may differ from the carrying amounts of those items determined using IFRS Standards.

7. When setting the regulatory interest or return rate, the regulator considers whether such interest or return rate is appropriate for that regulatory base. Regulatory assets and regulatory liabilities typically form a relatively small portion of that regulatory base. Consequently, the regulatory interest or return rate applied to the individual regulatory assets or regulatory liabilities is typically not specific to the characteristics of the cash flows resulting from any of these individual items but it rather reflects the characteristics of the larger regulatory base (see paragraph 13).

8. The regulatory interest or return on regulatory assets or regulatory liabilities is a component of the target profit (see paragraph 5(a)) that is triggered by the supply of goods or services in a period. Thus it forms part of the total allowed compensation for the goods or services supplied in that period and is included in estimated cash flows. However, the regulatory interest or return:

   (a) compensates an entity for the deferral in the recovery of a regulatory asset; or

   (b) charges the entity for the deferral in fulfilment of a regulatory liability.

9. The regulatory interest or return is recognised over time as the recovery or fulfilment moves nearer. This pattern of recognition is aligned with the reason driving the existence of the regulatory interest or return (ie the deferral in recovery or fulfilment).

10. In contrast, other components of the target profit such as margins on allowable expenses and incentives are more directly related to goods or services supplied in a period.

Interest rate or rate of return for different categories of regulatory assets and regulatory liabilities

11. When considering the interest rate or return rate applied to a regulatory asset or regulatory liability, we previously considered three categories of regulatory assets/ (regulatory liabilities):[1]

   (a) those treated by the regulatory agreement as part of the RCB;

   (b) those treated by the regulatory agreement as operating items; and

   (c) those that relate to expenses payable/ (income receivable) in the future and that will be added to/ (deducted from) the future rate(s) when the resulting cash is paid/ (received). The natures of regulatory assets and regulatory liabilities in the third category are sufficiently distinct that we consider them separately (paragraphs 47–56).

[1] Further information about these three categories and the types of interest rate or return rate applied to them was provided in Agenda Paper 9B for the Board's December 2018 meeting.

12. Regulatory assets/ (regulatory liabilities) in the first two categories differ mainly in the:

    (a) interest rate or return rate that the regulatory agreement provides for the entity between the time a regulatory asset or a regulatory liability arises and the time it is recovered or fulfilled through the future rate(s) charged to customers (ie the time between the origination of a regulatory asset or regulatory liability and its reversal); and

    (b) duration—with those treated as part of the RCB typically having a longer duration than those treated as operating items.

13. Each category (RCB and operating items) may be broken down into different time bands. The regulatory agreement typically applies the same interest rate or return rate to all regulatory assets and all regulatory liabilities within the same time band and within the same category. Therefore, the rate applied to the time band is not specific to the characteristics of the cash flows resulting from any individual regulatory asset or regulatory liability but is instead a blended rate for the whole time band. Table 1 illustrates the common interest or return rates typically provided for different categories of regulatory assets/ (regulatory liabilities).

Table 1

Categories of regulatory assets (RA) / regulatory liabilities (RL)	**Typical duration**	**Common interest or return rates given/charged**	**Comments**
Treated as part of the RCB	Long-term (approx. 5 years or more—typically capital expenditures)	Weighted average cost of capital (WACC)	Interest or return rate is typically higher than rate that would reflect the characteristics of the cash flows arising from RA/RL. This return is key to achieve the regulator's objectives.[2]

[2] This component of the overall return is intended to enable the entity to earn a target profit and support the entity's ongoing rate-regulated activities, including incentivising continuous investment and protecting the financial viability of the entity. In the document titled '*Financeability and financing the asset base – a*

Treated as operating items	Short-term (within 24 months—typically operating variances or incentives) Medium-term (approx. 2–5 years—typically allowable expenses triggered by a specific event such as a storm)	0% or rate above risk-free, typically reflecting corporate borrowing rates or the entity's incremental borrowing rate	Interest or return rate is typically adequate to provide compensation/ charge that at least compensates/charges the entity for the time value of money plus a premium to reflect the risks inherent in the resulting cash flows.

14. For some short-term items, the regulatory interest rate is explicitly a variable rate because it is linked to an index or quoted borrowing rate. For other items, the regulatory interest rates and return rates are reviewed intermittently (typically whenever the rate-review is carried out) and are reset to reflect changing conditions.

15. For items in the third category (paragraph 11(c)), ie those that arise from expenses payable/ (income receivable) in the future and that will be added to/ (deducted from) the future rate(s) when the resulting cash is paid/ (received), the regulatory agreement does not specify an interest or return rate. For further explanation, please see paragraph 48.

Previous tentative decisions

16. In December 2018, the Board tentatively decided:

> (a) for items treated as operating items an entity should include all estimated future cash flows, including those relating to regulatory interest or return, and discount them at:
>
> (i) a discount rate that reflects, at least, compensation for the time value of money and uncertainty inherent in the cash flows; but

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.

(ii) the regulatory interest or return rate when that is above the compensation in (i), unless there is clear evidence that the excess relates to an identifiable transaction or event.

(b) for items forming part of the RCB, an entity should include only the estimated future cash flows arising from the original regulatory timing difference and discount them at a rate of 0%—that is, the entity should exclude the cash flows relating to the regulatory overall return and recognise that overall return as revenue in profit or loss as it is included in the rate charged to customers.[3] The recommendation was intended to simplify the model and provide some relief in cases in which there is a gap period(s) between the time when a regulatory asset arises and the time when the entity starts to recover that asset (including the interest or return) through the rate(s) charged to customers—even if the financial effect of that gap period is material. Agenda Paper 9D addresses the requirements of the model when there is a gap period.

17. Board member views on the staff recommendation for items treated as operating items were strongly supportive. However, Board member views on the staff recommendation for items forming part of the RCB were mixed. Although the Board tentatively decided to accept the recommendation with a narrow majority, Board members expressed the following concerns during the meeting, which we have considered during our subsequent review of the consistency of the Board's tentative decisions with the model's principles:

(a) some Board members were not convinced that items treated as part of the RCB and those treated as operating items were sufficiently distinct in nature to support different approaches to their measurement (the relief recommended for items forming part of the RCB was not recommended for items treated as operating items);

[3] Alternative approaches to measurement of regulatory assets treated as part of RCB, together with a summary description of advantages and disadvantages of the approaches, are set out in paragraphs 44-51 of Agenda Paper 9B, December 2018.

(b) the lack of clear reasoning supporting two different approaches to measuring regulatory assets was confusing and obscured the principles behind the measurement technique—which was perceived as adding to the complexity of the model; and

(c) applying the relief would delay the recognition of the interest or return that accrues during the gap period referred to in paragraph 16 and could result in a loss of relevant information in such gap periods.

18. In view of the concerns outlined in paragraph 17, we have reconsidered our previous analysis and now combine the two categories into a single category for the analysis in this paper. We consider the distinction between regulatory assets treated as part of the RCB and those treated as operating items is insufficient to support different approaches to measurement.

19. We remain convinced that the nature of regulatory assets/ (regulatory liabilities) that arise from expenses payable/ (income receivable) in the future and that will be added to/ (deducted from) the future rate(s) when the resulting cash is paid/ (received) is sufficiently different to support a different approach to measurement. In this paper, we clarify that our previous recommendation for these items represent an exception to the model's measurement principles (paragraphs 47–56).

20. As stated in paragraph 18, we recommend that the measurement of all regulatory assets and regulatory liabilities except those that relate to expenses or income that will be included in/deducted from the future rate(s) when cash is paid/received requires an entity to:

(a) consider all the estimated future cash flows arising from the regulatory assets, including the cash flows relating to the regulatory interest or return; and

(b) discount the estimated future cash flows using the regulatory interest or return rate unless there is any indication that the regulatory interest or return rate is not adequate (see Agenda Paper 9D).

Question for the Board

Single approach for measuring all regulatory assets and regulatory liabilities except for those included in paragraphs 47–56

1. Does the Board agree with the staff's analysis and recommendation for having a single approach as described in paragraph 20 for measuring all regulatory assets and regulatory liabilities except for those included in paragraphs 47–56?

The features of the measurement technique

21. The model uses 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.

22. Paragraphs 23–29 of this paper address estimates of future cash flows. Agenda Paper 9D covers the assessment of the adequacy of the discount rate.

Estimating the future cash flows

23. The starting point for measuring a regulatory asset or a regulatory liability is to identify the amount that will be added to or deducted from the future rate(s) because the total allowed compensation for goods or services already supplied exceeds, or is lower than, the amount already charged to customers for those goods or services (see paragraph 24 of Agenda Paper 9A). An entity would then estimate when those additions or deductions will be made to or from the future rate(s) to be charged to customers.

24. The model requires an entity to estimate future cash flows arising from each regulatory asset recognised using either the **'most likely amount'** method or the **'expected value'** method, depending on which method the entity concludes would

better predict the amount of the cash flows arising from a particular timing difference or group of timing differences (see paragraph 13). The Board has also tentatively decided that the entity would apply the same method consistently from the origination of the timing difference until its reversal.[4, 5]

25. When estimating future cash flows, an entity would consider the risks associated with those cash flows. The amount and timing of cash flows resulting from regulatory assets and regulatory liabilities are typically highly predictable, although they could be subject to ~~credit risk,~~ demand risk, customer credit risk, ~~and~~ non-performance risk (including own-credit risk) and regulatory risk and, consequently, be subject to some variability. These risks are, however, typically low:

    (a) Demand risk—typically, the regulator will use government statistics to evaluate the sensitivity of demand estimates and the design of the rate formula takes into account the expected level of demand for the rate-regulated goods or services. Also, the entity's customers collectively form a sufficiently large base and, individually, have typically sufficiently limited ability to seek alternatives to buying the regulated goods or services from the entity, contributing to the inelasticity of demand.

    (b) Customer credit risk—the regulatory agreement typically treats credit losses as an allowable expense that is compensated for through the rate(s) charged to customers.

    (c) Non-performance risk—typically entities that are subject to defined rate regulation have low non-performance risk and maintain a high credit rating. This is partly due to the typically low risk environment in which they operate and partly due to the regulatory objective of establishing rate(s) that are designed with the aim of making it viable

[4] Agenda Paper 9B and Agenda Paper 9D discussed at the July 2018 Board meeting.

[5] When measuring assets (or liabilities) by reference to estimates of uncertain future cash flows, IFRS 15 *Revenue from Contracts with Customers* and IFRIC 23 *Uncertainty over Income Tax Treatments* require the use of either the most likely amount or the expected value.

for the entity to fulfil the requirements specified in the regulatory agreement for the quality, quantity and supply of goods and services.

26. Another risk associated with the cash flows is regulatory risk. The assessment of the regulatory framework in which an entity operates is a key factor in the methodologies that credit rating agencies follow to back up their credit ratings. The extent of this risk will depend on the characteristics of the broader regulatory framework such as:

    (a) the level of development, stability, predictability and supportiveness of the regulatory regime.
    (b) the degree of independence of the regulatory authorities and the degree of risk that politically motivated intervention can affect rate decisions.

27. The following may affect the level of regulatory risk in the future cash flows and, consequently, may affect the level of uncertainty and the overall quality of the estimates:

    (a) whether the regulator has pre-approved recovery of investments; and
    (b) whether the regulator tends to challenge, disallow or delay the recovery of costs.

Updating estimated cash flows

28. The model requires an entity to update the estimated cash flows at each reporting date and to account for changes in estimates of future cash flows in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Consequently:

    (a) the effect of a change in estimated future cash flows would be recognised 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; and

(b) if the change in estimated cash flows gives rise to a change in a regulatory asset, the change would be recognised by adjusting the carrying amount of the related asset in the period of change.

29. The model does not require separate impairment procedures because updating the estimates of future cash flows would capture any downward remeasurements.

The measurement basis

30. The *Conceptual Framework* distinguishes:

(a) a measurement basis: an identified feature—for example historical cost, fair value or fulfilment value—of an item being measured; from[6]

(b) a cash-flow-based measurement technique: a technique used when applying a measurement basis.[7]

31. Paragraph 6.91 of the *Conceptual Framework* states:

> In some such cases, one way to estimate the measure is by using cash-flow-based measurement techniques. Such techniques are not measurement bases. They are techniques used in applying a measurement basis. Hence, when using such a technique, it is necessary to identify which measurement basis is used and the extent to which the technique reflects the factors applicable to that measurement basis.

32. The cash-flow-based measurement technique described in this paper has been developed to reflect the nature of regulatory assets (and regulatory liabilities), which do not fit neatly into any of the defined categories of assets accounted for using existing IFRS Standards—a regulatory asset is not a financial asset (ie it is not a right to receive cash or another financial asset, but a right to add an amount in the future rate(s) charged to customers), nor is it an intangible asset or an item of property, plant, equipment or inventory.[8]

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[6] Paragraph 6.1 of the *Conceptual Framework*.
[7] Paragraph 6.91 of the *Conceptual Framework*.

[8] Agenda Paper 9B discussed at the May 2018 Board meeting.

33. As mentioned in paragraph 47 of Agenda Paper 9A, the measurement technique for regulatory assets and regulatory liabilities could be viewed as the application of either:

    (a) a modified historical cost measurement basis—modified to update it for changes in estimates of future cash flows; or

    (b) a modified current value measurement basis—modified to use a historical discount rate.

34. We previously noted that we considered both descriptions to be valid and did not previously propose the Board select one to use in the model. However, some Board members have suggested that it would be helpful to do so.

Modified historical cost measurement basis

35. We understand that updating estimates of future cash flows could be argued by some as not representing (strictly) a historical cost measurement basis. However, paragraphs 6.7–6.8 of the *Conceptual Framework* indicate that the historical cost of an asset or a liability is updated over time to depict, if applicable, changes such as payments received or made, accrual of interest, and the effects of events that cause all or part of an asset to be no longer recoverable (impairment).

Modified current value measurement basis

36. A key feature of a current value measurement is that it provides monetary information about assets and liabilities using information updated to reflect entity-specific assumptions or assumptions of market participants about conditions at the measurement date. As a result of updating the measurement to reflect current information, paragraph 6.10 of the *Conceptual Framework* notes that, '[u]nlike historical cost, the current value of an asset or liability is not derived, even in part, from the price of the transaction of other event that gave rise to the asset or liability.'

The model's cash-flow-based measurement technique

37. The measurement technique requires an entity to update estimates of cash flows but to keep 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). Consequently, the measurement technique omits the key feature of a current value measurement basis.

38. Accordingly, we suggest that, if the Board decides to specify the measurement basis that the model's cash-flow-based measurement technique applies, it would be more suitable to describe it as a modified historical cost measurement basis—modified to update it for changes in estimates of future cash flows.

39. At the May 2018 Board meeting, Board members advised the staff to back up our recommendation on the measurement basis being modified historical cost further. The *Conceptual Framework* states that **[emphasis added]** 'historical cost uses information derived, at least in part, from the **price of the transaction** or other event that gave rise to the asset or liability.'[9]

40. In paragraphs 7 and 9 of Agenda Paper 9A, we stated that the regulatory agreement establishes the total allowed compensation (ie **the amount**) that the entity is entitled to charge to customers for the goods or services supplied during the period. That total allowed compensation for goods or services supplied is the **price of the transaction** that the regulatory agreement establishes the entity can charge for those goods or services in either the same or different periods.

41. The measurement principles and requirements in the model seek to reflect:

    (a) for regulatory assets, the part of the total allowed compensation to be added to future transaction price(s) (ie future regulated rate(s)), as a result of goods or services already supplied; and

    (b) for regulatory liabilities, the amounts to be deducted from future transaction price(s) (ie future regulated rate(s)), as result of having already received part or all of the total allowed compensation for future supplies of goods or services.

42. Because the measurement of regulatory assets and regulatory liabilities is derived from the price of the transaction (ie the measurements reflect part of the total allowed compensation, as described in paragraph 41), we think that it is therefore reasonable to view a measurement based on those adjustments as a historical cost. That is analogous to measuring a performance obligation to supply goods

[9] Paragraph 6.24 of the *Conceptual Framework.*

or services to a customer at the transaction price, and viewing that measurement as a historical cost measurement.

43. The following identifies that some of the risks affecting the variability of the estimated future cash flows would result in modifications to the total allowed compensation (ie price of the transaction), hence making it appropriate to describe the measurement basis as a **modified** historical cost measurement basis:

    (a) Credit risk: we note that the measurement required by IFRS 15 *Revenue from Contracts with Customers* is based on the transaction price, without considering the effects of credit risk. According to IFRS 15, upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with IFRS 9 *Financial Instruments* and the corresponding amount of revenue recognised due to, for example, an impairment loss, should be presented as an expense. Nevertheless, for simplicity, the model being developed for regulatory assets and regulatory liabilities reflects credit risk directly in the estimates of cash flows, rather than as a separate stage.

    (b) Demand risk: we think that demand risk could result in modifications of the total allowed compensation. This is because, even though variability arising from that risk may not necessarily affect the per unit price, it may affect the timing of the cash flows with this ultimately affecting the target profit and the total allowed compensation.

44. The amount and timing of the cash flows resulting from regulatory assets and regulatory liabilities, though generally highly predictable, could also be subject to some variability due to regulatory risk. The model also reflects the effects of this risk in the estimates of cash flows. However, because this risk affects the amount that will ultimately be included in future transaction prices (ie future regulated rate(s)), we think its inclusion does not **modify** the price of the transaction.

45. We also see an indirect advantage from describing the measurement technique as a modified historical cost measurement basis. We think this label could facilitate the process stakeholders will need to undertake to:

(a) understand the goals sought by the measurement principles; and

(b) to understand and implement the measurement requirements.

46. On the basis of the reasons described in paragraphs 37 and 39–45, we recommend the Board to describe the measurement technique as a modified historical cost measurement basis.

Question for the Board

Measurement basis

2. Does the Board agree with the staff recommendation to describe the measurement technique as a modified historical cost measurement basis for all regulatory assets or regulatory liabilities except those covered in paragraphs 47–56 and question 3?

Measuring regulatory assets and regulatory liabilities that relate to expenses or income that will be included in/ deducted from the future rate(s) when cash is paid/ received

47. As noted in paragraph 11(c), regulatory assets (regulatory liabilities) arising from expenses payable/ (income receivable) in the future and that will be added to/ (deducted from) the future rate(s) when the resulting cash is paid/ (received) are sufficiently distinct in nature that we consider them separately from other regulatory assets (regulatory liabilities). Such expenses payable/ (income receivable) are recognised in financial statements in accordance with existing IFRS Standards, but the regulatory agreement does not include such items in 'allowable expenses' until a future period when the entity pays or receives the related cash. Example of items typically treated in this way include pension costs, deferred taxation, asset retirement obligations, environmental clean-up provisions and derivatives used for hedging. In many such cases, these items are, in accordance with IFRS Standards, measured explicitly or implicitly on a present value basis.

48. In such cases, a regulatory asset[10] (for example) comes into existence when the entity incurs the allowable expense and recognises the resulting amount payable as a liability in IFRS financial statements. The regulatory agreement does not split the cash payment into an amount of compensation for the expense to be recovered and separate compensation for the time value of money and risks inherent in the cash flows between the allowable expense being incurred and the resulting cash payment.

49. Once the cash is paid, the regulatory agreement treats the item as either an operating item or an RCB item and from that date the interest rate or return rate applicable to the items in that category then applies (paragraph 13).

Exception to the measurement principles

50. The staff recommended in December 2018 that regulatory assets and regulatory liabilities in this (third) category should be measured at the same amount as the ~~underlying~~ related liability or asset.[11] This approach is an exception to the measurement approach used in the model for all other regulatory assets and regulatory liabilities. In the staff's view, this exception:

    (a) would provide ~~the~~ most users with the most relevant and understandable information because it uses the same measurement basis for the ~~underlying~~ related liability or asset and for the regulatory asset or regulatory liability that generates (almost exactly) the same cash flows and is subject to (almost exactly) the same risks;

    ~~(b)~~ is consistent with the discussion of measurement inconsistencies in paragraph 6.58 of the *Conceptual Framework*, and particularly the discussion there of 'cash flows from one asset or liability [that] are directly linked to the cash flows from another asset or liability'; and

[10] For simplicity, the discussion focuses on regulatory assets. Similar considerations apply to regulatory liabilities.

[11] If the regulatory asset is subject to additional risks that do not affect the underlying liability, the measurement of the regulatory asset may need to be adjusted to reflect those additional risks (see paragraph 60 in Agenda Paper 9B for the Board's December 2018 meeting).

(c) is consistent with an exception that already exists in IFRS 3 *Business Combinations* (for indemnification assets).

51. In December 2018, Board members had mixed views about applying this approach, particularly for regulatory assets or regulatory liabilities arising from deferred tax liabilities or deferred tax assets. However, we accept that we had not highlighted this recommendation as an exception to the principles of the model, which was confusing.

52. As stated in paragraph 51, in December 2018 the Board expressed concerns about how the staff's recommendations would apply to particular items such as deferred tax. We understand that those concerns arose from concerns about the measurement of those items, not to the interaction of their measurement with the measurement of regulatory assets and regulatory liabilities. The staff think that measuring these particular regulatory assets and regulatory liabilities on a basis inconsistent with the measurement of the related items would produce information that is less relevant to users and less understandable.

53. We think that the reasons described in paragraph 50 still hold and make a case for the staff asking the Board to reconsider the staff's recommendation for this exception in the light of the refined description of the model and its principles.

54. The staff's recommendation was that entities should measure regulatory assets and regulatory liabilities in this (third) category by:

(a) using the same measurement basis that it uses when measuring the related liability or related asset; and

(b) adjusting the measurement of the regulatory asset or regulatory liability to reflect any risks that are not present in the related items.

Presentation

55. In some cases, changes in the measurement of the regulatory liability or regulatory asset result from changes in the measurement of the related asset/ liability that are presented in other comprehensive income. In November 2018, the staff recommended that the regulatory income/ expense resulting from such changes in

the measurement of the regulatory liability or regulatory asset should also be presented in other comprehensive income.[12] However, the Board tentatively decided to reject that proposal and instead, tentatively decided to present all regulatory income/ expense in profit or loss.

56. As noted in paragraph 56 of Agenda Paper 9A, we plan to ask the Board to consider this issue further in a future meeting. Agenda Paper 9E *Presentation and Disclosure* presented at this meeting addresses this matter.

Question for the Board

Regulatory assets and regulatory liabilities that relate to expenses or income that will be included in/ deducted from the future rate(s) when cash is paid/ received
3. Does the Board agree with the staff's recommendation for the measurement of regulatory assets/regulatory liabilities that relate to expenses or income that will be included in/ deducted from the future rate(s) when cash is paid/ received (paragraph 54)?

[12] Agenda Paper 9C discussed at the November 2018 Board meeting.