



STAFF PAPER

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Project	Rate-regulated Activities	
Paper topic	Plan for redeliberations	
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Objective

1. This paper discusses the plan for redeliberating the proposals in the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#).

Structure of the paper

2. This paper is structured as follows:
 - (a) background (paragraphs 4–5);
 - (b) key messages from the feedback on the Exposure Draft (paragraphs 6–8);
 - (c) plan for redeliberations (paragraphs 9–32); and
 - (d) project timing (paragraphs 33–35).
3. This paper includes the following appendices:
 - (a) Appendix A—Summary of the proposals in the Exposure Draft; and
 - (b) Appendix B—Main matters for the IASB’s consideration.

Background

4. In January 2021 the IASB published the Exposure Draft, which proposes a model to account for regulatory assets and regulatory liabilities. That model aims to

supplement the information that an entity already provides by applying IFRS Standards. The comment period ended on 30 July 2021, with stakeholders sending 128 comment letters. We also conducted outreach meetings with all major stakeholder groups across all regions.

5. The IASB discussed the feedback from comment letters and outreach at its October and November 2021 meetings.

Key messages from the feedback

6. The proposals in the Exposure Draft have been generally well-received by respondents. Most respondents expressed support for the objective of the Exposure Draft to provide relevant information that faithfully represents how regulatory income and regulatory expense affect an entity's financial performance and how regulatory assets and regulatory liabilities affect its financial position.
7. Most respondents agreed with:
 - (a) the proposed definitions of regulatory assets and regulatory liabilities and that they meet the definitions of assets and liabilities in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*;
 - (b) the existence threshold of 'more likely than not' for recognising regulatory assets and regulatory liabilities;
 - (c) the use of a cash-flow-based measurement technique to measure regulatory assets and regulatory liabilities, which would involve estimating uncertain cash flows using the 'most likely amount' method or the 'expected value' method;
 - (d) the use of the regulatory interest rate as the discount rate for a regulatory asset or regulatory liability;
 - (e) the proposal to present all regulatory income minus all regulatory expense, including regulatory interest income and regulatory interest expense, as a separate line item immediately below revenue; and
 - (f) the focus of the proposed overall disclosure objective.

8. However, the following topics raised most concerns amongst respondents:
- (a) total allowed compensation—mainly:
 - (i) returns on assets not yet available for use (paragraph 15);
 - (ii) regulatory assets and regulatory liabilities arising from differences between assets’ regulatory recovery pace and their useful lives (paragraphs 16–17);
 - (b) scope including interaction of the proposals with IFRIC 12 *Service Concession Arrangements*—paragraphs 19–21; and
 - (c) minimum interest rate—paragraph 23.

Plan for deliberations

9. In planning the redeliberations, we have identified workstreams that are related to:
- (a) topics that respondents raised significant concerns about (paragraphs 11–24);
 - (b) topics that were generally well received (paragraphs 25–27); and
 - (c) other topics (paragraphs 28–29).
10. In paragraphs 30–32, we have described how we plan to use the Consultative Group for Rate Regulation during the redeliberations of these workstreams.

Topics that respondents raised significant concerns about

11. We have identified three topics that raised significant concerns:
- (a) total allowed compensation (paragraphs 13–18). In particular, the proposed treatment of returns on assets not yet available for use and some consequences of the proposed guidance on allowable expenses;
 - (b) scope (paragraphs 19–22); and
 - (c) minimum interest rate (paragraphs 23–24).
12. We consider concerns raised about these topics to be significant because:
- (a) they deal with important aspects of the model; and

- (b) the concerns about these topics could, if not addressed, affect the general acceptance or appropriate application of the final Standard.

Total allowed compensation

13. Total allowed compensation plays an important role in:
 - (a) the principle underlying the model—an entity should reflect the total allowed compensation for goods or services supplied as part of its reported financial performance for the period in which those goods or services are supplied.
 - (b) the proposed definitions of regulatory assets and regulatory liabilities.

14. The proposals relating to two aspects of total allowed compensation—returns on an asset not yet available for use (paragraph 15) and the proposals for allowable expenses (paragraphs 16–17)—were not well received by respondents.

15. Most respondents including most users disagreed with reflecting returns on assets not yet available for use in the statement of financial performance when the asset is being used to supply goods or services to customers rather than during the construction phase. According to these respondents, the proposals would:
 - (a) not reflect the economic substance of the regulatory agreements;
 - (b) not result in useful information;
 - (c) be costly to implement; and
 - (d) be inconsistent with US generally accepted accounting principles (GAAP).

16. Many respondents—mainly preparers in Europe and Asia-Oceania subject to allowance-based regulatory schemes—disagreed with the proposed guidance on allowable expenses. These respondents particularly disagreed with the proposed guidance on depreciation expenses when the recovery period of the regulatory capital base differs from the assets’ useful lives.

17. The application of the proposed guidance on depreciation expenses to allowance-based regulatory schemes would lead, according to these respondents, to the recognition of regulatory assets and regulatory liabilities that would:
 - (a) not reflect an entity’s rights and obligations arising from their regulatory agreements;

- (b) neither meet the proposed regulatory asset and regulatory liability definitions in the Exposure Draft nor the asset and liability definitions in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*;
 - (c) not result in useful information; and
 - (d) be costly to account for.
18. We think that the IASB should discuss the concerns raised about total allowed compensation and explore possible approaches to addressing those concerns. Table 1 in Appendix B provides more details on this workstream.

Scope

19. Many respondents commenting on the Exposure Draft said the proposed scope may be broader than intended. These respondents recommended clarifying the scope guidance to minimise the risk the final Standard:
- (a) unintentionally captures a wide range of regulatory agreements, arrangements and activities.
 - (b) is applied inconsistently.
20. According to the feedback, the lack of clarity in the proposed scope is mainly caused by:
- (a) uncertainty about which regulatory agreements, arrangements and activities would be within the scope of the proposals;
 - (b) uncertainty about the interaction between the proposals and IFRS 9 *Financial Instruments*, IFRS 17 *Insurance Contracts* and IFRIC 12; and
 - (c) a lack of clarity about:
 - (i) the proposed definition of ‘regulatory agreement’; and
 - (ii) whether a regulator must exist for a right or obligation to meet the definition of a regulatory asset or regulatory liability.
21. Many respondents asked the IASB to clarify the interaction between the proposals and IFRIC 12. Most respondents commenting on this topic suggested the IASB provide guidance and illustrative examples on how an entity would account for regulatory

assets and regulatory liabilities applying the financial asset, the intangible asset or a hybrid model in IFRIC 12.

22. We think that the IASB should discuss the concerns raised about the scope and seek ways to minimise application challenges once the final Standard is issued. Table 2 in Appendix B provides more details on this workstream.

Minimum interest rate

23. Most respondents did not support the proposal for an entity to use the minimum interest rate as the discount rate when the regulatory interest rate provided for a regulatory asset is insufficient to compensate the entity for the time value of money and for uncertainty. These respondents are concerned the costs to implement the proposal would outweigh any benefits. Some also raised concerns about the asymmetric treatment of regulatory assets and regulatory liabilities. Most of these respondents supported instead using the regulatory interest rate as the discount rate for all regulatory assets and regulatory liabilities in all circumstances.
24. We think the IASB should explore whether and, if so, how to amend the proposals on the use of minimum interest rate. Table 3 in Appendix B provides more details on this workstream.

Topics that were generally well received

25. Many of the exposure draft proposals were generally well received. For these proposals, the staff will consider whether, in light of the feedback any amendments, additional guidance or examples are needed. However, in most cases we expect to ask the IASB to reconfirm its decisions.
26. The main proposals in this category are:
- (a) recognition, unit of account and derecognition;
 - (b) measurement (estimating future cash flows);
 - (c) items affecting regulated rates only when cash is paid or received;
 - (d) the interaction with other IFRS Standards (mainly IAS 12 *Income Taxes*, IAS 36 *Impairment of Assets* and IFRS 3 *Business Combinations*);

- (e) presentation; and
- (f) disclosure.

27. Tables 4–9 in Appendix B provide more details on these topics.

Other topics

28. Other topics that will be discussed in the redeliberations include transition proposals and effective date, effects analysis and due process steps.
29. In relation to the transition proposals, most respondents did not support the proposed requirement to apply the Standard retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. During the redeliberations, we plan to discuss with the IASB whether and, if so, how to address concerns raised by respondents about these proposals.

Consultative Group for Rate Regulation

30. The Rate-regulated Activities project has a [Consultative Group for Rate Regulation](#) (Consultative Group).
31. During the redeliberations, we plan to consult the Consultative Group to better understand the comments received on the Exposure Draft and explore possible alternative approaches on particular topics, including those topics that may give rise to implementation questions.
32. The table below summarises our initial thoughts on the topics that we might want to discuss with the Consultative Group—these topics may change. In some cases, a meeting of the full consultative group may not be required—instead we may be able to deal with the issue by email. We may also consult individual members when, for example, an issue is prevalent in specific jurisdictions or when members have specific expertise.

Topic	Items that may be discussed with the Consultative Group
Total allowed compensation	Alternatives developed by the staff for dealing with the matters described in paragraphs 13–18 of this paper.
Scope	Any amendments to the proposed definitions or new definitions developed by the staff ('regulatory agreement', 'regulated rate', 'rate regulator').
Discount rate	Any changes to the discount rate proposals.
Disclosure	Any changes to the proposed disclosure requirements.

Project timing

33. We aim to start redeliberations with the workstreams that deal with total allowed compensation and scope (paragraphs 11–22). We think these two workstreams could be undertaken simultaneously. Although changes to the total allowed compensation proposals may affect the population of regulatory assets or regulatory liabilities, any such changes would not affect the requirements relating to the scope of the final Standard (ie the conditions that are necessary for regulatory assets or regulatory liabilities to exist).
34. We will consider whether we can start work simultaneously on other workstreams (minimum interest rate and topics that were generally well received, paragraphs 23 and 25–27). Some of these workstreams are interconnected. Consequently, it may be appropriate to consider some topics together to avoid potentially having to revisit decisions on one topic after the related topic is discussed. For example, developing requirements relating to the discount rate to use when the regulatory agreement does not provide a specific rate for a regulatory asset or regulatory liability may have linkages with the proposed requirements for minimum interest and the treatment of uneven regulatory interest rates (Table 3 in Appendix B).
35. We will develop an estimated timeline for the project once we have started work on the main workstreams and we have a better understanding of the complexities involved.

Question for the IASB

Does the IASB agree with proposed plan for redeliberations? Specifically, does the IASB have any comments or suggestions on:

- (a) the classification of the workstreams (paragraphs 9–29);
- (b) prioritising the total allowed compensation and scope workstreams (paragraph 33);
- (c) the main matters for the IASB’s consideration in Appendix B of this paper; and
- (d) the proposed use of the Consultative Group (paragraphs 30–32)?

Appendix A—Summary of the proposals on the Exposure Draft

- A1. The proposed model in the Exposure Draft is based on the principle that an entity should reflect the total allowed compensation for goods or services supplied in a period as part of its reported financial performance for that period. To implement that principle, an entity would recognise in its statement of financial position:
- (a) regulatory assets—enforceable present rights to add an amount in determining future regulated rates because part of the total allowed compensation for goods or services already supplied will be included in revenue in the future; and
 - (b) regulatory liabilities—enforceable present obligations to deduct an amount in determining future regulated rates because the revenue already recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future.
- A2. In the statement(s) of financial performance, an entity would recognise:
- (a) regulatory income to depict the part of the total allowed compensation for goods or services supplied in the current period that was included in revenue in past periods, or will be included in revenue in future periods; and
 - (b) regulatory expense to depict an amount included in revenue in the current period that provides part of the total allowed compensation for goods or services that were supplied in past periods, or will be supplied in future periods.
- A3. The Exposure Draft proposes that regulatory assets and regulatory liabilities are measured at historical cost, modified for subsequent measurement by using a cash-flow-based measurement technique that:
- (a) includes an estimate of all future cash flows arising from the regulatory assets or regulatory liabilities; and
 - (b) discounts those estimated future cash flows to their present value using, in most cases, the regulatory interest rate as the discount rate.
- A4. The information produced by implementing the Exposure Draft, together with the information required by other IFRS Standards, would enable users of financial statements to understand:

- (a) the relationship between an entity's revenue and expenses as completely as would have been possible if the total allowed compensation for the goods or services supplied had been fully reflected in revenue in the period in which the entity supplied those goods or services. That understanding would provide insights into the entity's prospects for future cash flows.
- (b) the entity's regulatory assets and regulatory liabilities. That understanding would provide insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entity's future cash flows.

Appendix B—Main matters for the IASB’s consideration

B1. The tables in this appendix describe the main matters that the IASB will need to consider and/or addressed for each of the workstreams in paragraphs 9–32 of the paper. Tables 1–3 (red headings) relate to the workstreams that raised significant concerns. Tables 4–9 (blue headings) address the remainder of the workstreams (topics that were generally well received).

Workstreams that respondents raised significant concerns about

Table 1—Total allowed compensation		
Item		Expected deliverables
1	Returns on construction work in progress during the construction period	An IASB paper exploring whether and, if so, how to address the concerns raised about the proposed accounting for returns on construction work in progress.
2	Allowance-based regulatory agreements	An IASB paper exploring whether and, if so, how to amend the proposed guidance on total allowed compensation for allowance-based regulatory schemes.
3	Allowable expenses (paragraphs B3–B9 of the Exposure Draft)	An IASB paper exploring whether and if so, how to amend: <ul style="list-style-type: none"> (a) the accounting for regulatory assets and regulatory liabilities arising from differences between the regulatory recovery pace and the assets’ useful lives; and (b) the definition of allowable expenses and tension between the proposed requirements in paragraphs B4 and B15 of the Exposure Draft.
4	Other	Consider: <ul style="list-style-type: none"> (a) whether any changes to the total allowed compensation proposals affect the proposed objective of the Exposure Draft; and

Table 1—Total allowed compensation	
Item	Expected deliverables
	(b) whether to developing guidance or illustrative examples for the final Standard dealing with inflation adjustments reflected either in the regulatory returns or the regulatory capital base.

Table 2—Scope	
Item	Expected deliverables
1	<p>Interaction with IFRS 9 <i>Financial Instruments</i> and IFRS 17 <i>Insurance Contracts</i></p> <p>An IASB paper that would explore:</p> <ul style="list-style-type: none"> (a) whether there exists agreements, or activities within the scope of IFRS 9 and IFRS 17 that may give rise to regulatory assets and regulatory liabilities; (b) how widespread these agreements or activities might be and how material the regulatory assets and regulatory liabilities might be; and (c) whether these agreements or activities should be scoped out of the proposals.
2	<p>Interaction with IFRIC 12 <i>Service Concession Arrangements</i></p> <p>Consider developing illustrative examples for the final Standard on how an entity would account for regulatory assets and regulatory liabilities in service concession arrangements in the scope of IFRIC 12.</p>
3	<p>Role of the ‘regulator’ and ‘regulatory agreement’ and ‘regulated rate’ definitions</p> <p>An IASB paper assessing whether to:</p> <ul style="list-style-type: none"> (a) introduce a definition of ‘regulator’; and (b) amend the definitions of ‘regulatory agreement’ and ‘regulated rate’ to address concerns raised.

Table 2—Scope	
Item	Expected deliverables
	Consider developing guidance or new illustrative examples, for the final Standard, that clarify the application of the definitions to some fact patterns or situations raised by respondents.

Table 3—Discount rate	
Item	Expected deliverables
1	Discount rate An IASB paper exploring whether and, if so, how to amend the proposals on: <ul style="list-style-type: none"> (a) determining the discount rate when the regulatory agreement does not stipulate a regulatory interest rate; (b) minimum interest rate; and (c) uneven regulatory interest rates.
2	Exemption from discounting An IASB paper exploring whether to provide an exemption from discounting, similar to that in IFRS 16 <i>Leases</i> or to the practical expedient in IFRS 15 <i>Revenue from Contracts with Customers</i> .

Workstreams that deal with topics that were generally well received

Table 4—Recognition, unit of account and derecognition		
Item		Expected deliverables
1	The ‘more likely than not’ threshold and recognition requirements when there is significant outcome or measurement uncertainty	An IASB paper: <ul style="list-style-type: none"> (a) exploring whether any changes are needed on the facts and circumstances to consider when assessing the existence of enforceable rights and enforceable obligations (paragraph 27 of the Exposure Draft); and (b) assessing the need for a higher threshold for recognition, particularly for performance incentives that test an entity’s performance across multiple reporting periods.
2	Unit of account	An IASB paper following up concerns on the unit of account, including interaction between offsetting and the unit of account.
3	Derecognition	An IASB paper exploring whether to provide guidance on the derecognition of regulatory assets and regulatory liabilities.

Table 5—Measurement (estimating future cash flows)		
Item		Expected deliverables
1	Boundary of a regulatory agreement	An IASB paper considering clarifications relating to the boundary.

Table 5—Measurement (estimating future cash flows)		
Item		Expected deliverables
2	Outcome and measurement uncertainty	An IASB paper reconsidering 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.

Table 6—Items affecting regulated rates only when cash is paid or received		
Item		Expected deliverables
1	Applicability of the measurement proposals (paragraphs 59–66 of the Exposure Draft)	<p>An IASB paper considering:</p> <ul style="list-style-type: none"> (a) whether and, if so, how the proposals would apply when items of expense or income are treated as allowable or chargeable using a criterion other than cash basis. (b) the interaction of these proposals with the guidance on the boundary. <p>Consider developing illustrative examples for the final Standard to address regulatory assets or regulatory liabilities related to items such as current and deferred income taxes and post-employment benefits.</p>
2	Presentation proposals (paragraph 69 of the Exposure Draft)	An IASB paper considering whether the presentation proposals in paragraph 69 of the Exposure should be extended for cases when items are treated as allowable or chargeable using a criterion other than cash basis.

Table 6—Items affecting regulated rates only when cash is paid or received	
Item	Expected deliverables
	Consider developing guidance for inclusion in the final Standard that clarifies whether and how the cumulative amount of regulatory income or regulatory expense presented in other comprehensive income should be reclassified to profit or loss.

Table 7—Interaction with other IFRS Standards, including amendments to other IFRS Standards	
Item	Expected deliverables
1	Review interactions with other IFRS Standards An IASB paper following up concerns and providing related recommendations on the interaction with other IFRS Standards—mainly IAS 12 <i>Income Taxes</i> and IAS 36 <i>Impairment of Assets</i> .

Table 8—Presentation	
Item	Expected deliverables
1	Classifying all regulatory income minus all regulatory expense as revenue An IASB paper considering whether to permit entities to classify all regulatory income minus all regulatory expense as revenue.
2	Offsetting An IASB paper considering whether and, if so, how to address concerns about the clarity of the proposed conditions for offsetting and their interaction with the unit of account.

Table 9—Disclosure		
Item		Expected deliverables
1	Overall objective	An IASB paper considering whether to develop a broader overall disclosure objective.
2	Proposed disclosure requirements	An IASB paper following up on concerns about the appropriate level of aggregation and disaggregation of the information to be disclosed and on some proposed disclosure requirements.