IFRS® Foundation

Regulatory Assets and Regulatory Liabilities

Global Preparers Forum

Agenda paper 4

12 March 2021

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Agenda

- Purpose of the meeting and background information
- Objective of the proposals
- Planned outreach with preparers
- Next steps and useful information

Purpose and background

Purpose of this session

Provide you with a **brief introduction** to Exposure Draft *Regulatory Assets and Regulatory Liabilities* that you could use as a basis to help us identify stakeholders in your jurisdiction that may have an interest in the proposals.

Background information

- **Exposure Draft *Regulatory Assets and Regulatory Liabilities*** published in January 2021 with comment period ending 30 June 2021.
- Proposals would affect entities subject to **rate regulation** that causes **differences in timing** between the period a company can charge customers compensation for goods or services and the period when the company supplies those goods or services.
- That type of rate regulation is common in, for example, the **utilities** and **public transport** industries.
- Jurisdictions expected to be affected by the proposals are **Canada, Brazil, Japan, Korea, Israel, the UK, Italy, Spain and France**.
- If finalised as a new IFRS Standard, the proposals would replace **IFRS 14 *Regulatory Deferral Accounts***.

Objective of the proposals

Why are we doing this project?

A regulatory agreement establishes

HOW MUCH a company can charge for supplying goods or services to customers—the ED calls this '**Total allowed compensation'**

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WHEN the company can charge that compensation to customers through the rates

Generally in the same period as the supply of goods or services

If in a **different** period than the period of supply—a **difference in timing** arises

Difference in timing makes it difficult for users to understand the relationship between revenue and expenses

Differences in timing—an illustration

- Company A charges a regulated rate for goods supplied in 20X1 that has been set based on estimated input costs of CU100. Actual input costs for 20X1 were CU120. Estimated and actual input costs for 20X2 were CU100.
- Company A has a right given by the regulatory agreement to add the under-recovery of CU20 of input costs incurred in 20X1 in the regulated rate for goods to be supplied in 20X2.

Company A's Statement of profit or loss would include the following amounts:

	20X1 CU	**20X2 CU**
Revenue	100	120
Input costs	(120)	(100)
Profit (loss)	**(20)**	**20**

In the absence of information about the difference in timing of CU20, investors would not understand:

– revenue in 20X1 does not include compensation of CU20 that relates to goods supplied in that year; and

– revenue in 20X2 includes compensation of CU20 that relates to goods supplied in 20X1.

Differences in timing—Board’s proposals

Problem	Without information about **differences in timing**, investors have an **insufficient basis** for understanding their effects on a company’s **financial performance, financial position and prospects for future cash flows**.
Proposals	A company should report **regulatory income** and **regulatory expense** in its income statement, and **regulatory assets** and **regulatory liabilities** in its balance sheet. That information would supplement the information that companies already provide by applying IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers*.
Principle	A company should **reflect compensation* for goods or services supplied** as part of its reported financial performance **for the period in which it supplies those goods or services**.

*The Exposure Draft calls this compensation ‘total allowed compensation’ and defines it as:
The full amount of compensation for goods or services supplied that a regulatory agreement entitles an entity to charge customers through the regulated rates, in either the period when the entity supplies those goods or services or a different period.

How would the proposals solve the problem?

Statement of profit or loss	20X1 CU	20X2 CU
Revenue	100	120
Regulatory income minus regulatory expense	**20**	**(20)**
Input costs	(120)	(100)
Profit (loss)	**-**	**-**

- **Regulatory income of CU20 in 20X1** to reflect compensation for goods supplied in Year 1.
- **Regulatory expense of CU20 in 20X2** to reflect amounts in regulated rates charged, and hence in revenue, in year 20X2, that relates to compensation for goods supplied in 20X1.

Balance sheet		
Regulatory asset	**20**	**-**

- **Regulatory asset of CU20 in 20X1** to reflect Company A's right to increase regulated rates in 20X2.
- **Derecognise regulatory asset in 20X2** when it increases the regulated rates to recover the input costs under-recovered in 20X1.

The information about regulatory income and regulatory expense would – in this case – provide investors with a basis for understanding that Company A's financial performance did not change from Year 1 to Year 2.

Planned outreach with preparers

Planned outreach with preparers

- Target groups of preparers—generalist and industry specific
- Reach out individual preparers—through events with national standard-setters, accounting firms and preparers within our Consultative Group for Rate Regulation

Preparers within Consultative Group for Rate Regulation	Country
Ayalon Proyects	Israel
Companhia Energética de Minas Gerais (Cemig)	Brazil
Ferrovial SA	Spain
National Grid	USA
Korea Gas Corporation (KOGAS)	Korea
CLP Power Hong Kong Limited	Hong Kong

Next steps and useful information

Next steps and how you can help

January 2021

Publication of the Exposure Draft

February 2021–June 2021
(Comments due 30 June 2021)

Comment period and outreach

Q3 2021

Exposure Draft Feedback

How can you help?

- Spread the word
- Share academic evidence
- Submit a comment letter

Useful resources

For more information, please refer to the following materials on the IFRS Foundation's website:

- Debrief: Video on Exposure Draft *Regulatory Assets and Regulatory Liabilities*
- Exposure Draft: *Regulatory Assets and Regulatory Liabilities*
- Illustrative Examples: *Regulatory Assets and Regulatory Liabilities*: Illustrative Examples
- Snapshot: Exposure Draft *Regulatory Assets and Regulatory Liabilities*

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