IFRS

STAFF PAPER

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Project	**Rate-regulated Activities**
Paper topic	Feedback summary—Presentation

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Objective

1. This paper analyses the feedback from comment letters and outreach events on:

   (a) the proposed presentation requirements, set out in paragraphs 67–68 and 70–71 of the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Question 8 of the Invitation to Comment); and

   (b) the proposed amendments to IAS 1 *Presentation of Financial Statements* set out in Appendix D to the Exposure Draft (Question 11(b) of the Invitation to Comment).

2. Paragraphs BC178–BC182 and BC264 of the Basis for Conclusions on the Exposure Draft describe the reasoning behind the Board's proposals.

3. The Board discussed the feedback on paragraph 69 of the Exposure Draft at its October 2021 meeting.[1]

[1] Paragraph 69 of the Exposure Draft proposes that, in limited circumstances, an entity should present some regulatory income or regulatory expense in other comprehensive income.

Key messages

4. Most respondents agreed with the proposals 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.

5. Some respondents suggested the Board permit, or instead require, an entity to classify all regulatory income minus all regulatory expense as revenue.

6. A few respondents said that regulatory interest income and regulatory interest expense should be included within finance income and finance expenses, respectively.

7. Although the Board did not ask an explicit question on the proposal to present line items for regulatory assets and regulatory liabilities in the statement of financial position, a few respondents explicitly agreed with the proposal. A few respondents disagreed with, or raised questions about, the proposed conditions for offsetting regulatory assets and regulatory liabilities.

8. At its October 2021 meeting, the Board discussed the feedback from outreach events with users of financial statements. All respondents who commented agreed with the proposed presentation requirements. See paragraphs 39 of Agenda Paper 9 Feedback summary—Overview of that meeting.

Structure of the paper

9. The feedback summary is structured as follows:

   (a) presentation of regulatory income and regulatory expense in the statement(s) of financial performance (Questions 8(a)–(b)) (paragraphs 10–22);

   (b) presentation of regulatory assets and regulatory liabilities in the statement of financial position (paragraphs 23–27); and

   (c) proposed amendments to IAS 1 (Question 11(b)) (paragraphs 28–33).

Presentation of regulatory income and regulatory expense in the statement(s) of financial performance (Questions 8(a)–(b))

Proposed requirements

10. Paragraphs 67–68 of the Exposure Draft propose that:

    (a) an entity presents in the statement(s) of financial performance all regulatory income minus all regulatory expense in a separate line item immediately below revenue, except in limited circumstances;[2] and

    (b) regulatory income includes regulatory interest income and regulatory expense includes regulatory interest expense.

Comment letter and outreach feedback

11. The Board asked stakeholders whether they agree with the proposals, and if not, what approach should be used.

12. The feedback summary is structured as follows:

    (a) presenting all regulatory income minus all regulatory expense as a separate line item immediately below revenue (paragraphs 13–19); and

    (b) including regulatory interest income and regulatory interest expense within the line item immediately below revenue (paragraphs 20–22).

Presenting all regulatory income minus all regulatory expense as a separate line item immediately below revenue

13. Most respondents agreed with the proposal for the reasons explained in the Basis for Conclusions.

14. A few respondents—an accounting firm and national standard-setters in North America and Europe—suggested the Board define or describe the line item 'all regulatory income minus all regulatory expense'. A few respondents said that the proposed description of the changes in regulatory assets and regulatory liabilities is

[2] Paragraph 69 of the Exposure Draft proposes that, in limited circumstances, an entity should present some regulatory income or regulatory expense in other comprehensive income.

not intuitive and may lead users of financial statements to believe that the line item represents all income generated from, and all expenses incurred in, the rate-regulated activities of the entity.

15. A preparer and a national standard-setter from Europe suggested the Board clarify that an entity need not present all regulatory income minus all regulatory expense separately if the entity's regulatory assets and regulatory liabilities are not significant to the entity's business.

16. Some respondents suggested the Board permit, or instead require, an entity to classify all regulatory income minus all regulatory expense as revenue. These respondents include a few preparers from North America and Europe, and almost all respondents from Latin America. These respondents further suggested the Board permit the entity to either:

    (a) present that amount in a separate line item immediately below revenue, draw a subtotal of revenue and all regulatory income minus all regulatory expense, and describe that subtotal as 'total revenue'; or

    (b) include that amount within the revenue line item and disclose in the notes a disaggregation of revenue into revenue from contracts with customers, all regulatory income minus all regulatory expense, and other revenue.

17. These respondents, who supported classifying all regulatory income minus all regulatory expense as revenue, said that the notion of revenue in the statement(s) of financial performance is broader than revenue from contracts with customers, and that regulatory income and regulatory expense:

    (a) are the same as revenue because the regulatory agreement that gives rise to regulatory income and regulatory expense also affects revenue from contracts with customers through the regulated rates charged to customers; and

    (b) arise in the course of an entity's ordinary activities, as does revenue from contracts with customers.

18. A few preparers from North America disagreed with the proposal and suggested the Board require an entity to include:

(a) regulatory income or regulatory expense associated with an allowable expense or chargeable income in the line item in which that allowable expense or chargeable income is presented; and

(b) all other regulatory income and regulatory expense in the revenue line item.

19. A national standard-setter from Asia-Oceania disagreed with the proposal and suggested the Board require an entity to present:

(a) the changes in the carrying amount of regulatory assets immediately below cost of goods sold. In their view, a regulatory asset typically arises when an entity's cost of goods sold exceeds the amount included in determining the regulated rates for the goods or services supplied.

(b) the changes in the carrying amount of regulatory liabilities immediately below revenue. In their view, a regulatory liability typically arises when an entity's revenue exceeds the amount of compensation the entity is allowed to charge for the goods or services supplied.

Including regulatory interest income and regulatory interest expense within the line item immediately below revenue

20. Most respondents agreed with the proposal for the reasons explained in the Basis for Conclusions. A few respondents added that regulatory interest income and regulatory interest expense differ from finance income and finance expense because the regulatory interest rate may provide compensation designed to fulfil broader regulatory objectives, such as to ensure an entity's financial viability.

21. Almost all respondents from Latin America and a few other respondents disagreed with the proposal. These respondents said, to be consistent with the presentation of the unwinding of a discount on other assets and liabilities, regulatory interest income and regulatory interest expense should also be presented within finance income and finance expenses, respectively.

22. A few respondents, mainly accounting firms, suggested the Board consider the interaction of the proposal with its work on the *Primary Financial Statements* project.

Presentation of regulatory assets and regulatory liabilities in the statement of financial position

Proposed requirements

23. Paragraphs 70–71 of the Exposure Draft propose that an entity:

    (a) should present line items for regulatory assets and regulatory liabilities in the statement of financial position; and

    (b) is permitted to offset regulatory assets and regulatory liabilities that form separate units of account only if the entity:

        (i) has a legally enforceable right to offset those regulatory assets and regulatory liabilities by including them in the same regulated rate; and

        (ii) expects to include the amounts resulting from the recovery or fulfilment of those regulatory assets and regulatory liabilities in the same regulated rate for goods or services supplied in the same future period.

Comment letter and outreach feedback

24. The Board did not ask an explicit question on the proposal.

25. Nevertheless, a few respondents—mainly accounting firms and a preparer from Europe—explicitly agreed that regulatory assets and regulatory liabilities should be presented as separate line items in the statement of financial position.

26. In relation to offsetting regulatory assets and regulatory liabilities that form separate units of account, a few respondents suggested the Board either:

    (a) require offsetting without any conditions;

    (b) require the first proposed condition for offsetting (paragraph 23(b)(i)) and remove the second proposed condition (paragraph 23(b)(ii)) ; or

(c) permit offsetting based on conditions similar to those specified in IAS 12 *Income Taxes* or IAS 32 *Financial Instruments: Presentation*.[3]

27. A European national standard-setter said it is unclear how the proposed conditions for offsetting regulatory assets and regulatory liabilities would interact with the proposed requirements for determining the unit of account set out in paragraph 24 of the Exposure Draft:

> An entity shall account for the right or obligation arising from each individual difference in timing…as a separate unit of account. However, if rights, obligations, or rights and obligations arising from the same regulatory agreement have *similar expiry patterns* and are subject to similar risks, they may be treated as arising from the same individual difference in timing. [emphasis added]

Proposed amendments to IAS 1 (Question 11(b))

Proposed requirements

28. The Board proposed amending IAS 1 to require entities to present separate line items for regulatory assets and regulatory liabilities in the statement of financial position, and for regulatory income or regulatory expense in the statement(s) of financial performance.

29. In the Board's view, separate line items are necessary:

(a) for regulatory assets and regulatory liabilities, because their characteristics differ from those of other assets and liabilities; and

[3] Paragraph 71 of IAS 12 requires an entity to offset current tax assets and current tax liabilities if, and only if, the entity:

(a) has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Paragraph 42 of IAS 32 requires an entity to offset a financial asset and a financial liability and present the net amount in the statement of financial position when, and only when, the entity:

(a) currently has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(b) for regulatory income or regulatory expense, because this would enable users of financial statements to understand how the entity's financial performance was affected by the supply of goods or services in one period and by the inclusion of part of the total allowed compensation for supplying those goods or services in the regulated rates charged to customers, and hence in revenue, in a different period.

Comment letter and outreach feedback

30. The Board asked stakeholders to comment on the proposed amendments.

31. An accounting firm and a preparer from North America suggested the Board provide guidance on how the proposed presentation requirements in the Exposure Draft interact with the general requirements in IAS 1 on aggregation and disaggregation of line items.

32. An accounting firm, a national standard-setter from Asia-Oceania and a preparer from North America suggested the Board provide guidance on applying paragraph 69(d) of IAS 1 to classify a regulatory liability as current or non-current. Paragraph 69(d) of IAS 1 (effective for annual reporting periods beginning on or after 1 January 2023) requires an entity to classify a liability as current when the entity does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. These respondents said the timing of fulfilling a regulatory liability is generally outside the control of the entity.

33. An accounting firm and a national standard-setter from North America suggested the Board include in IAS 7 *Statement of Cash Flows* guidance on how an entity should consider its regulatory assets, regulatory liabilities, regulatory income and regulatory expense in its statement of cash flows. The accounting firm suggested the Board include in IAS 7 the explanation in paragraph BC223 of the Basis for Conclusions on the Exposure Draft, which states that:

> An entity recovers regulatory assets or fulfils regulatory liabilities indirectly by increasing or decreasing regulated rates charged to customers, not directly by receiving or paying cash. Consequently, the proposals would not affect the cash flows that

an entity reports in the statement of cash flows. If the entity uses the indirect method for reporting cash flows from operating activities, the entity would determine their amount by deducting regulatory income from, or adding regulatory expense to, profit or loss for the period.

Question for the Board
Does the Board have any questions or comments on the feedback discussed in this paper? Specifically: a. Is there any feedback that is unclear? b. Are there any points you think the Board did not consider in developing the Exposure Draft but should consider in the re-deliberations? c. Are there any points you would like staff to research further for the re-deliberations?