

Project	Rate-regulated Activities	
Paper topic	Feedback summary—Disclosure	
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## Objective

1. This paper analyses the feedback from comment letters and outreach events on the proposed disclosure requirements, set out in paragraphs 72–85 of the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (Question 9 of the Invitation to Comment).

## Key messages

2. Most respondents who commented agreed with the focus of the proposed overall disclosure objective on information about an entity’s regulatory income, regulatory expense, regulatory assets and regulatory liabilities.
3. However, some respondents across all jurisdictions and across stakeholder types suggested the Board develop a broader overall objective of providing users of financial statements with information about the nature of the regulatory agreement, the risks associated with it and its effects on an entity’s financial performance, financial position or cash flows. These respondents also suggested some pieces of information that the Board may consider requiring entities to disclose.
4. Some respondents across all stakeholder types explicitly agreed with the proposed specific disclosure objectives and the disclosure requirements.

5. A few respondents said that the Board’s redeliberation of the disclosure proposals should be informed by its decisions on the project *Disclosure Initiative—Targeted Standards-level Review of Disclosures*.
6. Some respondents raised concerns that the cost of providing the following information could outweigh the benefits to the users of financial statements:
  - (a) the components of regulatory income or regulatory expense; and
  - (b) the expected timing of recovery of regulatory assets and fulfilment of regulatory liabilities.
7. A few respondents across stakeholder types suggested the Board explicitly require an entity to disclose significant judgments made in applying specified proposed requirements.
8. A few respondents raised concerns about, or asked for further guidance on, determining the appropriate level of aggregation and disaggregation for some disclosures that require significant judgements.
9. At its October 2021 meeting, the Board discussed the feedback from outreach events with, and a comment letter received from, users of financial statements. All the users of financial statements who commented agreed with the proposed overall and specific disclosure objectives and the proposed disclosure requirements. See Appendix for an extract of paragraphs 40–41 of [Agenda Paper 9 Feedback summary—Overview](#) of that meeting.

### **Structure of the paper**

10. The feedback summary is structured as follows:
  - (a) Questions 9(a)–(b)—Overall disclosure objective (paragraphs 11–21);
  - (b) Question 9(c)—Specific disclosure objectives and disclosure requirements (paragraphs 22–48);
  - (c) Question 9(d)—Assessing sufficiency of disclosed information (paragraphs 49–50); and
  - (d) Appendix—Feedback from users of financial statements.

## Questions 9(a)–(b)—Overall disclosure objective

### *Proposed requirements*

11. Paragraph 72 of the Exposure Draft proposes that:

The overall objective of the requirements in paragraphs 74–85 is for an entity to disclose in the notes information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities. This information, together with all other information provided in the financial statements, shall 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 will provide insights into the entity's prospects for future cash flows.
- (b) the entity's regulatory assets and regulatory liabilities at the end of the reporting period. That understanding will provide insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entity's future cash flows.

12. The objective focuses on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities, for reasons explained in paragraphs BC187–BC202 of the [Basis for Conclusions](#) on the Exposure Draft.

13. The Board did not propose a broader objective of providing users of financial statements with information about the nature of the regulatory agreement, the risks associated with it and its effects on an entity's financial performance, financial position or cash flows.

**Comment letter and outreach feedback**

14. The Board asked stakeholders whether they agree that the overall disclosure objective should focus on information about an entity's regulatory income, regulatory expense, regulatory assets, and regulatory liabilities.
15. Most respondents who commented agreed with the focus of the proposed overall disclosure objective for the reasons explained in the Basis for Conclusions.
16. However, some respondents across all jurisdictions and across stakeholder types (accounting firms, national standard-setters and preparers) disagreed with the Board's reason for not proposing a broader objective, and suggested the Board develop an objective of providing users of financial statements with information about the nature of the regulatory agreement, the risks associated with it and its effects on an entity's financial performance, financial position or cash flows.
17. A national standard-setter and a preparer from Europe said that the objective as drafted seems to focus excessively on the mechanics of the proposed accounting model, and the resulting disclosure of granular information, especially the components of regulatory income and regulatory expense, may not provide insights into an entity's current and future financial performance.
18. An accountancy body and a national standard-setter from Africa supported providing only qualitative information about specified aspects of the regulatory agreement and their impact on an entity's financial performance and financial position. These respondents supported a disclosure-only approach because they disagreed with some aspects of the proposed accounting model or were not convinced that regulatory assets and regulatory liabilities meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting*, and therefore, should be recognised.
19. A national standard-setter in Europe said that the overall disclosure objective should focus on both recognised and unrecognised regulatory assets and regulatory liabilities. A national standard-setter from North America said that the proposed overall disclosure objective would not capture information about an entity's right to accumulate regulatory returns on assets not yet available for use. Although such a right is not a regulatory asset applying the Exposure Draft users of financial statements would like this information disclosed.

20. An accounting firm said that the overall disclosure objective should focus on the rate adjustment mechanism and the relationship between (a) an entity's revenue and expenses reported for a period; and (b) the total allowed compensation for goods or services supplied in that period.
21. An accounting firm said that the proposed overall disclosure objective is generic and suggested the Board develop an overall objective that focuses on how an entity's revenue recognised applying IFRS Standards is impacted by a regulatory agreement. That respondent also said that many entities already disclose information about the nature of regulatory agreements and their effect on financial position, financial performance, and the cash flows because such information is critical to understanding the business and regulatory accounting. A broader overall disclosure objective will allow entities to continue an existing best practice.

### **Question 9(c)—Specific disclosure objectives and disclosure requirements**

#### ***Proposed requirements***

22. Paragraphs 77–83 of the Exposure Draft set out the Board's proposals for specific disclosure objectives and disclosure requirements. The Exposure Draft proposes three specific disclosure objectives that require an entity to disclose information that enables users of financial statements to understand:
  - (a) how the entity's financial performance was affected because part of the total allowed compensation for the goods or services supplied in one period was (or will be) included in determining the regulated rates, and hence included in revenue, for goods or services supplied in a different period (paragraph 77 of the Exposure Draft).
  - (b) the entity's regulatory assets and regulatory liabilities at the end of the reporting period. That understanding will provide insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entity's future cash flows (paragraph 79 of the Exposure Draft).

- (c) any changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense (paragraph 82 of the Exposure Draft).
23. To achieve the specific disclosure objective in paragraph 77, paragraph 78 of the Exposure Draft proposes that an entity should disclose in the notes the following components of regulatory income or regulatory expense included in profit or loss:
- (a) the amounts that arise from recognising and recovering regulatory assets and from initially recognising and fulfilling regulatory liabilities during the current period;
  - (b) regulatory interest income and regulatory interest expense;
  - (c) changes in the carrying amount of regulatory assets or regulatory liabilities caused by a change in the boundary of a regulatory agreement, and the reasons for that change; and
  - (d) remeasurements of regulatory assets and regulatory liabilities, and the reasons for the remeasurements.
24. To achieve the specific disclosure objective in paragraph 79, paragraphs 80–81 of the Exposure Draft proposes that an entity should disclose in the notes:
- (a) quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities, and whether the amounts disclosed are undiscounted or discounted;
  - (b) the discount rate(s) used in measuring regulatory assets and regulatory liabilities at the end of the reporting period, and if the discount rate for a regulatory asset is the minimum interest rate, the regulatory interest rate provided by the regulatory agreement; and
  - (c) an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.
25. To achieve the specific disclosure objective in paragraph 82, paragraph 83 of the Exposure Draft proposes that an entity should disclose in the notes a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.

**Comment letter and outreach feedback**

26. The Board asked stakeholders whether they have any comments on the proposals, whether any other disclosures should be required, and how those other disclosures would help an entity better meet the proposed disclosure objectives.
27. The feedback summary is structured as follows:
  - (a) general comments (paragraphs 28–36);
  - (b) components of regulatory income or regulatory expense (paragraph 37);
  - (c) quantitative information about expected recovery of regulatory assets and fulfilment of regulatory liabilities (paragraphs 38–39);
  - (d) discount rate (paragraph 40);
  - (e) risks and uncertainties (paragraph 41);
  - (f) reconciliation (paragraph 42); and
  - (g) other comments and suggested disclosure (paragraphs 43–48).

**General comments**

28. Some respondents across all stakeholder types explicitly agreed with the proposed specific disclosure objectives and the disclosure requirements.
29. A few accounting firms and standard-setters in Europe suggested the Board's redeliberation of the disclosure proposals should be informed by its decisions on the project *Disclosure Initiative—Targeted Standards-level Review of Disclosures*. For example, instead of specifying mandatory disclosure requirements, the Standard should provide examples of what an entity may disclose to meet the specific disclosure objectives.
30. A European standard-setter said that users of financial statements considered the disclosure of the components of regulatory income or regulatory expense and the reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities to be more important than the other information proposed in the Exposure Draft.

31. A few respondents—mainly preparers across jurisdictions—commented that the proposed disclosure requirements may not provide benefits that outweigh the associated costs. For example:
- (a) the way items of income or expense are accounted for applying IFRS Standards may be different from the way those items are treated applying the regulatory requirements. Recognising and measuring regulatory assets and regulatory liabilities based on items of income or expense accounted for applying IFRS Standards may result in information that does not reflect the economic substance of regulatory agreements. Users of financial statements may not fully understand that the information disclosed may not reflect adjustments to future regulated rates. As a result, entities may need to provide alternative performance measures to explain the impact of those differences.
  - (b) the rate-regulatory environment and mechanisms differ across jurisdictions and industries. Information would not be comparable across entities unless disclosed at a granular level separately for each dissimilar rate-regulatory environment and mechanism.
32. A few respondents, mainly preparers from Europe and North America, suggested the Board provide further guidance on aggregation or disaggregation of disclosures clarifying:
- (a) whether information should be disclosed at the level of individual regulatory agreements, or aggregated for regulatory agreements subject to the same regulatory framework or at a higher level; and
  - (b) the appropriate level of detail for certain disclosures, such as the range of discount rates used in measuring regulatory assets and regulatory liabilities (and if different, the regulatory interest rates), and the explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.
33. A few preparers from Latin America suggested the Board simplify the proposals to require an entity to explain the rate adjustment mechanism and to disclose the adjustments made in determining the regulated rates charged in the reporting period.

34. A few preparers and standard-setters from Asia-Oceania and Europe, along with a preparer-representative body in Asia-Oceania, said that the disclosure of significant judgements and estimates made in relation to some regulatory assets or regulatory liabilities, such as those relating to performance incentives, may reveal commercially sensitive information that impacts future negotiations with regulators. A national standard-setter in Asia-Oceania added that there may be legal restrictions prohibiting the disclosure of some information. A European preparer suggested the Board provide relief in line with the relief in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which states that:

In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

35. A few respondents across stakeholder types suggested the Board explicitly require an entity to disclose significant judgments made in applying the following proposed requirements:
- (a) the scope of the accounting model;
  - (b) the unit of account;
  - (c) the ‘more likely than not’ assessment for recognising regulatory assets and regulatory liabilities;
  - (d) the boundary of a regulatory agreement and its impact on the measurement of regulatory assets and regulatory liabilities;
  - (e) the estimation of uncertain cash flows using whichever of two methods—the ‘most likely amount’ method or ‘expected value’ method—better predicts the cash flows, and the assessment of whether a better prediction resulted from considering each regulatory asset and each regulatory liability separately, or

from considering any of them together with other regulatory assets or regulatory liabilities; and

- (f) the indicators that the regulatory interest rate for a regulatory asset may be insufficient and the estimation of the minimum interest rate.

36. A few respondents, mainly accounting firms, preparers from Asia-Oceania and Europe, and national standard-setters from Asia-Oceania, suggested the Board provide illustrative examples on the application of the proposed disclosure objectives and requirements.

#### *Components of regulatory income or regulatory expense*

37. Some respondents—mainly preparers from Europe, Latin America and North America, and a few national standard-setters in Asia-Oceania and Europe—expressed concerns about disclosing the components of regulatory income or regulatory expense (paragraph 78 of the Exposure Draft). These respondents said:

- (a) the proposal imposes a significant burden on preparers. A regulator typically does not require information at that level of granularity. Consequently, an entity may have to incur undue costs to develop the data and systems to provide such information. A few respondents suggested the Board permit an entity to aggregate some components of regulatory income or regulatory expense that are currently not separately disclosed in regulatory reports.
- (b) tracking of changes at a component-level in regulatory assets and regulatory liabilities, such as those associated with differences between the regulatory capital base and the carrying amount of property, plant and equipment, over a potentially long period imposes a significant burden on preparers.<sup>1</sup>

#### *Quantitative information about expected recovery of regulatory assets and fulfilment of regulatory liabilities*

38. A few respondents, mainly preparers across jurisdictions, suggested the Board permit an entity to disclose qualitative information about when and how it expects to recover regulatory assets and fulfil regulatory liabilities. Permitting qualitative information

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<sup>1</sup> See [Agenda Paper 9C Feedback summary—Total allowed compensation](#) of October 2021 Board meeting.

would be in line with paragraph 120(b) of IFRS 15 *Revenue from Contracts with Customers* that allows an entity to use qualitative information to explain when the entity expects to recognise as revenue the amount of the transaction price allocated to the remaining performance obligations. These respondents also said that disclosing quantitative information would be costly because determining the time bands and the amounts to be disclosed would require significant judgement. For example, the amount or timing of recovery or fulfilment may be subject to approval by the regulator, or the fulfilment pattern of a regulatory liability may be indeterminate. It is unclear if the proposal as drafted would allow an entity to explain that the amount and period of recovery or fulfilment is unknown.

39. A European preparer suggested the Board allow an entity to disclose cash flows that are expected to arise beyond the boundary of a regulatory agreement. Another European preparer suggested the Board delete the example in paragraph 81(b) of the Exposure Draft specifying the time bands that an entity might determine as appropriate. That respondent said that such examples may become reference points in practice leading to less useful information.

#### *Discount rate*

40. A few respondents, mainly preparers across jurisdictions, said:
- (a) separate disclosure of regulatory interest income and regulatory interest expense may have little practical benefit, particularly for entities that operate under several regulatory agreements and apply different regulatory interest rates to measure different regulatory assets and regulatory liabilities.
  - (b) a regulatory agreement may specify that an entity is not entitled to regulatory interest on a few regulatory assets. In such cases, a disclosure that the interest rate is zero for a minority of regulatory assets may not provide useful information, particularly if the regulatory interest rate on other assets is designed to be sufficient to compensate for the time value of money and for uncertainty in the future cash flows arising from all regulatory assets.

*Risks and uncertainties*

41. A European preparer suggested the Board provide guidance or examples on what information an entity should disclose about risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities. In some well-established rate-regulatory schemes, there may not be significant risks and uncertainties affecting the recovery of regulatory assets, even if those regulatory assets are yet to be approved by the regulator.

*Reconciliation*

42. A few respondents, mainly a preparer and standard-setters from Europe, suggested the Board provide examples of, and require an entity to provide an explanation—qualitative and quantitative information—of, the significant changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense. Such a requirement would be in line with paragraph 118 of IFRS 15 that requires an entity to provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.

*Other comments and suggested disclosure*

43. A European preparer suggested the Board allow an entity not to duplicate information that is already disclosed in publicly-available regulatory reports, and to incorporate that information by cross-reference from the financial statements to those regulatory reports.
44. A national-standard-setter from Asia-Oceania suggested the Board clarify whether an entity should apply the disclosure requirements in IAS 37 for contingent assets and contingent liabilities to regulatory assets and regulatory liabilities that do not meet the recognition threshold and hence are not recognised.
45. A European securities regulator suggested the Board require an entity to disclose the amounts it might not be able to collect, and therefore, deducted in estimating the cash flows (see paragraph 38(b) of the Exposure Draft).
46. An accounting firm suggested the Board develop disclosure requirements to provide insights into situations in which the ‘more likely than not’ recognition threshold is barely met, and an entity uses the ‘most likely amount’ method in estimating the

uncertain cash flows. The resolution of the uncertainty could potentially lead to significant changes in estimates.

47. In relation to the boundary of a regulatory agreement, a few respondents suggested the Board require disclosure of how the boundary of a regulatory agreement affected the recognition or measurement of regulatory assets and regulatory liabilities. For example, if a regulatory asset or regulatory liability is not recognised because the future date at which an entity has a right to increase or obligation to decrease the regulated rates falls outside the boundary of a regulatory agreement, users of financial statements would like disclosure of that fact and of the likelihood of that right or obligation falling within the boundary of the regulatory agreement.
48. Some respondents across jurisdictions and stakeholder types who supported a broader overall disclosure objective as described in paragraph 16 suggested the Board require an entity to disclose:
  - (a) a description of the rate-regulatory environment;
  - (b) information about the legal form and length of the regulatory agreement, and the exit provisions in the regulatory agreement;
  - (c) the basis for determining the regulated rates charged to customers; and
  - (d) the identity of the regulator, and if the regulator is a related party, how the entity and the regulator are related.

#### **Question 9(d)—Assessing sufficiency of disclosed information**

49. The Board asked stakeholders whether the proposed overall and specific disclosure objectives and disclosure requirements are worded in a way that would make it possible for preparers, auditors, regulators and enforcement bodies to assess whether information disclosed is sufficient to meet those objectives.

#### ***Comment letter and outreach feedback***

50. Only some respondents commented, and almost all of these respondents said that the proposed overall and specific disclosure objectives and disclosure requirements were

clearly worded. A few respondents said that they did not hear any concerns about assessing whether information disclosed would be sufficient to meet the disclosure objectives.

### 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?

## Appendix—Feedback from users of financial statements

A1. This appendix reproduces the feedback on the disclosure proposals summarised in [Agenda Paper 9 Feedback summary—Overview](#) of October 2021 Board meeting:

40. All users commenting on disclosure agreed with the proposed overall disclosure objective, specific disclosure objectives and disclosure requirements.
41. Some of these users had specific comments on the proposed disclosure requirements or pointed out specific information needs:
  - (a) the proposed breakdown of the regulatory income minus regulatory expense line item in profit or loss is very useful. Other proposed disclosure requirements that some users found useful are:
    - (i) separate disclosure of regulatory interest income and regulatory interest expense in the notes;
    - (ii) the maturity analysis of regulatory assets and regulatory liabilities; and
    - (iii) the reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.
  - (b) a member of CMAC said that the proposed requirement to disclose the maturity profile of the regulatory assets and regulatory liabilities was clearer, more practical, and easier to understand than other proposed disclosure requirements such as the proposal to disclose the discount rate used in measuring regulatory assets and regulatory liabilities;
  - (c) information that clearly distinguishes between regulated and non-regulated assets, regulated and non-regulated liabilities and regulated and non-regulated revenues is

useful, even if these assets and liabilities fall outside the scope of the proposals;

- (d) disaggregated information about the changes of estimates through time in the notes so that users can understand and trace them;
- (e) sensitivity analysis disclosed in the notes to help users understand how the effect of changes in the estimates used would affect the measurement of regulatory assets; and
- (f) disclosures addressing any aspects of the proposals that diverge from US GAAP.