



STAFF PAPER

October 2021

IASB® meeting

| Project | Rate-regulated Activities | | |
|-------------|---------------------------|-----------------|---------------------|
| Paper topic | Feedback summary—Overview | | |
| CONTACT(S) | Zicheng Wang | zwang@ifrs.org | +44 (0)20 7246 6410 |
| | Mariela Isern | misern@ifrs.org | +44 (0)20 7246 6410 |

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Objective

1. This paper summarises key messages from the feedback received, including that from users of financial statements.
2. Appendix A to this paper provides an overview of the comment letters received and outreach undertaken during the comment period for the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (the Exposure Draft).
3. Agenda Papers 9A–9H provide a summary of the feedback received from all respondents on topics covered by the Exposure Draft (see Appendix B).
4. During the Board meeting, we will discuss each Agenda Paper in turn. We are not asking the Board to make decisions during this meeting. However, in each paper, we ask Board members to comment on any feedback that was unclear, that provides new information, or that needs further research.
5. At a forthcoming Board meeting, we will discuss a plan for redeliberating the project proposals.

Structure of the paper

6. This paper is structured as follows:
 - (a) Background (paragraphs 8–13);

- (b) Summary of key messages (paragraphs 14–43); and
 - (c) Next steps (paragraph 44)
7. The appendices to this paper include:
- (a) Appendix A—Comment letters received and outreach activities (paragraphs A1–A7);
 - (b) Appendix B—List of papers for this meeting, including the approach to quantifying the feedback (paragraphs B1–B5).

Background

8. In January 2021 the Board published the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, which proposes an accounting model to supplement the information that an entity already provides by applying IFRS Standards. The proposed model 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.
9. 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.
10. 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.
- 11. 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.
- 12. 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.
- 13. If finalised as a new IFRS Standard, the proposals would replace IFRS 14 *Regulatory Deferral Accounts*, an interim Standard that permits a variety of accounting approaches for the effects of rate regulation to continue temporarily.

Summary of key messages

- 14. This summary is structured as follows:

- (a) feedback received from all respondents except users of financial statements (paragraphs 15–24); and
- (b) feedback received from users of financial statements (paragraphs 25–43).

Feedback received from all respondents except users of financial statements

15. 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. Some of these respondents also acknowledged there is a need for a Standard that addresses the accounting for regulatory assets and regulatory liabilities.
16. Most respondents agreed with:
- (a) the proposed definitions for 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) using a cash-flow-based measurement technique to measure regulatory assets and regulatory liabilities that would involve estimating uncertain cash flows using the 'most likely amount' or the 'expected value' method; and
 - (d) using the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability.
17. However, the following aspects of the proposed model raised most concerns amongst respondents:
- (a) scope (paragraph 18);
 - (b) returns on assets not yet available for use (paragraphs 19–20);
 - (c) regulatory assets and regulatory liabilities arising from differences between assets' regulatory recovery pace and their useful lives (paragraph 21);

- (d) minimum interest rate (paragraph 22– 23); and
- (e) interaction with IFRIC 12 *Service Concession Arrangements* (paragraph 24).

Scope

18. Many respondents agreed with the proposed scope—that is, to apply the [draft] Standard to all of an entity’s regulatory assets and regulatory liabilities. However, many respondents were also uncertain about which regulatory agreements, arrangements or activities would be within the scope of the proposals. Some of these uncertainties are due to the perceived lack of clarity about:
- (a) the interaction between the proposals and other Standards (mainly, IFRS 9 *Financial Instruments*, IFRS 17 *Insurance Contracts* and IFRIC 12).
 - (b) the proposed definition of ‘regulatory agreement’ and whether a regulator is needed for regulatory assets or regulatory liabilities to exist. According to these respondents, both the broad proposed definition of ‘regulatory agreement’ and the lack of definition of ‘regulator’ may capture a wide range of activities and arrangements that should not be included in the scope and may make consistent application of the final requirements difficult.

Returns on assets not yet available for use

19. Most respondents disagreed that an entity should reflect returns on an asset not yet available for use in the period when the asset is being used to supply goods or services to customers. 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).
20. Most users from whom we received feedback during the comment period of the Exposure Draft also disagreed with these proposals (paragraphs 28–32).

Regulatory assets and regulatory liabilities arising from differences between assets' regulatory recovery pace and their useful lives

21. Many respondents disagreed with recognising regulatory assets or regulatory liabilities because of differences between the period that the regulatory agreements permit an entity to recover an asset (the regulatory recovery pace) and the asset's useful life. According to these respondents, the proposals would:
- (a) not reflect an entity's rights and obligations 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*;
 - (c) not result in useful information; and
 - (d) be costly to implement.

Minimum interest rate

22. Most respondents disagreed with 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 in the future cash flows arising from that regulatory asset. These respondents are concerned about the complexity of the proposals and believe that the costs of applying them would outweigh any benefits.
23. Most of the users commenting on the minimum interest rate did not agree with the proposal (paragraph 38).

Interaction with IFRIC 12 Service Concession Arrangements

24. Many respondents asked the Board to clarify the interaction between the proposals and IFRIC 12 *Service Concession Arrangements*. Most respondents commenting on this topic suggested the Board provide detailed 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.

Feedback received from users of financial statements

25. This section summarises the feedback received from users of financial statements (users) in outreach meetings during the comment period of the Exposure Draft and from the comment letter received from users.¹ Most of the meetings were with equity or credit analysts covering the power, utilities and infrastructure sectors in Asia-Oceania, Europe and North America.
26. A professional body of financial analysts in Europe and an equity analyst covering utilities in Europe said that the information currently provided in the financial statements by regulated entities could be improved. They said that a principles-based approach is needed for entities to account for the effects of differences in timing in their financial statements.
27. We received feedback on the following aspects of the model:
- (a) returns on assets not yet available for use (paragraphs 28–32);
 - (b) differences between regulatory recovery pace and assets' useful lives (paragraph 33–35);
 - (c) recognition, measurement and discount rate (paragraphs 36–38);
 - (d) presentation (paragraph 39);
 - (e) disclosure (paragraph 40–41);
 - (f) transition (paragraph 42); and
 - (g) other comments (paragraph 43).

Returns on assets not yet available for use

28. This section refers to 'assets not yet available for use' as 'construction work in progress'.
29. All users with whom we engaged commented on this aspect of the model. Users generally thought that information about the returns to which an entity is entitled during the construction period of an asset is useful to their analysis.

¹ Professional body of financial analysts in Europe.

30. Only one equity analyst with a portfolio management background covering various industries in Europe agreed with the proposals for reflecting returns on construction work in progress in the statement of performance during the operating phase of the assets, particularly for long-duration projects. The rest were generally of the view that returns on construction work in progress should be reflected in the statement of financial performance during the construction period because:
- (a) it would result in closer alignment with the regulatory agreement. Reflecting returns on construction work in progress in the statement of financial performance during the construction period would enhance users' understanding of the effects of the regulatory agreement on an entity's financial performance. In addition, returns on construction work in progress can be material. An equity analyst covering the infrastructure sector in Europe said that from an investors' point of view, the capital is already being put to work, delaying the recognition of the related returns to future periods does not accurately reflect the spirit of the regulation;
 - (b) it would result in closer alignment between the statement of financial performance and the statement of cash flows, particularly when returns on construction work in progress are included in rates charged during the construction period. Some users mentioned that they find the alignment between profit or loss and cash flows useful and that the recognition of returns on construction work in progress during the construction period would:
 - (i) coincide with the period in which entities incurred the corresponding capital costs; and
 - (ii) avoid volatility in the statement of profit or loss in the operating period of the assets.
 - (c) during the construction period there is pressure on entities' credit quality. Reflecting returns on construction work in progress during the operating period of the asset could lead to users unfairly penalising an entity if they conclude the entity is not being appropriately remunerated for the construction work in progress, particularly those undertaking large and long-term construction projects, such as nuclear power projects. One of these users noted

that they expect large nuclear power projects will become more common in the next few years.

- (d) for entities that are allowed to include the returns on construction work in progress in the rates charged to customers during the operation of the asset, the recognition of returns on construction work in progress in the statement of financial performance during the construction period would result in the recognition of a regulatory asset in the statement of financial position in that same period and would improve the debt-to-equity ratio.
 - (e) it will result in closer alignment with US GAAP, which some users thought is important (paragraphs 43(a)).
31. Some users said if the proposals become final, disclosure of the returns to which an entity is entitled for construction work in progress would be useful. A few users said that it would be preferable for returns on construction work in progress to be recognised in the financial statements rather than being disclosed. According to these users, requiring only disclosure would result in them making adjustments to the reported figures as part of their analysis, thus diminishing, in their view, the relevance of the information in the financial statements.
32. A professional body of financial analysts in Europe said that disaggregated information about returns on construction work in progress to distinguish returns arising from new investments from returns arising from maintenance works would be useful.

Differences between regulatory recovery pace and assets' useful lives

33. An equity analyst covering the utility sector in Europe said that in some jurisdictions there are significant differences between the regulatory recovery periods and assets' useful lives. According to this user, these differences should be taken into consideration when analysing an entity's profit or loss. This user thought the recognition of regulatory assets and regulatory liabilities arising from these differences would result in useful information.
34. An analyst working at a rating company covering the utility sector primarily in Europe also said that having information about the differences between the regulatory

recovery pace and the assets' useful lives would be useful. However, the ratings will typically be based on the regulatory accounts or models. According to this user, differences between the regulatory and the accounting balances can be significant in some European jurisdictions. Consequently, information that would help a user understand these differences is crucial.

35. According to this user, their analysis focuses on an entity's ability to generate cash flows. This user said that in users' minds, the economics of these businesses is 'steered by the regulator'. According to this user, if the final requirements result in the recognition of regulatory assets and regulatory liabilities that would need to be adjusted, this would complicate their analysis and would not result in useful information.

Recognition, measurement and discount rate

36. Some users commenting on the recognition and measurement proposals—mainly some Capital Market Advisory Committee (CMAC) members and equity analysts covering the utility sector in Europe and North America—were concerned about the volatility that may arise in profit or loss if entities recognise regulatory assets that are not subsequently recovered. They pointed out that the proposals on recognition and measurement would require management to make judgements and that disclosure of those judgments in the notes would be useful.
37. Most of the users commenting on the measurement proposals agreed with the cash-flow-based measurement technique and with using the regulatory interest rate as the discount rate. A CMAC member from North America commented, however, that the proposed requirement to discount estimates of future cash flows would not only constitute a difference with US GAAP but would also add unnecessary complexity for users, even though the outcomes when applying the proposals would be similar to those obtained when applying US GAAP.
38. Most of the users commenting on the discount rate agreed with the proposal to use the regulatory interest rate as the discount rate. However, these users did not agree with the proposals for using a minimum interest rate when the regulatory interest rate provided for a regulatory asset is insufficient to compensate an entity for the time value of money and uncertainty arising from the cash flows of the regulatory asset.

They thought that proposal would decrease comparability between entities and would be confusing for users.

Presentation

39. All the users commenting on presentation agreed with:
- (a) the proposal for an entity 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
 - (b) the proposed presentation of the regulatory income minus regulatory expense line item as operating.

Disclosure

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.

Transition

42. All users commenting on the transition proposals agreed with the proposed requirements for applying the final Standard retrospectively. Some of them said that retrospective application allows them to understand an entity's profit or loss trend by having comparable information for all periods presented.

Other comments

43. Other comments made by users are as follows:
- (a) alignment with US GAAP—users from North America, including a rating company, said alignment with US GAAP is key as it facilitates the comparability of companies operating in the same sector reporting in accordance with IFRS Standards or US GAAP. A CMAC member asked whether the proposals were converged with US GAAP and whether the Board considered convergence with US GAAP when developing the proposals.
 - (b) proposed exception to IFRS 3 *Business Combinations*—an equity analyst covering the infrastructure sector in Europe agreed with the exception proposed in the Exposure Draft to the recognition and measurement principles in IFRS 3. This user said that in acquisitions of regulated entities, what matters to investors is the amount that the regulator has approved to be recovered in future rates and not the fair value measurement of the asset. For this user, the fair value measurement could be misleading as the entity will not be entitled to recover that amount, i.e., the entity will only be entitled to

recover the investment approved by the regulator and a return on that investment.

Next steps

44. The feedback received on the following topics of the Exposure Draft will be presented at the November 2021 Board meeting:
- (a) presentation in the statement(s) of financial performance;
 - (b) disclosure;
 - (c) effective date and transition; and
 - (d) likely effect of the proposals.

Question for the Board

Does the Board have any questions or comments on this overview?

Appendix A—Comment letters and outreach

Comment letters

A1. When published, the Exposure Draft had a comment deadline of 30 June 2021. In March 2021, the Board extended the comment period until 30 July 2021. We received 127 comment letters, including 1 letter from users of financial statements.

A2. Figures 1 and 2 show the breakdown of the comment letters by stakeholder type and region:

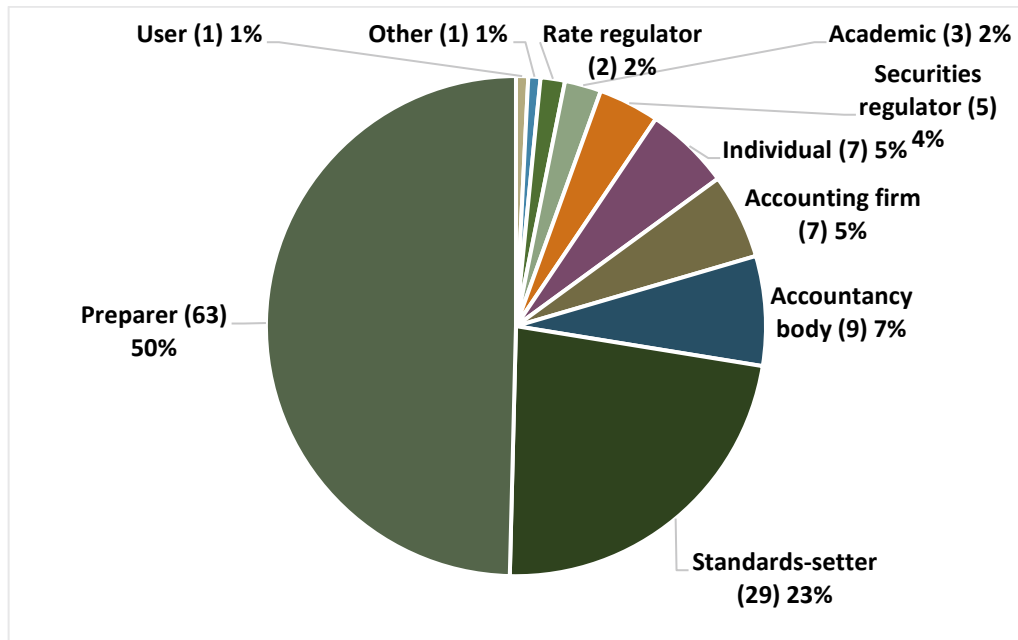


Figure 1

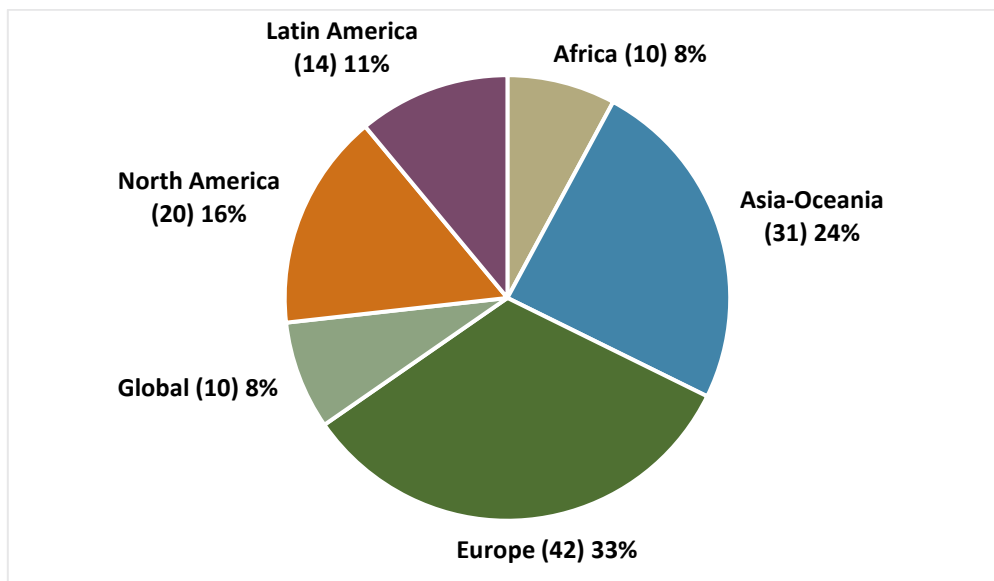


Figure 2

A3. Figure 3 shows the breakdown of preparers by industry:

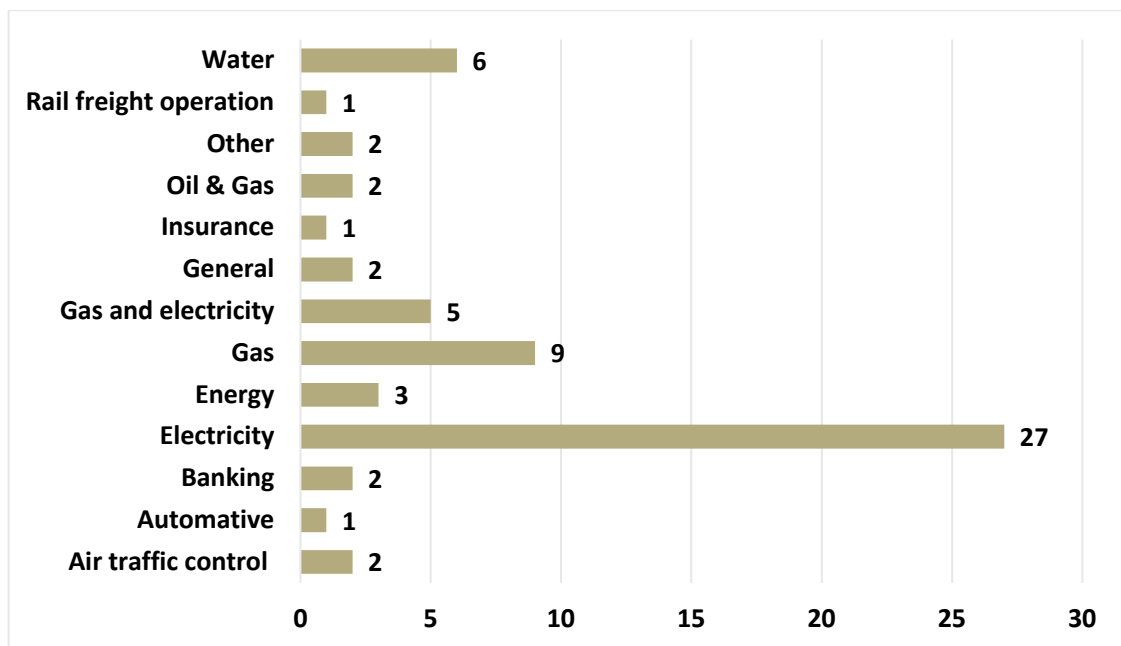


Figure 3

Outreach

A4. We conducted extensive outreach during the consultation period. Due to the pandemic, most of this outreach was conducted online.

A5. We met with all major stakeholder groups across all regions.

- A6. In the period between February 2021 and August 2021, Board members and staff participated in 60 events with stakeholders from over 11 jurisdictions. These included:
- (a) 54 virtual meetings with individual stakeholders or stakeholder groups. Some were hosted by the staff; others were hosted by stakeholders with Board members and the staff participating in the meeting. 10 out of these meetings were with users, involving approximately 55 users—paragraphs 25–43 of this paper include a summary of the feedback received in these meetings.
 - (b) four webinars, panel discussions and roundtables organised in cooperation with other stakeholders, mostly standard-setters. These were typically attended live by approximately 30–140 participants.
 - (c) one webinar in February 2021 and participation in the IFRS Conference in June 2021. Approximately 85 participants attended the webinar² and 48 attended the rate-regulated activities breakout session at the conference.
- A7. We also met with the Board’s advisory bodies:
- (a) Capital Markets Advisory Committee (CMAC);
 - (b) Global Preparers Forum;
 - (c) Emerging Economies Group; and
 - (d) Accounting Standards Advisory Forum.

² The recorded webinar has been subsequently accessed by 112 individuals.

Appendix B—List of papers for this meeting and how we quantified feedback

B1. The following papers provide a summary of the feedback received on the following topics covered by the Exposure Draft.

- (a) AP 9A—Objective and scope;
- (b) AP 9B—Regulatory assets and regulatory liabilities;
- (c) AP 9C—Total allowed compensation;
- (d) AP 9D—Recognition;
- (e) AP 9E—Measurement;
- (f) AP 9F—Discount rate;
- (g) AP 9G—Items affecting rates only when related cash is paid or received; and
- (h) AP 9H—Interaction with other IFRS Standards.

How we quantified the feedback

B2. Agenda Papers 9A–9H use the following terms to describe the extent to which particular feedback was provided by respondents:

| Term | Extent of response among respondents |
|-------------|---|
| Almost all | All except a very small minority |
| Most | A large majority, with more than a few exceptions |
| Many | A small majority or large minority |
| Some | A small minority, but more than a few exceptions |
| A few | A very small minority |

B3. By respondents, we mean stakeholders who sent us comment letters and stakeholders who engaged in outreach activities.

B4. Respondents did not always comment on every area of the Exposure Draft. Consequently, we have used the terms listed in paragraph B2 to describe the proportion of the respondents that commented on a particular topic. This is not

necessarily a proportion of all respondents. We have indicated in the papers when relatively few respondents commented on a particular topic.

- B5. Throughout Agenda Papers 9A–9H, we have identified areas for which we received different messages from individual stakeholder groups or from specific geographies. Where we have not identified particular stakeholder groups or geographies, this means we received similar feedback from all respondents or there was not identifiable pattern to the responses.