



# STAFF PAPER

February 2022

## IASB® meeting

Project	Rate-regulated Activities	
Paper topic	Scope—Overview	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

## Objective

1. This paper sets out the topics that the staff recommend the IASB redeliberates within the scope workstream. We are not asking the IASB to make decisions on this paper. However, we ask the IASB to comment on any additional matters that the staff may need to consider in the redeliberations of the scope proposals.

## Structure of the paper

2. This paper is structured as follows:
  - (a) summary of scope proposals (paragraphs 3–6);
  - (b) feedback—summary of key messages (paragraphs 7–11); and
  - (c) redeliberations—topics and timing (paragraphs 12–13).

## Summary of scope proposals

3. Paragraph 3 of the Exposure Draft proposes that an entity applies the [draft] Standard to all its regulatory assets and regulatory liabilities.

4. Paragraph 6 of the Exposure Draft specifies that a regulatory asset or a regulatory liability can exist only if:
  - (a) an entity is party to a regulatory agreement;
  - (b) the regulatory agreement determines the regulated rate the entity charges for the goods or services it supplies to customers; and
  - (c) part of the total allowed compensation for goods or services supplied in one period is charged to customers through the regulated rates for goods or services supplied in a different period (that is, there are differences in timing).
  
5. The Exposure Draft defines:
  - (a) a *regulatory asset* and a *regulatory liability*;
  - (b) a *regulatory agreement*; and
  - (c) a *regulated rate* and the *total allowed compensation* for goods or services an entity supplied to its customers.
  
6. The Exposure Draft provides guidance on:
  - (a) differences in timing and how they differ from other differences relating to revenue recognition (paragraphs 18–19 in the Exposure Draft); and
  - (b) rights and obligations that are not regulatory assets and regulatory liabilities (paragraphs 20–23 in the Exposure Draft).

### **Feedback—Summary of key messages**

7. Many of the respondents—mainly preparers, accountancy bodies and academics in Latin America, Africa and Europe—agreed with the proposed scope.
8. However, many respondents commenting on the Exposure Draft said the proposed scope may be broader than intended. Many respondents also said that the scope proposals are not sufficiently clear to help them determine whether an agreement, arrangement or activity would be in the scope of the Exposure Draft.

9. According to the feedback, the lack of clarity in the proposed scope is mainly caused by:
- (a) difficulty in identifying the rights and obligations that may constitute a regulatory agreement.
  - (b) uncertainty about whether particular features (for example, a regulatory agreement that creates regulatory assets or regulatory liabilities, but not both) may cause a regulatory arrangement to be within, or outside, the scope of the proposals.
  - (c) uncertainty about whether a right or obligation is enforceable, and how the assessment of enforceability interacts with the recognition and measurement proposals.
  - (d) exclusion of some features of ‘defined rate regulation’ in the conditions for a regulatory asset or regulatory liability to exist in paragraph 6 of the Exposure Draft.<sup>1</sup>
  - (e) uncertainty about whether the proposals are intended to provide information that supplements only the information already provided by IFRS 15 *Revenue from Contracts with Customers*. This is mainly caused by uncertainty about the interaction of the proposed model with IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*.
  - (f) uncertainty about the interaction of the proposed model with IFRIC 12 *Service Concession Arrangements* (see paragraph 11).
  - (g) uncertainty about the boundary between financial instruments and regulatory assets and regulatory liabilities in certain fact patterns unrelated to IFRIC 12—for example, regulatory agreements that create not only rights and obligations to adjust future regulated rates, but also rights and obligations to receive or pay cash in specific circumstances. In addition, during the project the staff learned that some entities are recognising regulatory balances applying their own accounting policies. These entities typically include these regulatory balances as part of their accounts receivable or accounts payable (that is, they view

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<sup>1</sup> Paragraph BC82 of the [Basis for Conclusions](#) on the Exposure Draft.

these balances as financial instruments). For these entities, there is uncertainty about whether the proposals would require them to reclassify these regulatory balances as regulatory assets or regulatory liabilities on transition.

- (h) a lack of clarity about:
  - (i) the proposed definition of ‘regulatory agreement’ and the term ‘customers’, including their application to more discretionary rate-setting processes or more complex billing arrangements.
  - (ii) whether a regulator must exist for a right or obligation to meet the definition of a regulatory asset or regulatory liability.

10. Respondents who expressed concerns about the scope, recommended that the IASB minimise the risk the final Standard unintentionally captures a wide range of regulatory arrangements, or is applied inconsistently, by:

- (a) restricting the scope of the final Standard;
- (b) clarifying the regulatory arrangements that would be within, or outside, the scope of the final Standard; and
- (c) clarifying the interactions with other IFRS Accounting Standards.

11. 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.

### **Redeliberations—Topics**

12. The table sets out the topics relating to the scope proposals that need the IASB’s redeliberation:

Topic	Comments
<i>Possible scope restrictions (paragraph 10(a))</i>	
a) Confirming proposed exclusion of some features of ‘defined rate regulation’ (paragraph 9(d))	Discussed at this IASB meeting—Agenda Paper 9B
b) Focusing the final Standard on supplementing only the information already provided by IFRS 15. This topic includes assessing interaction of the proposed model with IFRS 9 and IFRS 17 (paragraph 9(e)).	<p>The staff think that it may be appropriate to make a recommendation on whether the final Standard should focus on supplementing only the information already provided by IFRS 15, only after the staff has assessed the interaction of the proposed model with IFRS 9 and IFRS 17.</p> <p>The staff assessment will depend on the evidence gathered about:</p> <ul style="list-style-type: none"> <li>(a) the existence of agreements within the scope of IFRS 9 or IFRS 17 that may give rise to regulatory assets and regulatory liabilities; and</li> <li>(b) how widespread these agreements might be and how material the regulatory assets or regulatory liabilities might be.</li> </ul> <p>Please note that IFRS 17 is applicable for annual reporting periods beginning on or after 1 January 2023. We are planning to discuss the interaction of the proposed model with IFRS 17 when the implementation of IFRS 17 is near complete.</p>

Topic	Comments
<i>Determining whether regulatory arrangements are in or out of scope (paragraph 10(b))</i>	
c) What rights and obligations constitute a regulatory agreement (paragraph 9(a))	Discussed at this IASB meeting—Agenda Paper 9B
d) Application of scope proposals to particular features of a regulatory arrangement (paragraph 9(b))	Discussed at this IASB meeting—Agenda Paper 9B
e) Assessing the enforceability of rights and obligations to adjust future regulated rates (paragraph 9(c))	This topic has interactions with the recognition and measurement proposals. Consequently, we will consider enforceability when discussing these other aspects of the model.
f) Application questions relating to the definition of ‘regulatory agreement’ and the term ‘customers’ <sup>2</sup> (paragraph 9(h)(i))	The staff will analyse feedback received on application difficulties posed by the term ‘customers’ in the definition of ‘regulatory agreement’ and will provide corresponding recommendations for the IASB at a future meeting.
g) The role of the ‘regulator’ (paragraph 9(h)(ii))	Discussed at this IASB meeting—Agenda Paper 9C  The IASB’s tentative decisions on this topic may have implications for the proposed definitions (item (f) in this table).

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<sup>2</sup> This paper will also discuss consequential changes to other definitions proposed in the Exposure Draft, such as ‘regulated rate’ and ‘total allowed compensation’.

Topic	Comments
<i>Interactions with other IFRS Accounting Standards (paragraph 10(c))</i>	
h) Interaction with IFRIC 12 (paragraphs 9(f) and 11)	The staff will consider whether to develop illustrative examples for the final Standard. If we identify issues that need an IASB decision, we will present a paper at a future meeting.
i) Clarifying the boundary between financial instruments and regulatory assets and regulatory liabilities (paragraph 9(g))	This topic aims to clarify the boundary between financial instruments and regulatory assets and regulatory liabilities as described in paragraph 9(g). We will consider transition implications when discussing the transition proposals.

13. The topics for redeliberation, and the sequence in which they are discussed, may change. This depends on, for example, the IASB's tentative decisions at future meetings and whether linkages between topics are identified as the redeliberations progress.

#### Question for the IASB

Does the IASB have any questions or comments on the topics for redeliberation? Specifically, are there any additional matters that the IASB thinks need to be considered, including any interactions with other aspects of the proposals that may affect the sequence in which topics are redeliberated?