IFRS Accounting

# Staff paper

Agenda reference: 9D

**IASB® meeting**

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|---|---|
| Date | **December 2023** |
| Project | **Rate-regulated Activities** |
| Topic | **Items affecting regulated rates on a cash basis** |
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## Objective

1. This paper sets out staff analysis and recommendations on the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft) dealing with the measurement and the presentation of items affecting regulated rates only when the related cash is paid or received (that is, when items affect regulated rates on a cash basis—paragraphs 59–66 and 69 of the Exposure Draft).

2. This paper does not discuss requests to extend the proposed measurement and presentation of items affecting regulated rates on a cash basis to other items (for example, when items affect regulated rates on an accrual basis). We will discuss these requests at a future meeting.

## Staff recommendations

3. The staff recommend that the final Accounting Standard:

   (a) continue to state that differences in timing that arise from differences between the regulatory and accounting criteria represent enforceable present rights or enforceable present obligations that meet the proposed definitions of regulatory assets and regulatory liabilities;

(b) retain the proposed measurement requirements in paragraph 61 of the Exposure Draft for items that affect regulated rates only when the related cash is paid or received;

(c) retain the proposed requirements in paragraph 69 of the Exposure Draft to present specified regulatory income and regulatory expense in other comprehensive income;

(d) clarify that an entity reclassifies regulatory income or regulatory expense presented in other comprehensive income to profit or loss when, and to the extent that, IFRS Accounting Standards require the reclassification of the related expense or income to profit or loss; and

(e) not include additional presentation requirements for other comprehensive income and instead relies on the requirements in IAS 1 *Presentation of Financial Statements* or the prospective [draft] IFRS 18 *Presentation and Disclosure in Financial Statements*.

## Structure of the paper

4. This paper is structured as follows:

   (a) proposals in the Exposure Draft (paragraphs 6–14);

   (b) enforceable rights and enforceable obligations (paragraphs 15–27);

   (c) measurement proposals (paragraphs 28–34); and

   (d) presentation proposals (paragraphs 35–62).

5. Appendix A illustrates an example of defined benefit pension costs that an entity is entitled to recover on a cash basis. Appendix B illustrates variations on that example which could be considered when developing illustrative examples. The examples in the appendices support the staff analysis.

## Proposals in the Exposure Draft

6. Paragraph 59 of the Exposure Draft states:

> In some cases, a regulatory asset or regulatory liability arises because a regulatory agreement treats an item of expense or income as allowable or chargeable in determining the regulated rates only once an entity pays or receives the related cash, or soon after that, instead of when the entity recognises that item as expense or income in its financial statements by applying, for example, IAS 12 *Income Taxes*, IAS 19 *Employee Benefits* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

7. Paragraph 61 of the Exposure Draft states that an entity shall measure this regulatory asset and regulatory liability by:

   (a) using the measurement basis used in measuring the related liability or related asset by applying IFRS Accounting Standards; and

   (b) adjusting the measurement of the regulatory asset or regulatory liability to reflect any uncertainty present in it but not present in the related liability or related asset.

8. Paragraph BC175 of the Basis for Conclusions accompanying the Exposure Draft summarises the IASB's rationale for this proposal:

> …In the Board's view, this approach:
>
> (a) would provide users of financial statements with the most relevant and understandable information, because the cash flows arising from the regulatory assets or regulatory liabilities are a replica of the cash flows arising from the related liabilities or related assets, except for the effect of any uncertainty present in the regulatory asset or regulatory liability but not present in the related liability or related asset.
>
> (b) would provide users with more useful and more understandable information because it would avoid creating accounting mismatches in the statement(s) of financial performance that would result from using different measurement bases. […]
>
> (c) is consistent with the requirements in IFRS Standards for indemnification assets and for reimbursement assets. IFRS 3 *Business Combinations*

requires an acquirer to recognise an indemnification asset at the same time that it recognises the related indemnified item and to measure that asset on the same basis as the related indemnified item, subject to a valuation allowance for uncollectible amounts. IAS 37 requires that the amount recognised for a reimbursement asset not exceed the amount of the related provision.

9. Paragraph 66 of the Exposure Draft proposes that an entity cease applying paragraph 61 when the entity pays cash to settle the related liability or receives cash that recovers the related asset. From that date, the entity measures any remaining part of the regulatory asset or regulatory liability by applying the cash-flow-based measurement technique proposed for all other regulatory assets and regulatory liabilities.

10. The Exposure Draft includes examples that illustrate the proposed requirements in paragraphs 59–66 (Illustrative Examples 4, 7A.9, 7A.10, 7A.11, 7A.12, 7A.13 and 7B.10).

11. Paragraph 69 of the Exposure Draft proposes that when an entity remeasures a regulatory asset or regulatory liability applying the proposals in paragraph 61 of the Exposure Draft, the entity presents the resulting regulatory income or regulatory expense in other comprehensive income to the extent that the regulatory income or regulatory expense results from remeasuring the related liability or related asset through other comprehensive income.

12. The alternative view on the Exposure Draft disagreed with both the proposed measurement and the proposed presentation of these items.[1] According to this view:

    (a) the cash-flow-based measurement technique proposed for all other regulatory assets and regulatory liabilities should also apply to this case; and

    (b) the presentation proposed for all other regulatory assets and regulatory liabilities—ie to present in the statement(s) of financial performance all

[1] Paragraphs AV2–AV6 of the alternative view on the Exposure Draft.

regulatory income minus all regulatory expense in a separate line item immediately below revenue—should also apply to this case.

13. The alternative view disagreed with the measurement proposals, seeing them as an exception to the general measurement proposals. The alternative view argued that the measurement proposal in paragraph 61 of the Exposure Draft was unnecessary to achieve the objective of the proposed Standard. The alternative view stated that the IASB should 'provide information about the relationship between an entity's revenue and expenses by focusing solely on how the regulatory agreement impacts the timing of charging customers the total allowed compensation.' The alternative view considered that the measurement proposals would reduce the usefulness and understandability of the statement of financial performance and risk implying that the IASB is incorporating a matching concept into the proposed Standard.

14. The alternative view stated that it was unnecessary to address the accounting mismatches that could occur if regulatory income or regulatory expense were presented in the statement of financial performance and the related item of expense or income were presented in other comprehensive income.

## Enforceable rights and enforceable obligations

15. The Exposure Draft sought feedback on the proposed measurement and presentation of items affecting regulated rates only when the related cash is paid or received. However, some respondents disagreed that these items would give rise to enforceable rights and enforceable obligations or queried whether they would give rise to enforceable rights and enforceable obligations before cash is paid or received.

16. This section is structured as follows:

    (a) feedback (paragraphs 17–18); and

    (b) staff analysis (paragraphs 20–27).

### *Feedback*

17. A few respondents—an accounting firm, a preparer and a regulator in Asia-Oceania—noted that the model in the Exposure Draft would give rise to the recognition of regulatory assets and regulatory liabilities that would represent differences in timing between the criteria used in IFRS Accounting Standards (for example, accrual basis) and those used in the regulatory agreements (for example, cash basis). These respondents disagreed that these differences in timing represent an entity's enforceable rights or enforceable obligations to adjust future regulated rates in accordance with the regulatory agreements. These respondents disagreed with the recognition of—and therefore with the proposed measurement requirements for—such regulatory assets and regulatory liabilities.[2] This feedback is analysed in paragraphs 20–23.

18. A few respondents that agreed with the proposals—mainly accounting firms, a few preparers in Europe and a few national standard-setters in Asia-Oceania—questioned whether an entity would have enforceable present rights or enforceable present obligations before the cash for a related liability or related asset is paid or received. This feedback is analysed in paragraphs 24–26.

### *Staff analysis*

19. This section is structured as follows:

    (a) differences in timing that do not represent explicit adjustments to future regulated rates (paragraphs 20–23); and

    (b) enforceable rights or enforceable obligations only when cash is paid or received (paragraphs 24–26).

[2] These respondents had similar views for regulatory assets and regulatory liabilities arising from differences between the assets' regulatory recovery pace and assets' useful lives (Agenda Paper 9C discussed in October 2021).

*Differences in timing that do not represent explicit adjustments to future regulated rates*

20. The Exposure Draft proposed that regulatory assets and regulatory liabilities could arise from both explicit differences in timing and implicit differences in timing. Explicit differences in timing are those that result in actual adjustments to the future rates; implicit differences in timing are those that arise when the regulatory agreement uses a basis for including an item of expense or income in the regulated rates charged that differs from the basis used in accounting.[3] As noted in earlier agenda papers, some respondents said the final Standard should focus only on explicit differences in timing.[4]

21. Implicit differences in timing reverse over time, but not through explicit adjustments to future regulated rates. For example, an implicit difference in timing can arise when a regulatory agreement allows an entity to include an item of expense in the regulated rates charged using a criterion that is different from the criterion applied to the recognition of the expense in the financial statements. In these cases, the differences in timing reflect the differences in the pace of recovery in regulated rates and the pace of recognition in the financial statements.

22. Appendix A illustrates an example of defined benefit pension costs in which the regulator uses a criterion (cash basis) that is different from that used in accounting (accrual basis).

23. We acknowledge regulatory agreements would neither track differences in timing arising from differences between the regulatory and accounting criteria, nor consider them when determining explicit adjustments to the future regulated rates. However, we think differences between the regulatory and accounting criteria are differences in timing that represent an enforceable present right (obligation) to recover a cost (to charge a lower amount in the future than the entity would have, had the regulatory and

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[3] Illustrative Examples 1 and 2A accompanying the Exposure Draft illustrate explicit differences in timing and Examples 2B and 2C illustrate implicit differences in timing. The Illustrative Examples can be accessed here.

[4] Agenda Paper 9B discussed at the October 2021 IASB meeting and Agenda Paper 9A discussed at the July 2022 IASB meeting.

accounting criteria been aligned) if the regulatory agreement gives the entity an enforceable right to recover the underlying costs through regulated rates.

### *Enforceable rights or enforceable obligations only when cash is paid or received*

24. In developing the Exposure Draft the IASB concluded that differences in timing arising from items affecting regulated rates only when related cash is paid or received represent an enforceable present right or enforceable present obligation.[5]

25. This conclusion is consistent with the discussion of rights and obligations in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*), which is clear that rights and obligations can exist, even if they are conditional on future events:

    (a) the *Conceptual Framework* states that a right may take many forms including rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs (paragraph 4.6(a)(iv) of the *Conceptual Framework*).

    (b) one of the criteria for a liability to exist is that the entity has an obligation to transfer an economic resource. The *Conceptual Framework* explains that although the obligation must have the potential to require the entity to transfer an economic resource, certainty of the transfer is not required (paragraph 4.37 of the *Conceptual Framework*). An obligation to transfer an economic resource could include obligations to transfer an economic resource if a specified uncertain future event occurs (paragraphs 4.37 and 4.39(d) of the *Conceptual Framework*).

26. The fact that a regulator determines the compensation for items of expense on the basis of when related cash payments occur does not prevent an entity from having an enforceable present right to recover the item of expense before the cash payment has

[5] Paragraph 59 of the Exposure Draft.

taken place. The key consideration is that the entity has an enforceable present right to recover, through regulated rates, the costs it incurs for supplying goods or services and the entity has incurred such costs in supplying such goods and services.

27. Considering the analysis in paragraphs 20–26, we recommend that the final Accounting Standard continue to state that differences in timing that arise from differences between the regulatory and accounting criteria represent enforceable present rights or enforceable present obligations that meet the proposed definitions of regulatory assets and regulatory liabilities.

| Question for the IASB |
| --- |
| 1. Does the IASB agree with the staff recommendation in paragraph 27? |

## Measurement proposals

28. This section is structured as follows:

    (a) feedback (paragraphs 29–31); and

    (b) staff analysis (paragraphs 32–34).

### *Feedback*

29. Most respondents agreed with the measurement proposals described in paragraph 7. Many of these respondents said that the proposals would:

    (a) avoid creating accounting mismatches that would arise when using bases to measure a regulatory asset or regulatory liability that differ from the bases used to measure its related liability or related asset;

    (b) simplify the measurement of the regulatory assets or regulatory liabilities by using the same judgements that were applied to the measurement of the related liabilities or related assets;

(c) reflect that the cash flows arising from the regulatory asset or regulatory liability are a replica of the cash flows arising from the related liability or related asset; and

(d) be consistent with the requirements in IFRS Accounting Standards for indemnification assets and reimbursement assets.

30. In addition to those who disagreed with the measurement proposals on the grounds of enforceability (paragraphs 17–18), a few other respondents disagreed with the measurement proposals:

(a) an individual expressed explicit support for the alternative view (paragraphs 12–13); and

(b) an accountancy body in Asia-Oceania was concerned that the proposals would add complexity to the model in the Exposure Draft.

31. A preparer representative body in Europe asked whether and how the proposals in paragraph 61 of the Exposure Draft would apply when a regulatory agreement includes an estimate of the pension amounts that will be paid over a regulatory period in the rates for that period.

### *Staff analysis*

32. We do not agree that the measurement proposals add unnecessary complexity to the model. The alternative—to apply the measurement requirements in paragraphs 30–58 of the Exposure Draft to all regulatory assets and regulatory liabilities—could lead to less useful information and to additional operational complexities:

(a) when developing the Exposure Draft, the IASB thought that measuring these regulatory assets or regulatory liabilities using the same measurement basis as that used to measure the related liabilities or related assets would provide users of financial statements with the most relevant and understandable information (paragraph 8). Example 1 in Appendix A illustrates that the cash flows arising from a regulatory asset mirror those of the underlying liability and shows that the accounting proposed in the Exposure Draft avoids measurement mismatches in the statement of financial position and statement of financial performance (paragraph BC175(a) and (b) of the Basis for Conclusions, reproduced in paragraph 8 of the paper).

(b) using the proposed measurement requirements in paragraphs 30–58 of the Exposure Draft to measure items affecting regulated rates only when related cash is paid or received would also be operationally more complex than the proposals for these items. This is because regulatory agreements do not provide or charge a regulatory interest rate for these items.[6] If entities used the proposed measurement requirements in paragraphs 30–58 of the Exposure Draft, they would need to determine a discount rate to be applied to these regulatory assets and regulatory liabilities.

(c) the benefit of any incremental information provided by applying the measurement requirements in paragraphs 30–58 of the Exposure Draft to all regulatory assets and regulatory liabilities would be unlikely to outweigh the costs for users in understanding the resulting accounting mismatches and for preparers in determining an appropriate discount rate for these regulatory assets and regulatory liabilities.[7]

33. A few respondents suggested that examples dealing with pension costs could be beneficial. When drafting the final Standard, we will consider whether to include examples illustrating how the proposals would apply to particular pension scenarios. Appendix A includes worked examples for some of the scenarios mentioned by respondents (including that mentioned in paragraph 31).

34. We recommend that the final Accounting Standard retain the proposed measurement requirements in paragraph 61 of the Exposure Draft for items that affect regulated rates only when the related cash is paid or received.

[6] This matter was discussed by the members of the Consultative Group on Rate Regulation at their meeting on 13 October 2023. The meeting summary notes can be found here.

[7] Paragraph BC176 of the Basis for Conclusions accompanying the Exposure Draft.

| Question for the IASB |
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| 2. Does the IASB agree with the staff recommendation in paragraph 34? |

## Presentation proposals

35. This section is structured as follows:

    (a) feedback (paragraphs 36–41); and

    (b) staff analysis (paragraphs 42–62).

### *Feedback*

36. Most respondents agreed with the proposal in paragraph 69 of the Exposure Draft, with some explicitly supporting the IASB's rationale for these proposals.[8]

37. The IASB acknowledged that presenting all regulatory income and regulatory expense in profit or loss (immediately below revenue) would 'coherently and understandably show the effects on revenue of regulatory assets and regulatory liabilities and changes in them.' Nevertheless, the IASB proceeded with the presentation proposals in paragraph 69 of the Exposure Draft because presenting certain components of regulatory income or regulatory expense in profit or loss would mean that the same underlying remeasurement would lead to two opposite effects: one in profit or loss for the regulatory asset or regulatory liability and the other in other comprehensive income for the related liability or related asset.

38. A few respondents—mainly national standard-setters in Asia-Oceania and Latin America—disagreed with the proposal. The same individual referred to in paragraph 30, expressed explicit support for the alternative view. Many of the respondents that disagreed with the proposal said that all regulatory income and

[8] See paragraphs BC183–BC186 of the Basis for Conclusions accompanying the Exposure Draft.

regulatory expense should be presented in profit or loss because such presentation would:

(a) show the effects on revenue of regulatory assets and regulatory liabilities and changes in them. In addition, this would better portray the total allowed compensation for the goods or services supplied to customers during the period;

(b) avoid implying that the proposal incorporates a matching concept;

(c) avoid additional complexity that may result from presenting regulatory income and regulatory expense wholly or partly in other comprehensive income; and

(d) avoid extending the list of items presented in other comprehensive income because no conceptual basis has been developed for what should be included in other comprehensive income.

39. A few respondents—mainly accounting firms and standard-setters in Europe—asked whether and how the cumulative amount of regulatory income or regulatory expense presented in other comprehensive income should be reclassified to profit or loss. One respondent said that reclassification could be complex when the underlying item is remeasured partly through profit or loss and partly through other comprehensive income (for example, in the case of a regulatory asset recognised in relation to a defined benefit obligation).

40. A few respondents who agreed with the proposed presentation asked for the final Standard to include examples on the presentation of regulatory income or regulatory expense in other comprehensive income, in particular for pension costs and their related income tax effects.

41. A national standard-setter in Asia-Oceania asked whether the principle underlying the proposal should be extended to require an entity to present regulatory income or regulatory expense relating to allowable or chargeable income taxes within the tax expense line item in profit or loss.

### *Staff analysis*

42. This section is structured as follows:

    (a) presentation proposals in the Exposure Draft (paragraphs 43–50);

    (b) guidance on reclassification (paragraphs 51–58); and

    (c) other matters (paragraphs 59–61).

#### *Presentation proposals in the Exposure Draft*

43. IFRS Accounting Standards limit the items that can be included in other comprehensive income. The regulatory income and regulatory expense presented in other comprehensive income in accordance with paragraph 69 of the Exposure Draft would be limited to these types of remeasurements. However, as some respondents commented, the amounts of such remeasurements could be material.

44. Items in other comprehensive income include:

    (a) unrealised gains and losses from financial instruments (for example, bonds, derivatives and hedges);

    (b) foreign exchange currency adjustments; and

    (c) unrealised gains and losses on pension plans.

45. Out of the items above, the ones that may be most relevant for rate-regulated entities are gains and losses on pension plans and financial instruments. Regulatory schemes generally provide compensation for pension costs, although regulators may not always follow a *cash basis* methodology. Regulatory schemes may also entitle entities to add to (deduct from) regulated rates charged to customers realised losses (realised gains) arising from derivatives that aim to protect an entity against changes in, for example, input prices or foreign exchange rates.[9] We have also learned that these examples would be more common in North America.

[9] Illustrative Example 7A.13 accompanying the Exposure Draft illustrates the case of a regulatory agreement that allows an entity to recover losses arising from the settlement of a futures contract.

46. Using the fact pattern from Example 1 (in Appendix A) we have illustrated both the presentation approach in the Exposure Draft and the alternative approach (presenting all regulatory income and regulatory expense in profit or loss).

(a) Table 2 in Appendix A (reproduced below) shows the presentation proposals in paragraph 69 of the Exposure Draft.

(b) Table 2A in Appendix A (reproduced below) shows the presentation of all regulatory income and regulatory expense in profit or loss.

**Table 2—Statement of comprehensive income**
**(illustrating the presentation proposals in paragraph 69 of the Exposure Draft)**

| *In CU* | Year 0 | Year 1 | Year 2 |
|---|---|---|---|
| Revenue | 10 | 15 | 20 |
| Regulatory income / (Regulatory expense) | 80 | 92 | 108 |
| Defined benefit plan | | | |
| Service costs | (90) | (98) | (108) |
| Net interest on the net defined benefit liability | | (9) | (20) |
| **Profit / (loss)** | **0** | **0** | **0** |
| | | | |
| Remeasurement of the net defined benefit liability | 0 | (53) | 38 |
| Remeasurement of the related regulatory asset | 0 | 53 | (38) |
| **Other comprehensive income** | **0** | **0** | **0** |
| | | | |
| **Total comprehensive income** | **0** | **0** | **0** |

**Table 2A—Statement of comprehensive income**
**(illustrating the alternative presentation approach)**

| *In CU* | Year 0 | Year 1 | Year 2 |
|---|---|---|---|
| Revenue | 10 | 15 | 20 |
| Regulatory income / (Regulatory expense) | 80 | 145 | 70 |
| Defined benefit plan | | | |
| Service costs | (90) | (98) | (108) |
| Net interest on the net defined benefit liability | | (9) | (20) |
| **Profit / (loss)** | **0** | **53** | **(38)** |
| | | | |
| Remeasurement of the net defined benefit liability | 0 | (53) | 38 |
| **Other comprehensive income** | **0** | **(53)** | **38** |
| | | | |
| **Total comprehensive income** | **0** | **0** | **0** |

47. We have discussed the presentation approaches in Tables 2 and 2A with users of financial statements—specifically a few equity analysts from Asia-Oceania and North America and a credit analyst from Europe. These users expressed a preference for the approach in Table 2 (as proposed in paragraph 69 of the Exposure Draft) on the grounds that it is simple to understand. They said users typically do not rely on information presented in other comprehensive income for their analysis.

48. These users also thought that the approach in Table 2A could lead to entities presenting alternative performance measures to explain their operating performance or to help users reconcile financial statements to regulatory reports. These alternative performance measures would seek to eliminate the volatility in profit or loss arising from the approach illustrated in Table 2A. These users expressed a preference for the approach proposed in the Exposure Draft because it would be less likely to result in the entity providing alternative performance measures.

49. However, one of these users also said that:

(a) the most useful information is a measure of profit or loss that is most closely aligned with how the regulator evaluates an entity's overall performance. If the regulator evaluates an entity's overall performance without considering actuarial gains or losses, the approach in Table 2 would be preferable. If the regulator evaluates the entity's overall performance considering actuarial gains or losses, the approach in Table 2A would then be preferable.

(b) if the pension cost is recovered in full, the approach in Table 2 would be preferred because it avoids reflecting volatility in profit or loss over reporting periods.

50. We think the final Standard should retain the proposed presentation requirements in paragraph 69 of the Exposure Draft for the following reasons:

(a) most respondents agreed with the proposed presentation, for the reasons outlined in the Basis for Conclusions accompanying the Exposure Draft; and

(b) users of financial statements support the proposals.

*Guidance on reclassification*

51. As mentioned in paragraph 39, a few respondents asked for more guidance on the reclassification of regulatory income or regulatory expense presented in other comprehensive income to profit or loss. One respondent also asked how an entity would allocate recovery of a regulatory asset when the underlying item has been remeasured partly through profit or loss and partly through other comprehensive income.

52. We think that the reclassification to profit or loss of amounts of regulatory income or regulatory expense presented in other comprehensive income should follow the presentation requirements of the underlying item (paragraph 56).

53. For example, in the case of a defined benefit pension, paragraph 122 of IAS 19 *Employee Benefits* says (**emphasis added**):

> 122 Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income **shall not be reclassified to profit or loss** in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.

54. Because IAS 19 would prohibit an entity from reclassifying remeasurements of the net defined benefit liability (asset) to profit or loss in a subsequent period, we think that an entity should also be prohibited from reclassifying regulatory income (regulatory expense) relating to such remeasurements. This would also mean that an entity should not allocate the recovery of the regulatory asset between profit or loss and other comprehensive income. Example 1 in Appendix A illustrates a remeasurement that would not be subsequently reclassified (paragraph A9).

55. There will also be cases when the amounts presented in other comprehensive income in relation to the underlying assets or liabilities would be reclassified to profit or loss in accordance with the relevant IFRS Accounting Standards. Cash flow hedges would be such an example. In the case of a cash flow hedge, regulatory income or regulatory expense relating to gains or losses arising from a hedging instrument presented in other comprehensive income would be reclassified to profit or loss at the same time as the gains or losses on the hedging instrument are reclassified to profit or loss.

56. We think an entity presenting regulatory income or regulatory expense in other comprehensive income in accordance with paragraph 69 of the Exposure Draft should be required to reclassify amounts to profit and loss as and when application of IFRS Accounting Standards to the related liability or asset would require such reclassification. That is, we think the presentation of remeasurements of the related regulatory asset or regulatory liability should mirror the presentation of remeasurements of the underlying liability or asset. This would be aligned with the current requirement in paragraph 22 of IFRS 14 *Regulatory Deferral Accounts*.

57. Paragraph 22 of IFRS 14 says (emphasis added):

> An entity shall present, in the other comprehensive income section of the statement or profit or loss and other comprehensive income, the net movement in all regulatory deferral account balances for the reporting period that relate to items recognised in other comprehensive income. Separate line items shall be used for the net movement related to items that, **in accordance with other Standards:**
>
> **(a) will not be reclassified subsequently to profit or loss; and**
>
> **(b) will be reclassified subsequently to profit or loss when specific conditions are met.**

58. Apart from the clarification proposed in paragraph 56, we have not identified a need to include additional guidance in the final Standard. However, we think it may be helpful to include an example illustrating a case when the cumulative amount of regulatory income or regulatory expense presented in other comprehensive income is reclassified to profit or loss.

### *Other matters*

59. When developing the proposed presentation requirement in paragraph 69 of the Exposure Draft, the IASB did not propose any other presentation and disclosure requirements for the regulatory income or regulatory expense presented in other comprehensive income beyond the requirements in IAS 1.[10]

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[10] Paragraph BC186 of the Basis for Conclusions accompanying the Exposure Draft.

60. IAS 1 requires separate presentation of items of other comprehensive income classified by nature and grouped according to whether they will be reclassified subsequently to profit or loss. IAS 1 also requires that an entity disclose reclassification adjustments relating to components of other comprehensive income.[11] Our understanding is that these requirements will be carried forward largely unchanged in the prospective [draft] IFRS 18.[12] We think the decision of the IASB when developing the Exposure Draft remains appropriate and therefore do not recommend requirements beyond those in IAS 1 or in the prospective [draft] IFRS 18.

61. A national standard-setter in Asia-Oceania asked whether the principle underlying the presentation proposal in paragraph 69 of the Exposure Draft should be extended to require an entity to present regulatory income or regulatory expense relating to allowable or chargeable income taxes within the tax expense line item in profit or loss (paragraph 41). We do not think that further disaggregation of regulatory income and regulatory expense in the financial statements is appropriate because:

    (a) the presentation proposals in the Exposure Draft would allow users to clearly identify the net movement in regulatory balances. Introducing further disaggregation would make this more difficult;

    (b) the presentation proposals in the Exposure Draft would result in the consistent application of IFRS Accounting Standards for all other transactions or activities, regardless of whether an entity has rate-regulated activities; and

    (c) an entity can provide disaggregated information about regulatory income and regulatory expense in the notes.

62. We recommend that the final Accounting Standard:

    (a) retain the proposed requirements in paragraph 69 of the Exposure Draft to present specified regulatory income and regulatory expense in other comprehensive income (paragraph 50);

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[11] Paragraphs 82A and 92 of IAS 1.

[12] The IASB expects to publish the new IFRS Accounting Standard in Q2 2024.

(b) clarify that an entity reclassifies regulatory income or regulatory expense presented in other comprehensive income to profit or loss when, and to the extent that, IFRS Accounting Standards require the reclassification of the related expense or income to profit or loss (paragraph 56); and

(c) not include presentation requirements for other comprehensive income and instead relies on the requirements in IAS 1 or the prospective [draft] IFRS 18 (paragraph 60).

| Question for the IASB |
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| 3. Does the IASB agree with the staff recommendations in paragraph 62? |

## Appendix A—Pension cost example

A1. Appendix A illustrates the application of the Exposure Draft proposals to defined benefit pension costs.

**Example 1**

Assume a regulatory agreement allows the recovery of defined benefit pension costs based on estimates of an entity's cash contributions rather than when the costs are incurred in accordance with IAS 19. The example assumes:

(a) estimated and actual cash contributions are the same.

(b) the regulatory asset is not subject to uncertainties that are not present in the related pension liability (paragraph 61(b) of the Exposure Draft).

A2. Table 1 shows the movement of the pension liability for Years 0–2.[13]

**Table 1—Movement of the pension liability**

| *In CU* | Year 0 | Year 1 | Year 2 |
|---|---|---|---|
| **Opening balance** | **0** | **80** | **225** |
| Service costs and net interest | 90 | 107 | 128 |
| Remeasurement | 0 | 53 | (38) |
| Cash payments | (10) | (15) | (20) |
| **Closing balance** | **80** | **225** | **295** |

A3. In this example, the regulatory agreement provides the entity with a right to recover the pension costs and that right is enforceable. However, when establishing the regulatory compensation to which the entity is entitled for Years 0–2, the regulator would consider the estimated cash payments for these years (which in this case equal the actual cash payments), not the expense incurred by the entity in accordance with IAS 19.

A4. For example, in Year 0 the regulator would have determined the rates to be charged during that period considering the estimated cash payments of CU10, not the entity's expense for that period of CU90. In this case, a regulatory asset of CU80 arises in

[13] Monetary amounts are denominated in 'currency units' (CU).

Year 0. That regulatory asset represents a difference in timing arising from differences between the regulatory criterion for determining the compensation for Year 0 and the accounting criterion for recognising the expense in that period. The regulator will not track the difference of CU80 and will not explicitly adjust the future rates for this amount. However, regardless of the criterion used by the regulator for determining the compensation for the pension cost, over the long term, the entity's entire pension cost would be included in regulated rates charged and in revenue recognised.

A5. Table 2 shows the statement of comprehensive income. Because the example assumes that estimated and actual cash payments are the same, the revenue line of the statement of comprehensive income is the same as the cash payments of the pension liability in Table 1.[14]

| **Table 2—Statement of comprehensive income (illustrating the presentation proposals in paragraph 69 of the Exposure Draft)** | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| Revenue | 10 | 15 | 20 |
| Regulatory income / (Regulatory expense) | 80 | 92 | 108 |
| Defined benefit plan | | | |
| Service costs | (90) | (98) | (108) |
| Net interest on the net defined benefit liability | | (9) | (20) |
| **Profit / (loss)** | **0** | **0** | **0** |
| | | | |
| Remeasurement of the net defined benefit liability | 0 | (53) | 38 |
| Remeasurement of the related regulatory asset | 0 | 53 | (38) |
| **Other comprehensive income** | **0** | **0** | **0** |
| | | | |
| **Total comprehensive income** | **0** | **0** | **0** |

A6. Using the fact pattern from Example 1, Table 2A illustrates the alternative presentation approach discussed in paragraph 46 of the paper.

[14] The term 'revenue' in the tables should be read as 'revenue from contracts with customers'.

| Table 2A—Statement of comprehensive income (illustrating the alternative presentation approach) | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| Revenue | 10 | 15 | 20 |
| Regulatory income / (Regulatory expense) | 80 | 145 | 70 |
| Defined benefit plan | | | |
| Service costs | (90) | (98) | (108) |
| Net interest on the net defined benefit liability | | (9) | (20) |
| **Profit / (loss)** | **0** | **53** | **(38)** |
| | | | |
| Remeasurement of the net defined benefit liability | 0 | (53) | 38 |
| **Other comprehensive income** | **0** | **(53)** | **38** |
| | | | |
| **Total comprehensive income** | **0** | **0** | **0** |

A7. Table 3 shows the statement of financial position.

| Table 3—Statement of financial position | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| Regulatory asset | 80 | 225 | 295 |
| Defined benefit obligation | **(80)** | **(225)** | **(295)** |

A8. Table 4 shows the reconciliation of the regulatory asset related to the pension liability.

| Table 4—Reconciliation of regulatory asset | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| ***Opening balance*** | **0** | **80** | **225** |
| Amount recognised | 90 | 107 | 128 |
| Remeasurements in OCI | 0 | 53 | (38) |
| Recovery | (10) | (15) | (20) |
| ***Closing balance*** | **80** | **225** | **295** |

A9. Table 4 also shows the recovery of the regulatory asset arising in Example 1. In Year 1 the regulatory asset recovery is CU15, which is the estimated cash payments for Year 1. The recovery of the regulatory asset by the estimated cash payment is reflected in revenue recognised and in regulatory expense in Year 1 (see Table 2). This means that the amounts relating to the remeasurement of the regulatory asset presented in other comprehensive income are not reclassified to profit or loss as the regulatory asset is recovered (paragraph 54 of this paper).

## Appendix B—Additional pension cost examples

B1. This appendix illustrates the application of the Exposure Draft proposals to specific fact patterns mentioned by respondents. In considering these fact patterns we have not identified any changes that would be required to the Exposure Draft proposals. These fact patterns could be considered when developing additional illustrative examples. Examples 2 and 3 are variations of Example 1 in Appendix A.

**Example 2**

Example 2 is similar to Example 1 in that the regulator allows an entity to recover pension costs on the basis of *estimated cash payments*. However, Example 2 assumes that there is a difference between estimated and actual cash payments.

B2. For Example 2:

(a) Table 5 shows actual and estimated cash payments;

(b) Table 6 shows the statement of comprehensive income. In this case, the revenue line of the statement of comprehensive income is the same as the estimated cash payments of the pension costs in Table 5;

(c) Table 7 shows the statement of financial position. For simplicity, the example assumes the regulatory asset is not subject to uncertainties that are not present in the related pension liability;[15] and

(d) Table 8 shows the reconciliation of the regulatory asset related to the pension liability.

| **Table 5—Actual and estimated cash payments** | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| *Actual cash payments* | *10* | *15* | *20* |
| *Estimated* | *5* | *10* | *30* |

[15] Paragraph 61 (b) of the Exposure Draft.

| Table 6—Statement of comprehensive income | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| Revenue | 5 | 10 | 30 |
| Regulatory income / (Regulatory expense) | 80 | 92 | 108 |
| Defined benefit plan | | | |
| Service costs | (90) | (98) | (108) |
| Net interest on the defined benefit liability | | (9) | (20) |
| **Profit / (loss)** | **(5)** | **(5)** | **10** |
| | | | |
| Remeasurement of the net defined benefit liability | | (53) | 38 |
| Remeasurement of the related regulatory asset | 0 | 53 | (38) |
| **Other comprehensive income** | **0** | **0** | **0** |
| | | | |
| **Total comprehensive income** | **(5)** | **(5)** | **10** |

| Table 7—Statement of financial position | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| Regulatory asset | 80 | 225 | 295 |
| Defined benefit obligation | **(80)** | **(225)** | **(295)** |

| Table 8—Reconciliation of regulatory asset | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| ***Opening balance*** | **0** | **80** | **225** |
| Amount recognised | 85 | 102 | 138 |
| Remeasurements in OCI | 0 | 53 | (38) |
| Recovery | (5) | (10) | (30) |
| ***Closing balance*** | **80** | **225** | **295** |

B3. As shown in Example 2, we think the measurement proposal in paragraph 61 of the Exposure Draft can be applied to the case when a regulator allows an entity to recover pension costs on the basis of estimated cash payments. In Example 2:

(a) the estimated cash payments for Years 0–2 are the amounts included in regulated rates charged in these years and are also the amounts that recover the related regulatory asset; and

(b) differences between estimated and actual cash payments are reflected in profit or loss.

B4. Example 3 illustrates another possible scenario.

**Example 3**

Example 3 is similar to Example 2 in that the regulator allows the entity to recover pension costs on the basis of estimated cash payments. However, the regulator also allows the entity to adjust differences between estimated and actual cash payments in the regulated rates charged in the subsequent period.

B5. In Example 3, we think two differences in timing arise:

(a) a difference in timing arising from the regulator allowing recovery of the pension costs on a cash basis, based on estimates of cash payments; and

(b) a difference in timing arising from differences between estimated and actual cash payments.

B6. The difference in timing in paragraph B5(a) would give rise to the same regulatory asset as that in Example 2 (see Table 8).

**Table 8—Reconciliation of regulatory asset**

| *In CU* | Year 0 | Year 1 | Year 2 |
|---|---|---|---|
| ***Opening balance*** | **0** | **80** | **225** |
| Amount recognised | 85 | 102 | 138 |
| Remeasurements in OCI | 0 | 53 | (38) |
| Recovery | (5) | (10) | (30) |
| ***Closing balance*** | **80** | **225** | **295** |

B7. The difference in timing in paragraph B5(b)would give rise to an enforceable right (regulatory asset) or enforceable obligation (regulatory liability) to adjust the regulated rates in the subsequent period. We think that an entity should measure that regulatory asset or regulatory liability by applying the cash-flow-based measurement technique proposed for all other regulatory assets and regulatory liabilities. This regulatory asset or regulatory liability is shown in Table 9.

| **Table 9—Reconciliation of regulatory asset (regulatory liability)** | | | |
|---|---|---|---|
| ***In CU*** | **Year 0** | **Year 1** | **Year 2** |
| ***Opening balance*** | **0** | **5** | **5** |
| Amount recognised | 5 | 5 | (10) |
| Remeasurements in OCI | 0 | 0 | 0) |
| Recovery | 0 | (5) | (5) |
| ***Closing balance*** | **5** | **5** | **(10)** |