Staff paper

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IASB® meeting

Date	**February 2023**
Project	**Rate-regulated Activities**
Topic	**Recognition—Overview**
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Objective

1. This paper sets out the topics that the staff recommends the IASB redeliberates within the recognition 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 proposed recognition requirements.

Structure of the paper

2. This paper is structured as follows:
   (a) summary of the proposed recognition requirements (paragraphs 3–6);
   (b) feedback—summary of key messages (paragraphs 7–16); and
   (c) redeliberations—topics and timing considerations (paragraphs 17–18).

Summary of the proposed recognition requirements

3. Paragraph 25 of the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft) proposes that an entity should recognise:
   (a) all regulatory assets and all regulatory liabilities existing at the end of the reporting period; and
   (b) all regulatory income and all regulatory expense arising during the reporting period.
4. Paragraph 27 of the Exposure Draft provides an indicative list of facts and circumstances that an entity would consider in determining whether a regulatory asset or a regulatory liability exists.
5. Paragraph 28 of the Exposure Draft proposes that if it is uncertain whether a regulatory asset or a regulatory liability exists, an entity should recognise that regulatory asset or regulatory liability if it is more likely than not that it exists.
6. In relation to derecognition, paragraph BC129 of the Basis for Conclusions on the Exposure Draft states:

> When an entity recovers part or all of a regulatory asset, or fulfils part or all of a regulatory liability, by adding or deducting an amount in determining future regulated rates (paragraphs BC50–BC51), the entity would derecognise that part of the regulatory asset or regulatory liability, and recognise regulatory expense or regulatory income accordingly (paragraph BC31). Furthermore, because the Board's measurement proposals would require an entity to update its estimates of future cash flows, measurement of regulatory assets and regulatory liabilities would be nil if estimated future cash flows were nil (paragraphs BC140–BC141). The Board therefore considers that the Exposure Draft contains sufficient proposals to explain when and how regulatory assets and regulatory liabilities should be derecognised. The Exposure Draft does not contain a separate section on derecognition.

Feedback—Summary of key messages

7. This summary considers comments received from respondents to:

   (a) the questions in the Recognition section of the ‘Invitation to comment’ (questions 4 (a) and 4(b)); and

   (b) question 5(c) in the Measurement section of the ‘Invitation to comment’ that had an interaction with the proposals on recognition.[1]

8. Most respondents who commented agreed with the IASB’s proposals that:

   (a) an entity should recognise all its regulatory assets and all its regulatory liabilities; and

   (b) if it is uncertain whether a regulatory asset or a regulatory liability exists, an entity should recognise that regulatory asset or regulatory liability if it is more likely than not that it exists.

9. Some respondents—mostly preparers and national standard-setters—asked the IASB to prohibit an entity from recognising regulatory assets and regulatory liabilities if there is significant outcome or measurement uncertainty. Some of these respondents said some regulatory assets or regulatory liabilities, in particular those relating to long-term performance incentives, would be subject to significant outcome or measurement uncertainty. Those respondents suggested the final Standard requires a regulatory asset or a regulatory liability to be recognised if:

   (a) it is highly likely that the asset or liability exists—that is, a higher probability recognition threshold; or

   (b) it meets an ‘existence’ threshold and can be reliably measured or the amount and timing of future cash flows are known.

[1] Question 5(c) in the ‘Invitation to comment’ asked stakeholders whether they agreed with the proposal in the Exposure Draft to estimate uncertain cash flows applying whichever of the two methods—the ‘most likely amount’ method or ‘expected value’ method—better predicts the cash flows.

10. Some respondents—mainly preparers, accounting firms and national standard-setters—suggested the IASB introduce a measurement constraint similar to the constraint on variable consideration required by IFRS 15 *Revenue from Contracts with Customers*. For example, an entity would include cash flows in the measurement of a regulatory asset only to the extent it is highly probable that a significant reversal in the amount of the regulatory asset will not occur. These respondents made this suggestion especially for regulatory assets associated with performance incentives.

11. Most respondents agreed with applying the same recognition threshold to regulatory assets and regulatory liabilities. Only a few respondents—a national standard-setter and an academic—said the recognition threshold for regulatory assets should be higher than that for regulatory liabilities.

12. A few respondents—mainly accounting firms—questioned the interaction between the 'more likely than not' recognition threshold with the proposed methods for estimating uncertain future cash flows—that is, the 'most likely amount' method or the 'expected value' method—in specific circumstances. For example, those respondents asked whether the 'expected value' method should reflect only those outcomes in which the regulatory asset or regulatory liability is more likely than not to exist. Other respondents questioned, for example, the appropriateness of using the 'most likely amount' method when the probability of existence is at or slightly above the 'more likely than not' threshold.

13. Many respondents commenting on the proposed scope and recognition requirements identified situations in which assessing the existence of enforceable present rights and enforceable present obligations can be difficult and requested that the final Standard provide further guidance and illustrative examples.

14. Some respondents—mainly accounting firms and national standard-setters—questioned how the assessment of enforceability of rights and obligations interplays with the assessment of existence of regulatory assets and regulatory liabilities. These respondents wondered whether an entity would need to first assess enforceability at

the regulatory agreement level and then assess the existence of regulatory assets and regulatory liabilities.

15. Some respondents—mainly preparers in Asia-Oceania and Europe—also questioned whether an entity would have enforceable present rights or enforceable present obligations in specific circumstances—primarily in the context of:

    (a) long-term performance incentives. These respondents thought an enforceable present right (obligation) would arise only after the entity has met (failed to meet) the performance criteria at the end of the performance period.

    (b) items affecting regulated rates only when related cash is paid or received (paragraphs 59–66 of the Exposure Draft). These respondents thought an enforceable present right (obligation) would arise only when cash is paid (or received).

16. A few respondents (accounting firms, national standard-setters and preparers) asked the IASB to develop:

    (a) explicit requirements on the timing of initial recognition of a regulatory asset or a regulatory liability. These stakeholders said a lack of alignment between the financial reporting period and the regulatory reporting period may cause burden as entities would need to gather information and make judgments at the end of the financial reporting period; and

    (b) guidance relating to derecognition of regulatory assets and regulatory liabilities.

Redeliberations—Topics and timing considerations

17. The table sets out the topics relating to the recognition proposals that the staff propose to discuss with the IASB:

Topic	Comments
Proposed recognition threshold (paragraphs 9–12*)*	
(a) Assessing feedback received relating to the proposed recognition threshold.	Discussed at this IASB meeting—Agenda Paper 9B
(b) Interaction between the proposed recognition threshold and the methods for estimating uncertain future cash flows.	This topic has interactions with the measurement proposals. Consequently, we will consider it when discussing the measurement proposals of the model.
Enforceability (paragraphs 13–15*)*	
(c) Difficulties in assessing the enforceability of rights and obligations.	Discussed at this IASB meeting—Agenda Paper 9C Enforceability has interactions with the measurement proposals (for example, determining the boundary of a regulatory agreement). We will consider this topic again when discussing the measurement proposals of the model.

Topic		Comments
(d)	Clarification of how the assessment of enforceability of rights and obligations interplays with the assessment of existence of regulatory assets and regulatory liabilities.	Discussed at this IASB meeting—Agenda Paper 9C
(e)	Existence of enforceable present rights and enforceable present obligations questioned in some circumstances (mainly long-term performance incentives and items affecting regulated rates only when related cash is paid or received).	Enforceability of rights and obligations in the context of long-term performance incentives is discussed at this IASB meeting—Agenda Paper 9C (see item (f) below). Enforceability also has interaction with the proposals dealing with items affecting regulated rates only when related cash is paid or received. We will consider enforceability when discussing those proposals.
Other topics		
(f)	Long-term performance incentives (paragraphs 9 and 15).	Agenda Paper 9C discusses enforceability of rights and obligations in the context of long-term performance incentives. The staff will analyse feedback on the recognition and measurement of long-term performance incentives and make recommendations at a future meeting.

Topic	Comments
(g) Introducing a constraint on the measurement of regulatory assets or regulatory liabilities (paragraph 10).	The staff will analyse feedback on this topic and make recommendations at a future meeting. This topic has interactions with the proposals dealing with long-term performance incentives (see item (f) above). We will consider this topic when discussing the recognition and measurement of long-term performance incentives.
(h) Timing of initial recognition (paragraph 16(a)).	The staff will analyse feedback on these topics and make recommendations at a future meeting.
(i) Derecognition (paragraph 16(b)).	

18. 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?