
IASB[®] meeting

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Objective

1. An external editorial review draft of the prospective IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities* (external review draft) was made available in June 2025 to selected stakeholders for their comment.
2. This paper analyses comments received on the external review draft on the recognition requirements related to a direct relationship between an entity's regulatory capital base and its property, plant and equipment.

Staff recommendations

3. We recommend that the final Standard:
 - (a) include revised drafting for the direct relationship that:
 - (i) revises the defining feature of a direct relationship to be the ability of an entity to track, by amount and reporting period, how the amounts arising from the underlying item are compensated or charged for by regulatory depreciation;

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- (ii) moves the previous defining features of a direct relationship to be indicators of a direct relationship; and
 - (iii) adds an allowed presumption about whether there is a direct relationship between the regulatory capital base and depreciable or amortisable assets based on specific indicators;
 - (b) require an entity to determine a direct relationship between the regulatory capital base and depreciable or amortisable assets at the level of an asset class as determined applying IFRS Accounting Standards; and
 - (c) require an entity:
 - (i) to reassess whether there is a direct relationship between the regulatory capital base and an underlying item when there is a change in the regulatory agreement that might alter that relationship; and
 - (ii) to disclose any change to or from a direct relationship, and the reason for the change.

Structure of the paper

- 4. This paper is structured as follows:
 - (a) summary of revisions to the drafting of the requirements (see paragraphs 6–7);
 - (b) defining feature of a direct relationship, indicators of a direct relationship and allowed presumption (see paragraphs 8–11);
 - (c) level at which a direct relationship with depreciable or amortisable assets must be determined (see paragraphs 12–14); and
 - (d) reassessment of a direct relationship (see paragraphs 15–16).
- 5. This paper contains three appendices:
 - (a) Appendix A sets out the feedback on the external review draft relating to the recognition requirements that depend on there being a direct relationship

between an entity's regulatory capital base and its property, plant and equipment, and the staff response to that feedback.

- (b) Appendix B sets out draft rewording of these recognition requirements. (The paragraphs in the Application Guidance set out in Appendix B are numbered with the prefix RB to avoid confusion with the paragraphs with the prefix B reproduced from the external review draft in Appendix C.)
- (c) Appendix C includes extracts from the external review draft that set out the recognition requirements that depend on there being a direct relationship between an entity's regulatory capital base and its property, plant and equipment.

Summary of revisions to the drafting of the requirements

- 6. Appendix A sets out a table of the feedback received on the external review draft and the staff response to that feedback. Appendix B sets out the wording of the requirements revised in response to the feedback. In summary, we have:
 - (a) moved the recognition condition related to the direct relationship into the main body of the Standard, and expressed it in a more principled and cohesive way (see paragraph 1 of the extract included in Appendix B)—there needs to be a direct relationship between the regulatory capital base and an underlying item that gives rise to amounts for which the regulatory depreciation provides or charges compensation. We give examples of the most common types of underlying items in paragraph RB2 of the extract included in Appendix B. In doing so, we clarify that the concept of a direct relationship applies to the relationship between an entity's regulatory capital base and *any underlying items*—that is, all depreciable and amortisable assets, and all underlying items other than depreciable and amortisable assets.
 - (b) we have described the regulatory assets and regulatory liabilities to which the requirement for a direct relationship applies as 'regulatory assets and

regulatory liabilities arising from regulatory depreciation of an entity's regulatory capital base' (see paragraph 1 of the extract included in Appendix B). In the external review draft they were described as regulatory assets or regulatory liabilities arising from 'compensation related to the regulatory capital base'. We have made this change in response to feedback that the phrase 'related to the regulatory capital base' was not clear.

- (c) moved the definition for a direct relationship to exist into the main body of the Standard. We have also made the defining feature of a direct relationship the ability of an entity to track, by amount and reporting period, how the amounts arising from the underlying item are compensated or charged for by regulatory depreciation (see paragraph 2 of the extract included in Appendix B and further discussion in paragraphs 8–11 of this paper).
- (d) added definitions of the regulatory capital base and regulatory depreciation (see definitions in the extract included in Appendix B).
- (e) clarified the requirement that, if applicable, an entity assesses whether parts of the regulatory capital base have a direct relationship with underlying items, rather than considering the regulatory capital base as a whole (see paragraph RB3 of the extract included in Appendix B).
- (f) added a requirement for an entity to reassess whether there is a direct relationship between the regulatory capital base and an underlying item when there is a change in the regulatory agreement that might alter that relationship (see paragraph RB4 of the extract included in Appendix B and further discussion in paragraphs 15–16 of this paper).
- (g) added an allowed presumption about whether there is a direct relationship between the regulatory capital base and depreciable or amortisable assets based on specific indicators (see paragraph RB5 of the extract included in Appendix B and further discussion in paragraphs 8–11 of this paper).
- (h) specified that a direct relationship between the regulatory capital base and depreciable or amortisable assets must exist at an asset class level as

determined applying IFRS Accounting Standards (IFRS asset class) (see paragraph RB6 of the extract included in Appendix B and further discussion in paragraphs 12–14 of this paper).

- (i) clarified how an entity identifies individual differences in timing when the regulatory capital base has a direct relationship with depreciable or amortisable assets by IFRS asset class (see paragraph RB7 of the extract included in Appendix B).

7. These revisions are largely drafting changes, but there are three questions we would like to ask the IASB, relating to:
- (a) the way a direct relationship is defined, the indicators that support such a relationship exists, and an allowed presumption about whether there is a direct relationship (see paragraphs 8–11 of this paper);
 - (b) the level at which a direct relationship with depreciable or amortisable assets must be determined, and the resulting unit of account for an individual difference in timing related to such assets (see paragraphs 12–14 of this paper); and
 - (c) the reassessment of whether there is a direct relationship (see paragraphs 15–16 of this paper).

Defining feature of a direct relationship, indicators of a direct relationship and allowed presumption

8. In response to feedback on how a direct relationship is described in the external review draft of the Application Guidance, and in the draft Illustrative Examples, we have:
- (a) revised the defining feature of a direct relationship. It now is the ability of an entity to track, by amount and reporting period, how the amounts arising from

the underlying item are compensated or charged for by regulatory depreciation (see paragraph 2 of the extract included in Appendix B).

- (b) moved the previous defining features of a direct relationship to be indicators of a direct relationship. The defining features for a direct relationship in the external review draft were (a) that items and classes in the regulatory capital base were similar to items and classes in property, plant and equipment, and (b) that the entity was able to track differences between the regulatory capital base classes and the property, plant and equipment classes (see paragraph B22 of the extract included in Appendix C). They are now indicators of a direct relationship (see paragraph RB8 of the extract included in Appendix B).
 - (c) added an allowed presumption about whether there is a direct relationship between the regulatory capital base and depreciable or amortisable assets based on specific indicators (see paragraph RB5 of the extract included in Appendix B).
9. These changes respond to the concerns described in paragraph 3 of Appendix A about the clarity of the requirements. We have described the defining feature for the direct relationship in terms of the ability to track because that ability is the essential feature that establishes the link between the regulatory depreciation and the amounts arising from the underlying item. However, we also want to ensure that entities need not undertake excessive work to demonstrate they cannot do such tracking. This is achieved by the indicators that there is no direct relationship (see paragraphs RB9 and RB11 of the extracts included in Appendix B) and the allowed presumption (in paragraph RB5 of the extracts included in Appendix B) that there is no direct relationship with depreciable or amortisable assets if neither of the indicators in paragraph RB8 of the extracts included in Appendix B are present.
10. We acknowledge that an allowed presumption based on indicators could potentially be applied in an asymmetric way. An entity with regulatory liabilities in excess of regulatory assets might choose to apply the presumption that there is no direct relationship with depreciable or amortisable assets—and hence not recognise

regulatory assets and regulatory liabilities. In contrast, an entity with regulatory assets in excess of regulatory liabilities might choose not to apply the presumption and instead do additional work to do the necessary tracking—and hence recognise regulatory assets and regulatory liabilities.

11. However, we think the risks associated with asymmetric application are acceptable:

- (a) within an entity—the allowed presumption applies to the relationship with depreciable or amortisable assets. If a direct relationship is established, an entity will then recognise all regulatory assets and regulatory liabilities under that direct relationship. Often there will be only one relationship between the regulatory capital base and all depreciable and amortisable assets. Accordingly, an entity will generally not be able to apply the allowed presumption in different ways.
- (b) across entities—the possibility of asymmetric application across entities already existed with the indicators as set out in the external review draft. An entity could have either relied on the indicators to assert there was no direct relationship, or could have done the additional work required to demonstrate that the defining features of a direct relationship existed. We accepted that an entity's conclusion about whether a direct relationship existed could be influenced by its willingness to do the needed work. Further, an entity is required to disclose information about:
 - (i) the relationship between its regulatory capital base and underlying items, including why it determined the relationship is direct or not direct; and
 - (ii) information about unrecognised regulatory assets and unrecognised regulatory liabilities, including the reason they have not been recognised.

Question for the IASB

1. Does the IASB agree with the changes in the way the direct relationship is expressed, and with the allowed presumption (paragraph 8)?

Level at which a direct relationship with depreciable or amortisable assets must be determined

12. Paragraph RB6 of the extract included in Appendix B specifies that a direct relationship with depreciable or amortisable assets must exist *at an asset class level* as determined applying IFRS Accounting Standards. This requirement was in the external review draft, but there has not been an explicit IASB decision on the matter.
13. In principle, a direct relationship should exist at an individual asset level in order for an entity to identify how much, and in which periods, regulatory depreciation provides compensation for depreciation expense recognised in a reporting period and to identify any difference in timing at the individual asset level. Tracking the regulatory depreciation and the depreciation expense at an IFRS asset class level affects the level at which an entity can identify individual differences in timing (see paragraph 14). Further, if an IFRS asset class includes assets with different useful lives, tracking at the IFRS asset class level could result in combining regulatory assets and regulatory liabilities that would arise from individual assets into a single net regulatory asset or net regulatory liability. However, feedback indicates that tracking at an individual asset level could be unduly onerous. The staff therefore recommend that, to balance costs and benefits, the IASB confirms such tracking be required at an IFRS asset class level.
14. Reviewers of the external review draft also asked how establishing a direct relationship at an IFRS asset class level linked to the requirement for an entity to identify individual differences in timing (or a group of differences in timing). Paragraph RB7 of the extracts included in Appendix B clarifies how an entity identifies an individual difference in timing in these circumstances.

Question for the IASB

2. Does the IASB agree with the requirement to determine a direct relationship with depreciable or amortisable assets at an IFRS asset class level and the guidance on how to identify an individual difference in timing (paragraphs RB6 and RB7 of the extracts included in Appendix B)?

Reassessment of a direct relationship

15. Reviewers of the external review draft asked when the existence of a direct relationship should be reassessed. We have added requirements that an entity should:
- (a) reassess whether there is a direct relationship when there is a change in the regulatory agreement that might alter that relationship (see paragraph RB4 of the extracts included in Appendix B).
 - (b) disclose any change to or from a direct relationship, and the reason for the change (draft wording not reproduced in Appendix B).
16. Reassessment of the relationship is only needed when there is a relevant change in the regulatory agreement because it is unlikely that the nature of the relationship will change without such a change in the regulatory agreement. Disclosure about such a change in the relationship will help users of financial statements understand the relationship between an entity's regulatory capital base and the underlying items.

Question for the IASB

3. Does the IASB agree with the additional requirements for an entity:
- (a) to reassess whether there is a direct relationship between the regulatory capital base and an underlying item when there is a change in the regulatory agreement that might alter that relationship; and

Question for the IASB

- (b) to disclose any change to or from a direct relationship, and the reason for the change?

Appendix A—Feedback on the external review draft and staff response

A1. Many reviewers commented on the structure and complexity of the requirements in the external review draft.

	Feedback	Staff response
1	Too much important material is in the Application Guidance (Appendix B of the Standard) rather than the main body of the Standard, resulting in unnecessary cross-referencing and complexity.	We have moved the recognition condition related to the direct relationship and the definition of such a relationship into the main body of the Standard (see paragraphs 1 and 2 of the extracts included in Appendix B).
2	It is difficult to identify the key principles out of the extensive detailed requirements.	We have expressed the recognition condition in a more principled and cohesive way (see paragraph 1 of the extracts included in Appendix B)—there needs to be a direct relationship between the regulatory capital base and an underlying item that gives rise to amounts for which the regulatory depreciation provides or charges compensation. We give examples of the most common type of underlying items in paragraph RB2 of Appendix B.
3	More definitions of key terms would be helpful, for example, regulatory capital base and regulatory depreciation.	We have added definitions of regulatory capital base and regulatory depreciation (see definitions in the extracts included in Appendix B).
4	Some requirements are confusing, in particular those dealing with recognition subject to (a) the direct relationship for property, plant and equipment or (b) an entity's ability to track items unrelated to property, plant and equipment.	We have redrafted the requirements so that the concept of a direct relationship applies not only for property, plant and equipment but for any depreciable and amortisable assets, and for any other underlying items. This means that the same requirements apply to all underlying items.

A2. A few reviewers gave comments specifically on the direct relationship (all paragraph references in the feedback column are to the paragraphs in the external review draft reproduced in Appendix C):

	Feedback	Staff response
1	Questions on the conditions for a direct relationship:	
(a)	How to assess the condition ‘the items and classes are similar’ in paragraph B22(a).	We have clarified what ‘similar’ means (see paragraph RB8(b) of the extracts included in Appendix B): ‘the classes in the regulatory capital base are sufficiently similar to the IFRS classes of depreciable or amortisable assets for the entity to be able to track any differences between classes in the regulatory capital base and their equivalent IFRS asset classes’
(b)	Whether the condition ‘ability to track differences by asset class’ in paragraph B22(b) can be a determinant of direct relationship and how it interacts with the unit of account requirements.	We have specified that a direct relationship with depreciable or amortisable assets must exist at an asset class level as determined applying IFRS Accounting Standards. We have also clarified how an entity identifies individual differences in timing when the regulatory capital base has a direct relationship with depreciable or amortisable assets by IFRS asset class. See paragraphs RB6–RB7 of the extracts included in Appendix B and further discussion in paragraphs 12–14 of this paper.
2	There were comments arising from a comparison of the requirements in the external review draft of the prospective Standard and the explanations in the draft Illustrative Examples:	
(a)	The final Standard should specify that an entity determines the relationship between its regulatory capital base and its property,	We have now specified this. (See paragraph RB4 of the extracts included in Appendix B.)

	Feedback	Staff response
	plant and equipment considering also the regulatory objective and methodology for determining the regulatory capital base and regulatory depreciation. This factor was only discussed in the draft Illustrative Examples.	
(b)	The final Standard should specify whether and when an entity should reassess the relationship between its regulatory capital base and its property, plant and equipment. This comment is also relevant for reassessment of the entity's ability to track regulatory depreciation for items unrelated to property, plant and equipment.	We have added a requirement for an entity to reassess whether there is a direct relationship between the regulatory capital base and an underlying item when there is a change in the regulatory agreement that might alter that relationship (see paragraph RB3 of the extracts included in Appendix B). We have also added a requirement to disclose such changes.
3	There were questions about the phrase 'related to the regulatory capital base' and the phrase 'items in the regulatory capital base that are related or unrelated to property, plant and equipment':	
(a)	What does 'related to the regulatory capital base' mean?	We now refer to regulatory assets and regulatory liabilities arising from regulatory depreciation. As a consequence, we have: 1. captured in the scope of the requirement for a direct relationship regulatory assets and regulatory liabilities that arise from regulatory returns added to the regulatory capital base.¹ 2. clarified that the requirement for a direct relationship applies to regulatory liabilities that arise when compensation for amounts arising from depreciable or amortisable

¹ Some of these regulatory assets and regulatory liabilities were already covered by the requirement for a direct relationship in the external review draft. The staff had always intended the requirement would apply to all such regulatory assets and regulatory liabilities.

	Feedback	Staff response
		assets is provided separately from regulatory depreciation and is added to regulated rates charged to customers before the assets are treated as available for use (see paragraph RB1 of the extracts included in Appendix B).
(b)	what items related to property, plant and equipment are not items of property, plant and equipment.	We now refer to underlying items, including depreciable and amortisable assets, allowable expenses, and other items added to the regulatory capital base (see RB2 of the extracts included in Appendix B). We apply the same recognition requirements to all underlying items (see paragraphs 1–2 of the extracts included in Appendix B), but there are different indicators of whether a direct relationship exists (see paragraphs RB6–RB11 of the extracts included in Appendix B).
(c)	whether items related to property, plant and equipment include other depreciable assets in the regulatory capital base—for example, right-of-use assets and investment properties.	We now refer to depreciable and amortisable assets, which we will define as depreciable and amortisable assets as determined by the entity applying IAS 16, IAS 38, IAS 40 and IFRS 16. This is consistent with the identification of depreciation and amortisation expense in IFRS 18.
4	There were comments about drafting inconsistency for the recognition constraints for items unrelated to property, plant and equipment between: (a) the draft Application Guidance—the recognition constraints are described in terms of <i>an entity's ability to track</i> an amount of regulatory depreciation that	We have made the defining feature of a direct relationship the ability of an entity to track, by amount and reporting period, how the amounts arising from the underlying item are compensated or charged for by regulatory depreciation (see paragraph 2 of the extracts included in Appendix B and discussion in paragraphs 8–11 of this paper).

	Feedback	Staff response
	provides compensation for those items; and (b) the draft Basis for Conclusions and draft Illustrative Examples—the recognition constraints are explained and illustrated in terms of <i>the regulator tracking</i> the recovery of those items through regulatory depreciation.	
5	There were questions on the application of paragraph B27 of the external review draft. That paragraph requires an entity to determine the relationship for each part of the regulatory capital base that the regulator treats differently. Some asked how such parts of the regulatory capital base should be identified.	We have clarified that, if applicable, an entity assesses whether parts of the regulatory capital base have a direct relationship with underlying items, rather than considering the regulatory capital base as a whole (see paragraph RB3 of the extracts included in Appendix B).

Appendix B—Rewording of recognition requirements

- B1. The revised wording for the recognition conditions related to the direct relationship is as follows. This wording is, of course, draft and may be refined further.

Recognition

1. An entity shall recognise a regulatory asset or regulatory liability arising from regulatory depreciation of its regulatory capital base if, and only if, there is a direct relationship between its regulatory capital base and an underlying item. An underlying item is an item that gives rise to amounts for which the regulatory depreciation provides or charges compensation (see paragraphs RB1–RB2).
2. An entity's regulatory capital base has a direct relationship with an underlying item if the entity is able to track, by amount and reporting period, how the amounts arising from the underlying item are compensated or charged for by regulatory depreciation (see paragraphs RB3–RB11).

Definitions

regulatory capital base	Investments in assets and other items that a regulatory agreement entitles an entity to recover by adding an amount for regulatory depreciation in determining a regulated rate to be charged to customers for goods or services supplied to them.
regulatory depreciation	The systematic allocation of an amount of the regulatory capital base to be added in determining a regulated rate.

Compensation through regulatory depreciation of an entity's regulatory capital base

Scope of requirements in paragraph 1

- RB1. Paragraph 1 sets constraints on the recognition of regulatory assets and regulatory liabilities arising from regulatory depreciation of an entity's regulatory capital base. Such regulatory liabilities include regulatory liabilities that arise when compensation for amounts arising from depreciable or amortisable assets is provided separately from regulatory depreciation and added to regulated rates charged to customers before the assets are treated as available for use applying IFRS Accounting Standards.

Relationship between a regulatory capital base and an underlying item

- RB2. The regulatory capital base comprises investments in assets and other items that a regulatory agreement entitles an entity to recover by adding an amount for regulatory depreciation in determining a regulated rate to be charged to customers for goods or services supplied to them. That regulatory depreciation provides or charges compensation for amounts arising from underlying items, for example:
- (a) items recognised by an entity as a depreciable or amortisable asset applying IFRS Accounting Standards;
 - (b) an allowable expense or chargeable income added to the regulatory capital base other than expenses or income arising from the assets described in (a); and
 - (c) other amounts added to the regulatory capital base, for example, performance incentives added to the regulatory capital base.
- RB3. The regulatory capital base could comprise parts that have a direct relationship with an underlying item or items and a part that does not have such a relationship. An entity shall apply paragraphs 2 and RB4–RB10 to identify whether any part of its regulatory capital base has a direct relationship with an underlying item or items. To apply paragraphs 2 and RB4–RB10 to identify such a part of the regulatory capital base, an entity shall treat the references in those paragraphs to the 'regulatory capital base' as being to 'a part of the regulatory capital base'.
- RB4. To determine whether there is a direct relationship between an entity's regulatory capital base and an underlying item or items when applying paragraph 2, the entity shall use its judgement and consider all reasonable and supportable information that is available without undue cost or effort. For example, an entity shall consider the regulatory methodology underlying the determination of its regulatory capital base, the determination of the regulatory depreciation and whether and how the regulator monitors that amounts arising from the underlying items are compensated or charged for by regulatory depreciation. An entity shall reassess the determination of whether there is such a direct relationship when there is a change in the regulatory agreement that might alter that relationship.
- RB5. Paragraphs RB8–RB10 set out some indicators of whether or not a regulatory capital base has a direct relationship with an underlying item or items. These indicators are not exhaustive. An entity might give more weight to some indicators than others in determining whether its regulatory capital base has a direct relationship with an underlying item or items. Nonetheless,

an entity is permitted to presume there is no direct relationship with depreciable or amortisable assets if neither of the indicators described in paragraph RB8 exist.

Direct relationship with depreciable or amortisable assets

- RB6. To determine whether an entity's regulatory capital base has a direct relationship with its depreciable or amortisable assets recognised applying IFRS Accounting Standards, an entity shall apply the condition in paragraph 2 for each asset class determined applying IFRS Accounting Standards (an IFRS asset class).
- RB7. Paragraph x² requires an entity to account for the right or obligation arising from an individual difference in timing (or from a group of differences in timing). If the regulatory capital base has a direct relationship with depreciable or amortisable assets by IFRS asset class, an entity shall identify individual differences in timing using the disaggregation (if any) of the IFRS asset class it uses to establish the direct relationship. Accordingly:
- (a) if the entity performs such tracking at the IFRS asset class level, an individual difference in timing arises from the IFRS asset class; or
 - (b) if the entity disaggregates the IFRS asset class across two classes in the regulatory capital base to perform such tracking, individual differences in timing arise from each of the two disaggregated parts of the IFRS asset class.
- RB8. Indicators that an entity's regulatory capital base has a direct relationship with its depreciable or amortisable assets include:
- (a) the classes in the regulatory capital base are sufficiently similar to the IFRS classes of depreciable or amortisable assets for the entity to be able to track any differences between classes in the regulatory capital base and their equivalent IFRS asset classes. As a result, the entity is able—using a reasonable and supportable basis—to allocate any adjustments to the regulatory capital base to IFRS asset classes.
 - (b) the regulator determines an amount of regulatory depreciation based on the depreciation or amortisation expense determined applying IFRS Accounting Standards.
- RB9. Indicators that an entity's regulatory capital base does not have a direct relationship with its depreciable or amortisable assets include:
- (a) the regulator determines the regulatory capital base using capital expenditure as specified by the regulatory agreement, instead of using information about the entity's depreciable or amortisable assets; or
 - (b) the regulator determines regulatory depreciation by considering factors unrelated to the depreciation or amortisation of depreciable or amortisable assets.

² Paragraph x is paragraph 21 of the external review draft. That paragraph says: 'An entity shall account for the right or obligation arising from an individual difference in timing [...]—or from a group of differences in timing that are created by the same regulatory agreement, have similar expiry patterns and are subject to similar risks—as a single unit of account.'

Direct relationship with underlying items other than depreciable or amortisable assets

RB10. Indicators that an entity's regulatory capital base has a direct relationship with underlying items other than depreciable or amortisable assets include:

- (a) the regulatory capital base has a direct relationship with the entity's depreciable or amortisable assets.
- (b) the regulator monitors the provision of compensation for the amounts arising from the underlying items through regulatory depreciation separately from the rest of the regulatory capital base. The regulatory monitoring might provide the entity the information necessary to track, by amount and reporting period, how, for example, allowable expenses arising in a reporting period are recovered through regulatory depreciation.

RB11. An indicator that an entity's regulatory capital base does not have a direct relationship with underlying items other than depreciable or amortisable assets is that the entity is unable—using a reasonable and supportable basis—to allocate adjustments to the regulatory capital base or regulatory depreciation to underlying items. This could be the case when the regulator determines regulatory depreciation considering the regulatory capital base as a whole.

Appendix C—Requirements in the external review draft

- C1 The external review draft included the following requirement on the recognition conditions relating to the direct relationship.

Recognition

22. Except as specified in paragraphs 25–26, an entity shall recognise:

- (a) all regulatory assets and all regulatory liabilities existing at the end of a reporting period; and**
- (b) all regulatory income and all regulatory expense arising during a reporting period.**

[Paragraphs on recognition threshold for regulatory assets and regulatory liabilities, not reproduced here]

25. An entity is prohibited from recognising regulatory assets and regulatory liabilities in specific circumstances. These circumstances are set out:

- (a) in paragraphs B34, B40 and B70—for compensation for *allowable expenses*, *chargeable income* and performance incentives related to an entity’s regulatory capital base; and**
- (b) [recognition condition for inflation adjustments, not reproduced here.]**

Differences in timing and constraints on recognition

- B13. For a regulatory asset or regulatory liability to exist, there must be a difference in timing, as described in paragraph 15, whereby part or all of the total allowed compensation for regulatory goods or services supplied by an entity in a reporting period is included in regulated rates charged to customers in a different period (past or future).
- B14. The terms of regulatory agreements vary among jurisdictions and industries. Accordingly, an entity might not have all the differences in timing described in paragraphs B28–B72 or the entity might have other differences in timing. An entity shall identify differences in timing by using judgement in analysing the terms of the regulatory agreement.
- B15. The terms of many regulatory agreements include compensation related to a regulatory capital base, which often gives rise to differences in timing. The regulatory capital base comprises investments in assets and other items for which a regulatory agreement entitles an entity to add an amount in determining a regulated rate to be charged to customers for goods or services supplied to them.
- B16. The regulatory capital base could include various components, for example, items relating to:
- (a) property, plant and equipment;
 - (b) intangible assets;
 - (c) adjustments to property, plant and equipment or intangible assets; and
 - (d) items unrelated to property, plant and equipment or intangible assets.
- B17. Compensation related to the regulatory capital base comprises:
- (a) regulatory depreciation—the recovery of amounts included in the regulatory capital base; and
 - (b) regulatory return—a return on amounts included in the regulatory capital base.
- B18. In some situations, the accounting for a regulatory asset or regulatory liability arising from compensation relating to the regulatory capital base depends on:
- (a) there being a direct relationship between an entity's regulatory capital base and its property, plant and equipment or its intangible assets (see paragraphs B34(a), B40(a) and B50(b)); or
 - (b) the entity being able to track an amount of the regulatory depreciation that provides compensation for an item that is unrelated to property, plant and equipment or intangible assets (see paragraphs B34(b), B40(b) and B70).
- B19. Paragraphs B21–B27, B34(a), B40(a) and B50(b) include requirements relating to (a) property, plant and equipment and (b) expenses relating to property, plant and equipment. An entity shall also apply those requirements to intangible assets and expenses relating to intangible assets, by reading

the references to 'property, plant and equipment' and 'depreciation expense' as 'intangible assets' and 'amortisation expense'.

B20. This rest of this section addresses:

- (a) relationship between an entity's regulatory capital base and its property, plant and equipment (see paragraphs B21–B27);
- (b)[list of other sections not reproduced here]

Relationship between an entity's regulatory capital base and its property, plant and equipment

B21. An entity shall determine whether its regulatory capital base has, or does not have, a direct relationship with its property, plant and equipment. To make this determination, an entity shall use its judgement and consider all reasonable and supportable information that is available without undue cost or effort.

B22. An entity's regulatory capital base has a direct relationship with its property, plant and equipment if:

- (a) the items and classes in the regulatory capital base related to property, plant and equipment are similar to the items and classes of property, plant and equipment determined by applying IAS 16 *Property, Plant and Equipment*; and
- (b) the entity is able to track differences between the items in the regulatory capital base related to property, plant and equipment and its property, plant and equipment by asset class determined by applying IAS 16.

B23. Indicators that an entity's regulatory capital base has a direct relationship with its property, plant and equipment include:

- (a) the regulator determines regulatory depreciation, or a specified or determinable amount of regulatory depreciation, in a way that provides compensation for the depreciation expense recognised by the entity applying IAS 16. This would be the case, for example, if the regulator determines the regulatory depreciation based on the depreciation expense an entity recognises by applying IAS 16.
- (b) the entity is able to allocate, using a reasonable and supportable basis, any adjustments to the regulatory capital base related to property, plant and equipment to individual classes of property, plant and equipment determined by applying IAS 16.

B24. An entity's regulatory capital base does not have a direct relationship with its property, plant and equipment if the conditions in paragraph B22 are not met, for example, if:

- (a) the items or classes in the regulatory capital base related to property, plant and equipment differ substantially from the items or classes of property, plant and equipment determined by applying IAS 16; or
- (b) the entity is unable to track differences between the items in the regulatory capital base related to property, plant and equipment and

	its property, plant and equipment by asset class determined by applying IAS 16.
B25.	Indicators that an entity's regulatory capital base does not have a direct relationship with its property, plant and equipment include: (a) the regulator determines the regulatory capital base using capital expenditure as specified by the regulatory agreement, rather than information about the entity's property, plant and equipment. (b) the regulator determines the regulatory depreciation by considering factors that are unrelated to the depreciation of an entity's property, plant and equipment.
B26.	The indicators in paragraphs B23 and B25 are not exhaustive. An entity might give more weight to some indicators than others in determining whether its regulatory capital base has a direct relationship with its property, plant and equipment.
B27.	Two different types of relationship can coexist between an entity's regulatory capital base and its property, plant and equipment. This might be the case if a regulatory agreement determines part of an entity's regulatory capital base differently from another part of that base. In such cases, the entity shall treat each part of the regulatory capital base as a separate base. The entity shall determine, for each base, whether that base has a direct relationship with some items of property, plant and equipment. The entity might determine that: (a) part of its regulatory capital base has a direct relationship with some items of property, plant and equipment; and (b) another part of its regulatory capital base does not have a direct relationship with the remaining items of property, plant and equipment. [Paragraphs on differences in timing relating to allowable expenses and chargeable income not reproduced here].
B34.	An entity shall recognise a regulatory asset or regulatory liability arising from compensation for an allowable expense related to the regulatory capital base: (a) for expenses related to property, plant and equipment, only if the entity's regulatory capital base has a direct relationship with its property, plant and equipment; or (b) for an allowable expense unrelated to property, plant and equipment, only if the entity is able to track an amount of the regulatory depreciation that provides compensation for the allowable expense.
B40.	An entity shall recognise a regulatory liability or regulatory asset arising from deductions for chargeable income related to the regulatory capital base: (a) if the chargeable income is related to property, plant and equipment, only if the entity's regulatory capital base has a direct relationship with its property, plant and equipment; or

- (a) if the chargeable income is unrelated to property, plant and equipment, only if the entity is able to track an amount deducted from the regulatory depreciation that relates to the chargeable income.

B70. In some cases, a regulatory agreement specifies that a performance incentive related to an entity's performance for a period is added to or deducted from the entity's regulatory capital base. An entity shall recognise a related regulatory asset or regulatory liability only if the entity is able to track an amount added to or deducted from the regulatory depreciation that relates to the performance incentive.