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Project	**Rate-regulated Activities**
Paper topic	Disclosure objectives and requirements

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Purpose of this paper

1. The purpose of this paper is to provide the Board with our analysis and recommendation on the disclosure objectives and requirements for defined rate regulation.

2. The disclosure recommendations in this paper assume the Board agrees with the recommendations for the presentation requirements in Agenda Paper 9C.

Structure of the Paper

3. The structure of the paper is as follows:

   (a) work done on the Disclosure Initiative—Targeted Standards-level Review of Disclosures project (paragraphs 6–8);

   (b) disclosure objectives (paragraphs 9–27);

   (c) level of aggregation (paragraphs 28–35); and

   (d) disclosure requirements (paragraphs 36–42).

4. Agenda Paper 9E provides an illustration of the recommended disclosure requirements in paragraphs 36–42 of this paper.

5. In October 2018 we sought advice from the Accounting Standards Advisory Forum (ASAF) members on identifying disclosure objectives and related disclosure requirements for defined rate regulation.[1] The Appendix to this paper includes a draft of the summary note of that meeting; we have referred to it when appropriate.

Disclosure Initiative—Targeted Standards-level Review of Disclosures project

6. As part of its Targeted Standards-level Review of Disclosures project, the Board tentatively decided, at its May 2018 meeting,[2] that the approach to be used in that project would involve:

   (a) continuing to use high-level or overall disclosure objectives within individual IFRS Standards.

   (b) basing all disclosure requirements on one or more specific disclosure objectives. The specific disclosure objectives should provide a more granular application of the overall disclosure objective. These objectives should explain why the information is useful to the primary users of financial statements, and what the Board expects primary users of financial statements will be able to do with the information.

   (c) drafting all disclosure requirements so they explicitly state the underlying objective(s) and clearly link each item of information included in disclosure requirements with the related objective(s).

7. The purpose of the overall disclosure objective and supporting specific disclosure objectives is to prompt entities to use judgement to decide what information to disclose relating to a particular topic in their financial statements and whether the information provided meets user information needs for that topic.[3]

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1 Agenda papers 4-4C for the October 2018 ASAF meeting can be found: https://www.ifrs.org/news-and-events/calendar/2018/october/accounting-standards-advisory-forum/

2 Agenda Paper 11B discussed at the May 2018 Board meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2018/may/iasb/ap11b-di.pdf

3 The Board continued its discussions on an approach to drafting disclosure objectives and requirements in September 2018. The Agenda Paper discussed at that meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2018/september/iasb/ap11a-di.pdf

8. The Board is still developing and testing the approach described in paragraphs 6–7. Nevertheless, the staff have used that approach in developing the disclosure objectives and requirements recommended in this paper.

Disclosure objectives

9. In July 2018, the Board discussed the following initial draft of a presentation and disclosure objective for defined rate regulation:[4]

> An entity shall present and disclose information that enables users of financial statements to assess and distinguish between:
>
> - fluctuations in revenue and expenses compensated for through the rate-adjustment mechanism; and
> - fluctuations in revenue and expenses for which there is no compensation.
>
> This information will be useful because it will allow users to assess the amounts, timing and uncertainty of future cash flows arising from regulatory assets and regulatory liabilities.

10. The Board was not asked to make decisions, but Board members were asked to provide their views on that objective. Some Board members expressed the following views:

    (a) the initial disclosure objective is too broad and may unintentionally result in a 'long-wish list' of requirements, which would not be helpful (see paragraphs 22–25);

    (b) the disclosure objective should convey a key feature of the model, which is that it is a 'supplementary model' (see paragraphs 22–25); and

    (c) the disclosure objective should focus more on understanding what future rate adjustments refer to activities carried out to date, the uncertainties associated with them, how they were measured and the expected timing of their reversal (see paragraphs 26–27).

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4 Agenda Paper 9C discussed at the July 2018 Board meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2018/july/iasb/ap09c-rra.pdf

11. The following paragraphs consider these views and provide the analysis that leads to our new proposed overall disclosure objective in paragraph 26. The analysis also considers comments received from ASAF members on the disclosure objectives and it is structured as follows:

    (a) users' information needs (paragraphs 12–14);

    (b) the disclosure objective in IFRS 14 *Regulatory Deferral Accounts* (paragraphs 15–21); and

    (c) main focus of the overall disclosure objective (paragraphs 22–25).

User information needs

12. The operation of the rate-adjustment mechanism creates regulatory timing differences[5] when an entity fulfils service requirements in a different period than the period in which those service requirements are charged to customers through the regulated rate. Currently, users of IFRS financial statements may get an incomplete picture of the effects of those regulatory timing differences on an entity's financial performance during the period and the entity's financial position at the end of the period. This is because the application of current IFRS requirements (excluding IFRS 14) reports some of the effects of some transactions or other events as income or expenses in a different period than the period in which other effects of the same transactions or events are reported. The model aims to address this shortcoming by recognising the origination and recovery of regulatory assets and the origination and fulfilment of regulatory liabilities.

13. Related to the above, users of financial statements have told us that they need information about how regulatory timing differences have arisen and about how and when those regulatory timing differences will reverse. This information helps users to distinguish fluctuations in revenue and expenses compensated for through the rate-adjustment mechanism from fluctuations for which there is no compensation. The information also helps them to predict the amounts, timing and uncertainty of future cash flows arising from regulatory assets and regulatory liabilities.

[5] A regulatory timing difference is a timing difference that arises through the operation of the rate-adjustment mechanism when an entity fulfils service requirements in a different period than the period in which those service requirements are charged to customers through the regulated rate.

14. Users have also told us that information about the regulatory environment and relationship between the regulator and the entity would enhance their understanding of the amounts, timing and uncertainty of future cash flows (see Agenda Paper 9C, discussed at the July 2018 Board meeting and paragraph 19).

Disclosure objective in IFRS 14 Regulatory Deferral Accounts

15. IFRS 14 *Regulatory Deferral Accounts* has a disclosure objective and disclosure requirements based on common practice observed when the Standard was developed. Respondents to the Discussion Paper *Reporting the Financial Effects of Rate Regulation*[6] and, more recently, members of the Board's Capital Markets Advisory Committee (CMAC) suggested that the disclosure objective in IFRS 14 would be a good starting point for developing the disclosure requirements of the model.[7]

16. The disclosure objective of IFRS 14 is reproduced below:

> 27 An entity that elects to apply this Standard shall disclose information that enables users to assess:
>
> (a) the nature of, and the risks associated with, the rate regulation that establishes the price(s) that the entity can charge customers for the goods or services it provides; and
>
> (b) the effects of that rate regulation on its financial position, financial performance and cash flows.

17. We have considered this objective in the light of the work being done in the Board's Better Communication projects, in particular its Targeted Standards-level Review of Disclosures project (see paragraphs 6 and 7). We have also considered the guidance on the objective of financial statements contained in paragraph 3.2 of the *Conceptual Framework for Financial Reporting*, which states:

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6 The Discussion Paper can be found: https://www.ifrs.org/-/media/project/rate-regulated-activities/published-documents/discussion-paper-reporting-financial-effects-rate-regulation-september-2014.pdf

7 Agenda Paper 5 discussed at the March 2018 CMAC meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2018/march/cmac/ap5-rate-regulated-activities-notes.pdf and the summary meeting notes can be found: https://www.ifrs.org/-/media/feature/meetings/2018/march/cmac/cmac-meeting-summary-march-2018.pdf

> The objective of the financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expense that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources […].

18. We think the disclosure objective in IFRS 14 is too broad because it could require entities to disclose information about the general regulatory environment in which they operate, rather than focusing on the effects that transactions and other events within the scope of the model have on the entity's income, expenses, assets and liabilities. Having disclosure objectives that are too broad was identified in the Disclosure Initiative project as one of the ways stakeholders stated the drafting in IFRS Standards contributes to the 'disclosure problem', with clearer, more specific or granular disclosure objectives being more helpful.[8]

19. We agree that information about the general regulatory and economic environment may be helpful for users but we think that it does not contribute directly to fulfilling the objective of the financial statements. This notion was, however, challenged by some ASAF members (see paragraph A2(b) and A5(a)(iii) in the Appendix). In the following paragraphs, we explain how we reached our conclusion.

20. We think that some information about some features of the general regulatory or economic environment can provide users with contextual information about how an entity will recover its regulatory assets or fulfil its regulatory liabilities. This would be the case when, for example, this type of information indicates why material regulatory timing differences have arisen or that there is material uncertainty about how or when a regulatory asset would be recovered, or a regulatory liability would be fulfilled.

21. Consequently, we recommend disclosure requirements about the causes of regulatory timing difference originations and about risks and uncertainties (see our proposed disclosure requirements in paragraphs 38(b) and 39(b)).

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8 Agenda Paper 11E discussed at the February 2018 Board meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2018/february/iasb/ap11e-disclosure-initiative.pdf

Main focus of the overall disclosure objective

22. In contrast to the broad disclosure objective in IFRS 14, our recommended overall disclosure objective focuses on regulatory timing differences, not on all effects of defined rate regulation. Having a broad disclosure objective covering all effects of defined rate regulation would be inconsistent with the objective and scope of the project. If the Board wished users to receive information about all effects of defined rate regulation, it would be logically more coherent to bring all entities subject to other forms of rate regulation within the scope of the project, not just those entities subject to defined rate regulation.

23. The staff agree that defined rate regulation and, indeed, other forms of rate regulation have a pervasive effect on a regulated entity's financial position, financial performance and ability to generate net cash inflows. Nevertheless, many other entities, not just rate-regulated entities, are subject to regulations that have such a pervasive effect. Although information about those regulations may be useful to users, financial statements are not generally regarded as the appropriate vehicle for providing that information. Consequently, we think that information about all the effects of defined rate regulation on the regulated entity's financial position, financial performance and cash flows should not be required in the financial statements.[9] In other words, we think the overall disclosure objective of the future Standard (ie information to understand the effects of regulatory timing differences on entities' financial performance and financial position—see paragraph 26) should be aligned with the scope of the future Standard (ie accounting for regulatory timing differences arising from defined rate regulation).

24. Considering the objective of the financial statements and the views of Board members on the initial draft disclosure objective discussed in July 2018 (paragraph 9), we think the disclosure objectives and disclosure requirements need to focus on the effects that the transactions or other events that give rise to regulatory timing differences have on the entity's financial performance and financial position. Such information will help users to better understand the entity's financial

[9] Users may be able to obtain the information from other sources (for example, (a) Management Commentary; or (b) other available information on general economic conditions and expectations, political events and political climate, and industry and company outlooks).

performance, financial performance trends and help users to assess management's stewardship and the entity's prospects for future net cash inflows from its rate-regulated activities.

25. The financial information provided by the model will supplement the information that other Standards already require about other aspects of the entity's financial performance that is useful for assessing the entity's prospects for future cash flow generation. For example, useful information about the entity's revenue from contracts with its customers is produced by applying by IFRS 15 *Revenue from Contracts with Customers*.

Overall disclosure objective

26. Consequently, considering all these matters we propose the following overall disclosure objective:

> An entity shall disclose information that helps users of financial statements to understand how the origination and reversal of regulatory timing differences affected the entity's financial performance and financial position.
>
> This information will be useful when it will help users to understand and assess the entity's financial performance, financial performance trends and assess the amounts, timing and uncertainty of (prospects for) its future cash flows.

Specific disclosure objectives

27. We propose three specific disclosure objectives (SDO) to provide a more granular application of the overall disclosure objective. We think the overall disclosure objective together with the specific disclosure objectives below help address the concerns from the Board in paragraph 10.

Specific disclosure objective 1—Financial performance
An entity shall disclose information about how regulatory timing differences affected the relationship between the entity's revenue and expenses recognised during the period. This information will be useful when it helps users of financial statements to understand the effects of regulatory timing differences on the entities' financial performance by distinguishing between: • fluctuations in revenue and expenses compensated for through rate-adjustment mechanisms; and • fluctuations in revenue and expenses for which there is no compensation.

Specific disclosure objective 2—Amount, timing and uncertainty of future cash flows from regulatory assets and regulatory liabilities
An entity shall disclose information about: (a) the remaining time bands over which it expects to recover the carrying amounts of the regulatory assets and regulatory liabilities; and (b) uncertainties about the amount or timing of future cash flows from regulatory assets and regulatory liabilities. This information will be useful when it helps users of financial statements to understand and assess the amount, timing and uncertainty of (prospects for) future cash flows that will result from the entity's regulatory assets and regulatory liabilities.

Specific disclosure objective 3—Changes in the carrying amounts of regulatory assets and regulatory liabilities
An entity shall disclose information that explains why the carrying amounts of regulatory assets and regulatory liabilities changed from the beginning to the end of each reporting period presented. This information will be useful when it helps users of financial statements to understand how the entity's financial position has been affected by transactions or other events during the period that caused changes in regulatory timing differences.

Questions for the Board

Overall disclosure objective and specific disclosure objectives
1. Does the Board agree that the overall disclosure objective for defined rate regulation should be focused on the effects that the transactions or other events that give rise to regulatory timing differences have on the entity's financial performance and financial position, rather than being broader to include the provision of information about the general regulatory and economic environment and about all effects that defined rate regulation has on the entity's financial performance, financial position and cash flows? 2. Does the Board agree with the specific disclosure objectives recommended? 3. Does the Board think there should be any additional specific disclosure objective(s)?

Level of aggregation of disclosures

28. At the February 2018 meeting, the Board tentatively decided that the model will use as its unit of account the individual regulatory timing differences that create the supplementary rights and obligations arising from the regulatory agreement. In Agenda Paper 9A discussed at that meeting, the staff suggested that, for presentation and disclosure, it may be appropriate to group regulatory timing differences with similar characteristics and risks and similar expiry patterns.[10]

29. Our views about the level of aggregation for disclosure have been informed by the following paragraphs of the *Conceptual Framework* (**emphasis added**):

> 7.7 Classification is the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include-but are not limited to-the **nature of the item, its role (or function)** within the business activities conducted by the entity, and how it is measured.
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> 7.9 Classification is applied to the unit of account selected for an asset or liability (see paragraphs 4.48-4.55).
>
> 4.49 A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. […] **For presentation and disclosure, assets, liabilities, income and expenses may need to be aggregated or separated into components.**
>
> 7.21 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that **relevant**

[10] Agenda Paper 9A discussed at the February 2018 Board meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2018/february/iasb/ap9a-rate-regulated-activities.pdf

information is not obscured either by a large amount of insignificant detail or by excessive aggregation.[11]

30. We also identified and considered some IFRS Standards that require disaggregation in the disclosure notes of the line items presented in the primary financial statements.[12] Those Standards provide guidance about the level of disaggregation needed by identifying criteria that an entity could use, such as:[13]

    (a) nature, characteristics and use;

    (b) how the item is measured; and

    (c) risks and degree of uncertainty.

31. We also considered current practice for entities applying IFRS 14, which requires disclosures about recognised amounts for each type of rate-regulated activity and for each class of regulatory balance. The Standard does not define what is meant by type of rate-regulated activity or class of regulatory balance but paragraph 30(c) of IFRS 14 states that a class of regulatory balance is a 'type of cost or income'. We have observed that some rate-regulated entities have applied these requirements by grouping regulatory balances in the following categories:

    (a) by project or actions taken (eg 'site restoration', 'dam safety');

    (b) automatic rate adjustments (eg 'fuel price adjustment', 'variance account');

    (c) incentive mechanism (eg 'incentive mechanism variance account'); and

    (d) regulatory timing differences that arise when the regulatory agreement uses a different basis for recognition of costs incurred than is used for

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11 The requirements in paragraph 30A of IAS 1 *Presentation of Financial Statements* are also aligned to this paragraph.

12 Some of the IFRS Standards requiring disclosure by classes of assets or liabilities are as follows: IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRS 13 *Fair Value Measurement* and IFRS 15 *Revenue from Contracts with Customers*.

13 As part of the Primary Financial Statements project, work is currently being developed on proposals for improving disaggregation in the financial statements. The most recent discussion of the Board on this matter was at its May 2018 meeting (Agenda Paper 21A discussed at the May 2018 Board meeting can be found: https://www.ifrs.org/-/media/feature/meetings/2018/may/iasb/ap21a-pfs.pdf). We will monitor any progress so that any requirements we develop for the model are aligned to these proposals. Please note that Appendix B of Agenda Paper 21A includes an overview of characteristics for aggregation and disaggregation in IFRS Standards.

IFRS purposes (eg IFRS uses accrual basis but the regulatory agreement may use cash basis—as is often the case for, for example, asset retirement obligations, pension obligations, or deferred tax).

32. Last but not least, ASAF members also provided us with views on the level of aggregation (see paragraphs A2(a) and A4(a) of the Appendix). These views have been considered in the recommendation in paragraph 38.

Recommendations on level of aggregation

33. When assessing the level of aggregation, an entity should consider materiality (ie the level of aggregation should not reduce the understandability of the financial statements by aggregating material items that have different characteristics).[14] We think that different levels of aggregation may be appropriate for meeting different specific disclosure objectives because the characteristics of the regulatory income/ (expense) recognised in the statement(s) of financial performance differ from the characteristics of the regulatory assets and regulatory liabilities recognised in the statement of financial position. In addition, users have told us that having information that helps them to understand the causes and effects of regulatory timing differences on the entity's revenue and financial performance is a primary information need.

34. To help users understand how and when regulatory timing differences affect the relationship between the revenue recognised in the statement(s) of financial performance and the expenses incurred, we recommend that an entity should be required to disaggregate the regulatory income/ (expense) line item(s). In addition, we recommend this information is further disaggregated when necessary to provide users of financial statement with useful qualitative and quantitative information about the drivers of, or underlying reasons for, the origination of regulatory assets and of regulatory liabilities (see recommended disclosure requirement DR1 in paragraph 38).

35. In contrast, we think that, for the statement of financial position, it is quite sufficient to group together items that mature at the same time. Consequently, we recommend a maturity analysis for the total of all regulatory assets and all regulatory liabilities.

[14] See paragraphs 30–31 of IAS 1.

We then recommend disclosure by exception for any amounts subject to notable uncertainty or risks (see recommended disclosure requirement DR2 in paragraph 39).

Disclosure requirements

36. This section includes our initial views on the disclosure requirements (DR). In the Disclosure Initiative—Targeted Standards-level Review of Disclosures project the Board suggests that associating particular disclosure requirements with specific disclosure objectives prompts entities to apply judgement as to whether the information is material to their financial statements and whether the information provided meets user information needs. Table 1 shows the associations between the disclosure requirements and each specific disclosure objective (SDO) in paragraph 27 (ie which disclosure requirements help fulfil which specific disclosure objectives).

37. The last disclosure requirement (DR5) in Table 1 aims to ensure an entity re-assesses whether all the information it has provided is sufficient to meet the overall disclosure objective. This disclosure requirement has been referred to as the 'catch-all disclosure requirement' in the Board's Disclosure Initiative—Targeted Standards-level Review of Disclosures project.

Table 1—Linking disclosure requirements (DR) with specific disclosure objectives (SDO)

Disclosure requirement (DR)	SDO 1—Financial performance	SDO 2—Amount, timing and uncertainty of future cash flows	SDO 3—Changes in the carrying amounts of regulatory assets and regulatory liabilities
DR1	✓		
DR2		✓	
DR3	✓	✓	
DR4			✓
DR5	**Catch-all (overall disclosure objective)**		

Disclosure requirement DR1

38. An entity shall disclose the following information when necessary to meet SDO1:

(a) a breakdown of the regulatory income / (expense) line item in the profit or loss section and a breakdown of the regulatory income / (expense) line item in the other comprehensive income section of the statement of comprehensive income into the following components:

(i) amounts that an entity has a right to include in rates in a future period(s) as a result of rate-regulated activities carried out in the current period (ie origination of regulatory assets);

(ii) amounts included in revenue in the current period for rate-regulated activities that the entity will carry out in a future period(s) (ie origination of regulatory liabilities);

(iii) amounts included in revenue relating to rate-regulated activities carried out in previous period(s) (ie recovery of regulatory assets);

(iv) amounts included in regulatory income as a result of rate-regulated activities carried out in the current period for which the entity had already charged customers in previous period(s) (ie fulfilment of regulatory liabilities);

(v) changes in the carrying amount of regulatory assets and regulatory liabilities due to changes in estimates; and

(vi) transfers from other comprehensive income to profit or loss.

(b) qualitative and quantitative information about the reasons for the amounts in (a)(i)–(ii);

(c) qualitative and quantitative information about the reasons for the changes in estimates in (a)(v).

Disclosure requirement DR2

39. An entity shall disclose the following information if necessary to meet SDO 2:

(a) a maturity analysis showing the remaining time bands over which the entity expects to recover the carrying amount of regulatory assets or to fulfil the carrying amount of regulatory liabilities. In preparing the maturity analyses an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years.

(b) how the future recovery of regulatory assets or the future fulfilment of regulatory liabilities is affected by risks and uncertainty, for example:

(i) regulatory risk (for example, the submission or approval of a rate-setting application or the entity's assessment of the expected future regulatory actions); or

(ii) demand risk (for example, changes in consumer attitudes, the availability of alternative sources of supply or the level of competition).

Disclosure requirement DR3

40. An entity shall disclose the following information if necessary to meet SDO 1 and SDO 2:

(a) the discount rate or ranges of discount rates (expressed in the form of weighted averages or relatively narrow ranges) used to discount the estimated cash flows reflected in the carrying amounts of regulatory assets and the carrying amounts of regulatory liabilities at the end of the period.

(b) when the rates disclosed in (a) are different from the interest or return rate or range of rates approved by the regulator, the reason for and quantitative effect of such differences.

Disclosure requirement DR4

41. An entity shall disclose a reconciliation of the carrying amount of regulatory assets and the carrying amount of regulatory liabilities from the beginning to the end of the period, in a table unless another format is more appropriate, if necessary to meet

SDO 3. The entity shall apply judgement in deciding the level of detail provided but shall consider disclosing the following:[15]

(a) the amounts included in the regulatory income/(expense) line item in the section of profit or loss and in the regulatory income/(expense) line item(s) in the section of other comprehensive income of the statement of comprehensive income; and

(b) other amounts, separately identified, that affect the carrying amounts of regulatory assets and regulatory liabilities, such as items acquired or assumed in a business combination, items disposed of, or the effect of changes in foreign exchange rates.

Disclosure requirement DR5

42. An entity shall assess whether the information provided through disclosure requirements DR1–DR4 is sufficient to meet the overall disclosure objective. If not, an entity shall disclose any additional information needed to meet the overall disclosure objective.

Questions for the Board

Disclosure requirements
4. Does the Board agree that the recommended disclosure requirements would result in useful information for users to understand the effects of regulatory timing differences on an entity's financial performance and financial position?
5. Should any other disclosure requirement(s) be added?

[15] Information about some changes in regulatory timing differences is already needed to meet specific disclosure objective 1. Specific disclosure objective 3 is necessary to cover other changes in regulatory timing differences, namely those changes that did not affect the amounts reported in the regulatory income/(expense) line item(s) in the statement of profit or loss and other comprehensive income.

Appendix

Rate-regulated Activities—draft of the summary note of the October 2018 meeting of the Accounting Standards Advisory Forum (ASAF)

A1. The purpose of this session was to obtain feedback from ASAF members on the staff's initial views on disclosure objectives and requirements for defined rate regulation. Their feedback is summarised below.

Disclosure objectives

A2. Most ASAF members were generally supportive of the staff's initial views on the disclosure objectives and requirements for defined rate regulation, however:

(a) the EFRAG member did not think that the illustration of the proposed disclosure requirements achieved the proposed disclosure objectives. This member suggested more granularity is needed about why and how timing differences originate (see paragraph A4(a)).

(b) the AcSB, AOSSG and AASB/NZASB members challenged the notion that information about the general regulatory and economic environment does not contribute directly to fulfilling the objective of financial statements. Those members suggested that the disclosure objectives should lead to entities providing contextual information about the rate-regulated activities that lead to regulatory assets and regulatory liabilities.

(c) the AcSB member questioned not disclosing the overall risks and uncertainties, especially because of observed situations whereby a Canadian entity buys multiple US entities, which are operating in multiple regulatory environments. It was unclear why those risks and uncertainties are different from those under IFRS 7 *Financial Instruments: Disclosures* so staff should consider whether similar disclosure requirements should be required.

(d) the GLASS member stated that users, particularly sell-side analysts, seek information about contractual terms or amendments to contractual terms that affect future cash flows, in particular when those arrangements are in place in different jurisdictions and relate to different business lines in which an entity operates.

(e) the AASB/NZASB member suggested that the overall disclosure objective should have a greater emphasis on financial performance rather than on financial position because the model focusses on the faithful representation of the effects of defined rate regulation on an entity's financial performance. It was suggested that supplementary information about general changes to the future rate is useful, in addition to information about the regulatory timing differences.

(f) the DRSC member suggested more clarity is needed about how the application of the recognition and measurement requirements of the model results in entities carrying out estimates and reflecting uncertainty in the amounts recognised. This member suggested that, consequently, fulfilling the disclosure objectives should result in entities providing information of any residual risks related to regulatory assets and regulatory liabilities, rather than general risks about the regulatory environment.

Level of aggregation

A3. The AOSSG member broadly agreed with the level of aggregation but expressed concern about the potential overlap of disclosures for defined rate regulation with disclosures required by other IFRS Standards such as IFRS 15 *Revenue from Contracts with Customers*.

A4. Some ASAF members expressed concerns about the staff's initial views on the level of aggregation for disclosures:

(a) the EFRAG and AASB/NZASB members commented that the proposed requirements may not result in disclosures that reflect the nature and type of timing differences on a sufficiently disaggregated basis, citing similar requirements in other IFRS Standards, such as IAS 12 *Income Taxes*, IAS 16 *Property, Plant and Equipment* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(b) the GLASS member expressed concern about allowing entities too much discretion when assessing the level of aggregation for disclosures and suggested the model includes guidance to help entities carry out this assessment.

(c) the EFRAG member expressed concern about linking the disaggregation of the regulatory income/(expense) line item to the requirements of IFRS 8 *Operating Segments* because some entities may not consider their rate-regulated activities as a separate reportable segment.

Disclosure requirements

A5. Some ASAF members commented that the illustrative disclosures were useful in reflecting the outcome intended by the disclosure objectives. However:

(a) the AcSB member suggested the staff consider the following matters when developing further the disclosure requirements:

(i) regulatory reviews and filings are important for users when substantiating entities' claims and assessing expected future cash flows;

(ii) the disclosures resulting from the requirements in IFRS 14 *Regulatory Deferral Accounts* are generally useful, but preparers and users are having difficulty in the disclosure of net movements of regulatory deferral account balances that relate to items recognised in other comprehensive income; and

(iii) some users look for entities to provide a reconciliation between the regulatory capital base (ie the amount treated by the regulatory agreement as capital investment) and the asset balances accounted for in accordance with IFRS Standards.

(b) the EFRAG member stated that the disclosure requirements for defined rate regulation should be explicitly contained within the future Standard rather than relying on the disclosure requirements of overarching principles in IAS 1 *Presentation of Financial Statements* or the *Conceptual Framework for Financial Reporting*.

Other comments

A6. The ANC member raised concern about how the model would deal with some timing differences arising from, for example, pension liabilities or income tax balances. This member suggested clarifying that the draft accounting model primarily accounts for timing differences affecting financial performance, with assets and liabilities created as a consequence. In his view, the model should not consider as timing differences all items for which there is a difference between the regulatory balance and the IFRS balance.

A7. The DRSC member suggested the model should emphasise that any estimates or judgements involved when applying the measurement or disclosure requirements are those made by management; ie the model does not aim to reflect regulators' estimates or judgements.

A8. The AcSB member said that an AcSB research paper on rate regulation has been finalised and is expected to be published before the end of 2018. ASAF members discussed an earlier draft of the research paper at the September 2016 ASAF meeting and, subsequently, some members contributed information to the AcSB staff.