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## IASB meeting

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| Date     | <b>December 2022</b>   |
| Project  | <b>Rate-regulated Activities</b>   |
| Topic    | <b>Inflation adjustment to the regulatory capital base</b>   |
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## Objective

1. This paper sets out staff analysis and recommendations on the proposals in the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (Exposure Draft) for dealing with inflation adjustments to an entity's regulatory capital base.

## Staff recommendations

2. We recommend the final Accounting Standard specify that an entity shall not recognise as a regulatory asset inflation adjustments to the regulatory capital base.

## Structure of the paper

3. This paper is structured as follows:
  - (a) proposals in the Exposure Draft (paragraphs 6–10);
  - (b) feedback received (paragraph 11);
  - (c) background (paragraphs 12–19);
  - (d) staff analysis (paragraphs 20–47); and
  - (e) conclusions (paragraphs 48–49).
4. At its meeting on 4 October 2022, the Consultative Group for Rate Regulation (Consultative Group) discussed how to account for inflation adjustments to an entity's regulatory capital base. Agenda Paper 9B includes the meeting notes and the material discussed.
5. Agenda Paper 9D discusses the use of the direct relationship concept in the model. That paper provides context for the topic dealt with in this paper.

## Proposals in the Exposure Draft

6. Paragraph B13 of the Exposure Draft says that an entity's regulatory capital base might include property, plant and equipment measured on a basis that is different from the basis required by IFRS Accounting Standards. For example, the regulatory capital base may include an inflation adjustment.
7. [Illustrative example 7C.2](#) accompanying the Exposure Draft illustrates that if a regulatory agreement adjusts the regulatory capital base in the current period for inflation, giving an entity the right to add an inflation adjustment in the regulated rates to be charged to customers in future periods, that right would not meet the definition of a regulatory asset. This is because, according to the Exposure Draft, that right is not a right to recover total allowed compensation for goods or services already supplied to customers.
8. The Exposure Draft treats the inflation adjustment to the regulatory capital base as a form of target profit provided by the regulatory agreement. Applying the requirement in paragraph B10 of the Exposure Draft, target profit that a regulatory agreement entitles an entity to add in a regulated rate for goods or services supplied in a period forms part of the total allowed compensation for goods or services supplied in the same period. In Illustrative example 7C.2 the inflation adjustment will be included in the regulated rates charged in future periods, and therefore the inflation adjustment would be reflected in profit or loss in those future periods.
9. The footnote to Illustrative example 7C.2 states that two broadly equivalent regulatory approaches are typically used to compensate entities for inflation on the regulatory capital base:
  - (a) some regulatory agreements apply a nominal return that includes inflation to the regulatory capital base.
  - (b) other regulatory agreements adjust the regulatory capital base for inflation and apply to it a real return rate excluding inflation.
10. The Exposure Draft says that neither approach would result in a regulatory asset.

## Feedback received

11. A few respondents to the Exposure Draft—mainly a few standard-setters in Asia-Oceania and Europe, a few accounting firms and a few preparers—disagreed with the illustrative example. These respondents thought the final Standard should treat an inflation adjustment to the regulatory capital base as a regulatory asset.

## Background

12. As described in paragraph 9, two regulatory approaches are typically used to compensate entities for inflation on the regulatory capital base:
  - (a) nominal approach—under this approach entities receive a regulatory return that is computed by multiplying a nominal regulatory capital base by a return rate that includes inflation (that is, a

nominal return rate). A regulatory capital base that stays constant in nominal terms effectively loses its underlying value by inflation each year with the nominal return rate aiming to compensate entities for that loss.

(b) real approach—under this approach entities receive a regulatory return that is computed by multiplying a regulatory capital base that is adjusted by inflation—so that it holds its value over time—by a return rate that does not include inflation (that is, a real return rate).

13. Both regulatory approaches are present value neutral, that is, the present value of the future cash flows<sup>1</sup> that an entity receives from the nominal approach and real approach is the same.
14. Example 1 illustrates the revenue profiles of an entity subject to these regulatory approaches.

### Example 1

The regulatory capital base consists of a single asset with a value of CU100.<sup>2</sup> The asset's expected useful life is 10 years. The nominal return rate is 7.11%, the real return rate is 4.5% and the expected inflation is 2.5%. The nominal and real return rates are applied to the unrecovered balance of the regulatory capital base at the beginning of the year. Both the nominal and real rates remain constant during the period of 10 years.

Table 1 shows an entity's future revenues, both on an undiscounted and discounted basis, when a nominal rate of return is applied to a nominal regulatory capital base.

| <b>Table 1 Nominal approach</b> |               |              |              |              |              |              |              |              |              |              |               |
|---------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| <b>Nominal return 7.11%</b>     |               |              |              |              |              |              |              |              |              |              |               |
| <i>In CU</i>                    | 1             | 2            | 3            | 4            | 5            | 6            | 7            | 8            | 9            | 10           | Total         |
| Opening RCB                     | 100           | 90           | 80           | 70           | 60           | 50           | 40           | 30           | 20           | 10           |               |
| Depreciation (A)                | 10            | 10           | 10           | 10           | 10           | 10           | 10           | 10           | 10           | 10           | <b>100</b>    |
| Closing RCB                     | 90            | 80           | 70           | 60           | 50           | 40           | 30           | 20           | 10           | 0            |               |
| Nominal return (B)              | 7.11          | 6.40         | 5.69         | 4.98         | 4.27         | 3.56         | 2.85         | 2.13         | 1.42         | 0.71         | <b>39.12</b>  |
| <b>Revenue (A) + (B)</b>        | <b>17.11</b>  | <b>16.40</b> | <b>15.69</b> | <b>14.98</b> | <b>14.27</b> | <b>13.56</b> | <b>12.85</b> | <b>12.13</b> | <b>11.42</b> | <b>10.71</b> | <b>139.12</b> |
| <i>Discount factor (7.11%)</i>  | 0.93          | 0.87         | 0.81         | 0.76         | 0.71         | 0.66         | 0.62         | 0.58         | 0.54         | 0.50         |               |
| <b>Present value</b>            | <b>100.00</b> | <b>15.98</b> | <b>14.30</b> | <b>12.77</b> | <b>11.38</b> | <b>10.12</b> | <b>8.98</b>  | <b>7.94</b>  | <b>7.00</b>  | <b>6.15</b>  | <b>5.39</b>   |

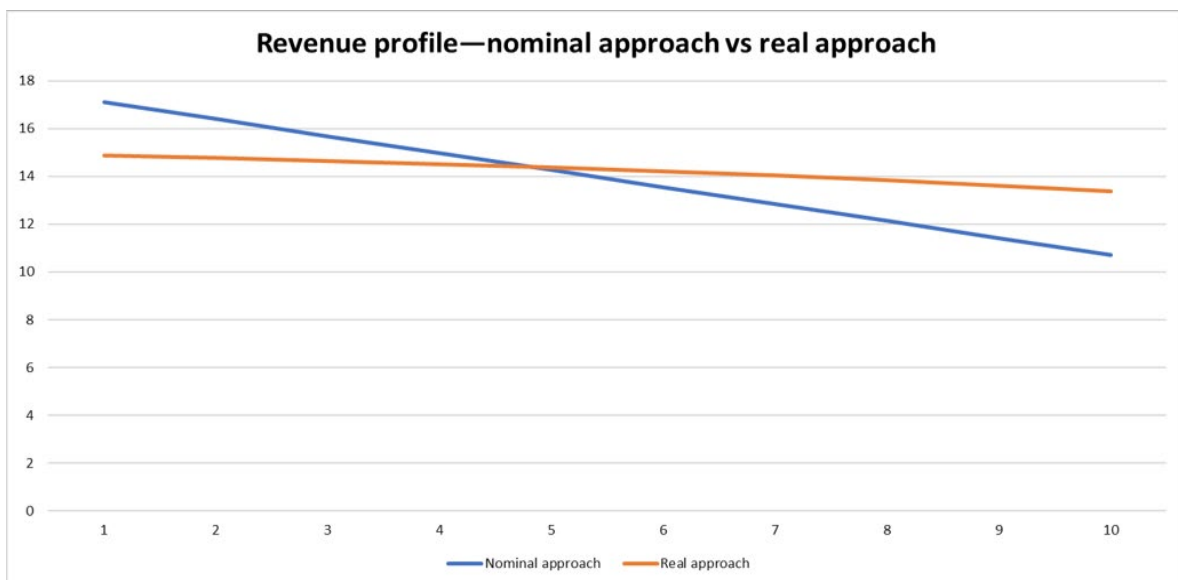
Table 2 shows an entity's future revenues, both on an undiscounted and discounted basis, when a real rate of return is applied to an inflation adjusted regulatory capital base.

<sup>1</sup> The future cash flows relating to the regulatory capital base are the compensation for depreciation of that base and the regulatory return on that base.

<sup>2</sup> Monetary amounts are denominated in 'currency units' (CU).

| Table 2 Real approach    |               |              |              |              |              |              |              |              |              |              |               |
|--------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Inflation                | 2.50%         |              |              |              |              |              |              |              |              |              |               |
| Real return              | 4.50%         |              |              |              |              |              |              |              |              |              |               |
| <i>In CU</i>             | 1             | 2            | 3            | 4            | 5            | 6            | 7            | 8            | 9            | 10           | Total         |
| Opening RCB              | 100.00        | 92.25        | 84.05        | 75.38        | 66.23        | 56.57        | 46.39        | 35.66        | 24.37        | 12.49        |               |
| Inflation adjustment     | 2.50          | 2.31         | 2.10         | 1.88         | 1.66         | 1.41         | 1.16         | 0.89         | 0.61         | 0.31         | 14.83         |
| Depreciation (A)         | 10.25         | 10.51        | 10.77        | 11.04        | 11.31        | 11.60        | 11.89        | 12.18        | 12.49        | 12.80        | 114.83        |
| Closing RCB              | 92.25         | 84.05        | 75.38        | 66.23        | 56.57        | 46.39        | 35.66        | 24.37        | 12.49        | 0.00         |               |
| Real return (B)          | 4.61          | 4.26         | 3.88         | 3.48         | 3.05         | 2.61         | 2.14         | 1.64         | 1.12         | 0.58         | 27.37         |
| <b>Revenue (A) + (B)</b> | <b>14.86</b>  | <b>14.76</b> | <b>14.65</b> | <b>14.52</b> | <b>14.37</b> | <b>14.21</b> | <b>14.03</b> | <b>13.83</b> | <b>13.61</b> | <b>13.38</b> | <b>142.20</b> |
| Discount factor (7.11%)  | 0.93          | 0.87         | 0.81         | 0.76         | 0.71         | 0.66         | 0.62         | 0.58         | 0.54         | 0.50         |               |
| <b>Present value</b>     | <b>100.00</b> | <b>13.88</b> | <b>12.87</b> | <b>11.92</b> | <b>11.03</b> | <b>10.19</b> | <b>9.41</b>  | <b>8.67</b>  | <b>7.98</b>  | <b>7.33</b>  | <b>6.73</b>   |

The graph illustrates the revenue profiles for the nominal approach (blue line) and real approach (orange line).



15. When considering which approach to use, regulators consider different factors. For example, regulators may use the nominal approach if their priority is to improve an entity's ability to finance the investments. Regulators may use the real approach if their priority is to maintain stable regulated rates for customers over time.
16. We have observed that the nominal approach is more commonly used by cost-based schemes and the real approach is more commonly used by incentive-based schemes (paragraphs 40 and 41 ).
17. After the comment period of the Exposure Draft, we discussed the proposed treatment for the inflation adjustment to the regulatory capital base with the members of the Consultative Group and with other stakeholders. These stakeholders had the following views:
  - (a) View 1—the inflation adjustment to the regulatory capital base gives rise to a regulatory asset (paragraph 18).

- (b) View 2—the inflation adjustment to the regulatory capital base does not give rise to a regulatory asset (paragraph 19).
18. Stakeholders holding View 1—mainly a few preparers from Africa and Europe, representatives from an accounting firm, and a credit analyst and an equity analyst who both cover the utility sector in Europe—said that:
- (a) the inflation adjustment to the regulatory capital base relates to compensation for goods or services that the entity has already supplied and consequently, it is compensation to which the entity is already entitled. The regulator decides to include that compensation in future regulated rates to protect customers by smoothing the regulated rates to be charged in the future. That decision does not affect the entity's entitlement to the inflation-related compensation. One of the users with whom we spoke said that entities operating in mature regulatory environments generally have strong legal protection that would enable them to recover the inflation adjustment to their regulatory capital base.
- (b) accounting for a regulatory asset would result in entities that are subject to the real approach reporting a similar financial performance to that of entities subject to the nominal approach.
19. Stakeholders holding View 2—mainly stakeholders from accounting firms based in Europe—commented that:
- (a) the inflation adjustment to the regulatory capital base will result in a higher amount of regulatory depreciation that the regulator will include when determining the allowed revenue to which an entity is entitled for a specified period. According to these stakeholders, the entity would have an enforceable present right to recover only the allowed revenue amount for a specified period (which includes the depreciation of the regulatory capital base determined for that period). The entity would not have an enforceable present right to recover the remainder of the regulatory capital base at a given point in time. For these stakeholders, accounting for the inflation adjustment as a regulatory asset would be equivalent to accounting for future revenues, to which the entity is not yet entitled.
- (b) the inflation adjustment to the regulatory capital base should be seen as a mechanism to adjust the measurement of the regulatory capital base so that it holds its value over time rather than an item that gives rise to a regulatory asset.
- (c) accounting for the inflation adjustment as a regulatory asset could be seen as being equivalent to changing the measurement basis of property, plant and equipment from cost to current value (if an entity applies the cost model in IAS 16 *Property, Plant and Equipment*).
- (d) it is unclear why the final Standard would only account for the inflation adjustment as a regulatory asset, when other differences between the regulatory capital base and an entity's property, plant

and equipment—that could be viewed as giving rise to regulatory assets and regulatory liabilities—are not considered.

- (e) it will be onerous and very judgemental for an entity to demonstrate that it has an enforceable present right to the inflation adjustment to the regulatory capital base.

## Staff analysis

20. The staff analysis is structured as follows:

- (a) Does the inflation adjustment meet the definition of a regulatory asset (paragraphs 21–36)? and
- (b) Would the costs of recognising a regulatory asset exceed the benefits (paragraphs 37–46)?

## Meeting the definition of regulatory asset

21. Feedback from outreach carried out after the comment period of the Exposure Draft shows that stakeholders had different views about whether the inflation adjustment to an entity's regulatory capital base gives rise to a regulatory asset (paragraphs 17–19).

22. The Exposure Draft defines a regulatory asset as follows (**emphasis added**):

An **enforceable present right**, created by a regulatory agreement, to **add an amount** in determining the regulated rate to be charged to customers in future periods because **part of the total allowed compensation for goods or services already supplied** will be included in revenue in the future.

23. The following paragraphs analyse whether the inflation-related adjustment to the regulatory capital base would meet the regulatory asset definition. Specifically:

- (a) Paragraphs 24–30 analyse whether an entity has an enforceable present right to add an amount in future regulated rates; and
- (b) Paragraphs 31–36 analyse whether that amount (that is, the inflation adjustment to the regulatory capital base) represents part of an entity's total allowed compensation for goods or services already supplied.

## ***Enforceable present right***

24. As described in paragraph 12, the real approach could be viewed as the regulator splitting a nominal regulatory return for a specified period into two portions:

- (a) the real portion, which the regulator would apply to an entity's (adjusted by inflation) regulatory capital base; and

- (b) the inflation portion, which the regulator would add to the entity's (adjusted by inflation) regulatory capital base.
25. Whether the inflation-related adjustment to the regulatory capital base gives rise to a regulatory asset depends, in part, on whether an entity has an enforceable present right to recover the regulatory capital base through future regulated rates.
26. The concept of regulatory capital base exists in regulatory schemes in different jurisdictions. The role of the regulatory capital base is generally to provide investors comfort that their investments will be treated fairly. However, the legal and regulatory framework surrounding the regulatory capital base differs across jurisdictions.
27. For example, in the United States, once a cost is included in the regulatory capital base, an entity is, by law, guaranteed to recover that cost. In other jurisdictions, the regulatory capital base is not enshrined in law but the overall legal and regulatory framework is such that entities can be considered to have an enforceable present right to recover the regulatory capital base. However, in other jurisdictions, particularly those with less developed legal or regulatory frameworks, the right to recover the regulatory capital base may not be enforceable.
28. The stakeholders holding View 2 were generally from jurisdictions in which the regulatory capital base is not enshrined in law. We think this is an important factor that underlies their view that:
- (a) an entity does not have an enforceable present right to recover the inflation adjustment included in the regulatory asset base but rather it has an enforceable present right to receive the allowed revenue determined by the regulator for a specified period (paragraph 19(a)).
- (b) the inflation adjustment to the regulatory capital base should rather be seen as forming part of the measurement of the regulatory capital base (paragraphs 19(b) and 36).
29. We think that the fact that the regulatory capital base is enshrined in law is a relevant factor when assessing the enforceability of an entity's present right to recover its regulatory capital base. However, we think that an entity may still have enforceable present rights even if it operates in jurisdictions in which the regulatory capital base is not enshrined in law. This is likely to be the case when the strength of the legal and regulatory framework in the jurisdiction in which the entity operates ensures the stability and predictability of future cash flows.
30. To summarise, we think assessing whether an entity has an enforceable present right to add the inflation adjustment to future regulated rates will require judgement and will depend on the legal and regulatory environment in which the entity operates. We plan to discuss enforceability of rights and obligations when discussing the recognition and measurement proposals with the IASB at a future meeting.

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**Total allowed compensation for goods or services already supplied**

31. This section analyses whether the inflation adjustment to the regulatory capital base for a period would form part of the total allowed compensation for the goods or services supplied during that period.
32. As mentioned in paragraph 12(b), the inflation adjustment to the regulatory capital base for a period is determined as **a percentage of the inflation for the period** multiplied by the regulatory capital base—which under the real approach would have been adjusted by inflation in previous periods. The example in paragraph 14 assumes that the inflation rate for each period is constant at 2.5%—see inflation adjustment line in Table 2.
33. Had the regulator applied a nominal approach, the inflation-related percentage for a period would have been included in the nominal regulatory return for the period (paragraph 24). In the example in paragraph 14, the nominal regulatory return of 7.11% includes the inflation rate of 2.5%.<sup>3</sup> Consequently, had the regulator used the nominal approach, the regulatory return that the entity would have included in regulated rates charged during a period (for example, CU7.11 in year 1), and therefore in revenue, would have included the inflation effect for that period (that is, CU2.50 in year 1). In other words, the inflation-related amount of CU2.50 for year 1 forms part of the total allowed compensation for goods or services supplied in year 1 by an entity subject to the nominal approach.
34. However, applying the proposals in the Exposure Draft, an entity that is subject to the real approach would treat the inflation adjustment to the regulatory capital base of CU2.50 for year 1 as compensation for goods and services to be supplied in the future. This appears inconsistent with the conclusions reached for the nominal approach described in paragraph 33. In both approaches, the goods or services supplied by the entity in the period to which the inflation adjustment relates are the same. The only difference between the real and the nominal approach is when part of the compensation for the goods or services supplied is included in regulated rates charged. Applying the nominal approach, the compensation relating to the inflation adjustment is included in regulated rates charged in the period in which the goods or services are supplied; applying the real approach that compensation is included in regulated rates charged over time through the recovery of the regulatory capital base. Consequently, we think that an enforceable present right to add the inflation adjustment to the regulated rates to be charged to customers in the future would meet the definition of a regulatory asset because the inflation-adjustment compensates the entity for goods or service already supplied.
35. As shown in the graph in paragraph 14, the revenue profile for an entity subject to the real approach is more stable over time than the revenue profile for an entity subject to the nominal approach. This creates greater stability in the regulated rates charged to customers. Consequently, the real approach provides the regulator with a tool for smoothing the regulated rates charged to customers (see

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<sup>3</sup> The nominal regulatory return is obtained applying the Fisher equation: nominal rate = (1 + inflation rate) × (1 + real return). In our example, the nominal regulatory return of 7.11% is obtained as follows: (1.025) × (1.045) = 7.11%.



paragraphs 12–13 and material discussed at the Consultative Group meeting in October 2022 in AP 9B).

36. We acknowledge the views of stakeholders who think the purpose of the inflation adjustment to the regulatory capital base is to ensure that the regulatory capital base holds its value over time (paragraph 19(b)). However, we think the measurement effects of adjusting the regulatory capital base by inflation are the consequence of using the real approach rather than its main purpose—that is, a tool for smoothing the regulated rates charged to customers.

### **Assessing the costs and benefits of recognising the regulatory asset**

37. Paragraph 5.8 of the Conceptual Framework for Financial Reporting (*Conceptual Framework*) says:

5.8 Just as cost constrains other financial reporting decisions, it also constrains recognition decisions. There is a cost to recognising an asset or liability. Preparers of financial statements incur costs in obtaining a relevant measure of an asset or liability. Users of financial statements also incur costs in analysing and interpreting the information provided. An asset or liability is recognised if the benefits of the information provided to users of financial statements by recognition are likely to justify the costs of providing and using that information. In some cases, the costs of recognition may outweigh its benefits.

38. The paragraphs that follow analyse whether the benefits of recognising a regulatory asset relating to the inflation adjustment to the regulatory capital base for those entities that had concluded they have an enforceable present right to add that adjustment in future regulated rates would lead to costs that outweigh benefits.
39. For an entity to recognise a regulatory asset arising from the inflation adjustment to the regulatory capital base, the entity would need to be able to identify and track changes in the inflation adjustment over time. The entity would also need to be able to estimate the amount and timing of future cash flows arising from that regulatory asset.
40. In schemes where an entity's regulatory capital base has a direct relationship with its property, plant and equipment, we think it may be feasible to track the inflation adjustment and account for the related regulatory asset. Having said that, we think accounting for the regulatory asset would be complex and costly, requiring the entity to track the inflation adjustment at an individual asset level for the high volume of assets typically included in a regulatory capital base. In addition, we understand that such

schemes generally apply a nominal approach. Consequently, a requirement to account for an inflation-related regulatory asset may not affect many entities subject to this type of scheme.<sup>4</sup>

41. The real approach is more frequently applied in schemes where the relationship between an entity's regulatory capital base and its property, plant and equipment is less direct. In such schemes the regulatory capital base may not consist exclusively of capital expenditures but may also include other items (operating expenditures, performance incentives and other movements in working capital). Consequently, for such schemes it may be difficult to track the movement of the inflation adjustment included in the regulatory capital base. For example, some entities subject to these schemes do not track in detail which items within its regulatory capital base have been included in the regulatory depreciation for a specified period. If these entities are unable to disaggregate the regulatory depreciation for a period into individual components, they will be unable to track the movement of the inflation adjustment for a specific period. In addition, it may be difficult to estimate the amount and timings of the future cash flows arising from an inflation-related regulatory asset (paragraph 39). This is because future regulatory depreciation amounts, that include the recovery of the inflation adjustment, depend on factors that can be difficult to foresee—for example, the future financing needs of the entity or future technological changes. Consequently, the measurement uncertainty of an inflation-related regulatory asset for these entities could be significant.
42. Preparers from Asia-Oceania and Europe have told us that accounting for a regulatory asset in such cases would result in similar complexities and costs to those of accounting for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives (see [Agenda Paper 9B](#) of October 2022 IASB meeting). One of these preparers, even though supporting View 1, suggested that entities should not be required or permitted to recognise a regulatory asset arising from the inflation adjustment to their regulatory capital base. He said that view would be consistent with the IASB's tentative decision to neither require nor permit entities to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives when there is no direct relationship between the entities' regulatory capital base and their property, plant and equipment.
43. We discussed with users of financial statements—mainly credit and equity analysts covering utilities sector in Europe—whether accounting for a regulatory asset relating to the inflation adjustment to the regulatory capital base would give rise to useful information. These users covered entities subject to schemes that lead to entities' regulatory capital base having no direct relationship between their regulatory capital base and their property, plant and equipment. In general, these users said that accounting for the inflation adjustment to the regulatory capital base as a regulatory asset would provide useful information. This is because this regulatory asset would:

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<sup>4</sup> [Agenda Paper 9B](#) of October 2022 and [Agenda Paper 9A](#) of November 2022 IASB meetings discuss the features of schemes that lead to entities' regulatory capital base having a direct (no direct) relationship with their property, plant and equipment.

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- (a) provide useful information about the effect of inflation in future regulated rates;
  - (b) help users assess an entity's gearing levels by comparing the regulatory capital base (that includes inflation) with an entity's debt. One of these users added that accounting for this regulatory asset would improve an entity's interest and debt cover ratios; and
  - (c) save them having to adjust an entity's profit or loss by inflation. One of these users commented that he currently adjusts an entity's reported profit or loss by the inflation to the regulatory capital base to get to an economic measure of the entity's profit or loss.
44. Even though the accounting for this regulatory asset would result in useful information, a few of the users also said that:
- (a) they were aware the accounting for such a regulatory asset could be operationally challenging because of the multiple items the regulatory capital base includes and because of the lack of granular information about the movements of those items within the regulatory capital base. One of these users was not sure she would want an entity to recognise such a regulatory asset, whereas another user said it would be difficult to measure such a regulatory asset reliably.
  - (b) the information that such a regulatory asset would provide can currently be obtained from some annual regulatory reports that entities are required to publish in some jurisdictions.
45. Overall, we think that the costs for those preparing the information, which include:
- (a) difficulties entities may encounter when assessing whether they have an enforceable present right to add the inflation adjustment in regulated rates in the future (paragraph 19(e) and paragraphs 24–30);
  - (b) operational costs of accounting for a regulatory asset relating to the inflation adjustment to the regulatory capital base (paragraphs 40 and 41); and
  - (c) the costs of obtaining a relevant measure of such asset because it is subject to significant measurement uncertainty (paragraph 44(a))
- would outweigh the benefits of the information provided for users (paragraph 43).
46. Consequently, we recommend entities subject to the real approach should not recognise a regulatory asset arising from an inflation adjustment to their regulatory capital base. In addition, we think this recommendation would:
- (a) result in an outcome that is consistent with the proposals in the Exposure Draft (paragraphs 6–10). The staff recommendation would mean that entities would reflect amounts relating to the inflation adjustment to their regulatory capital base in profit or loss as the entity includes them in the regulated rates charged and therefore in revenue recognised.

- (b) not affect many entities subject to the regulatory schemes that lead to an entity's regulatory capital base having a direct relationship with its property, plant and equipment because our understanding is that these entities generally use the nominal approach.
  - (c) be consistent with the IASB's tentative decision for entities subject to regulatory schemes that do not lead to an entity's regulatory capital base having a direct relationship with their property, plant and equipment, not to require or permit the entity to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives.
47. Paragraph 5.11 of the *Conceptual Framework* states that entities may need to disclose information about unrecognised assets and liabilities in the notes. The *Conceptual Framework* states that it is important to consider how to make such information sufficiently visible to compensate for the item's absence from the structured summary provided by the statement of financial position and the statement(s) of financial performance. We plan to discuss disclosures with the IASB at a future meeting.

## Conclusion

48. We think an entity's right to add an amount relating to the inflation adjustment to the regulatory capital base to regulated rates charged in the future would give rise to a regulatory asset if that right is enforceable (paragraphs 24–30). We think that, however, the costs arising from the recognition of that asset would outweigh the benefits of the information provided for users (paragraphs 37–46).
49. Consequently, we recommend that the final Accounting Standard specifies that an entity should not recognise as a regulatory asset inflation adjustments to the regulatory capital base.

### Questions for the IASB

1. Does the IASB agree the final Accounting Standard specifies that an entity shall not recognise as a regulatory asset inflation adjustments to the regulatory capital base (paragraph 49)?