
Consultative Group for Rate Regulation

Date **October 2023**
Project **Rate-regulated Activities**
Topic **Cover note**
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This paper has been prepared for discussion at a public meeting of the Consultative Group for Rate Regulation. This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose of this meeting

1. The Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (Exposure Draft) proposed that entities measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique that involves:
 - (a) estimating future cash flows and updating them at the end of each reporting period to reflect conditions existing at that date; and
 - (b) discounting those estimates of future cash flows.
2. The purpose of this meeting of the Consultative Group for Rate Regulation (Consultative Group) is to gather feedback that will help the IASB redeliberate the proposals for discounting estimates of future cash flows. Agenda Paper 2 sets out questions for the Consultative Group.

Previous meetings with the Consultative Group

3. During 2022 we had three meeting with the Consultative Group to discuss four topics:
 - (a) Regulatory returns on construction work-in-progress;¹

¹ This topic was discussed on 4 March 2022 ([Agenda Paper 2](#)).

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- (b) accounting for regulatory assets and regulatory liabilities arising from differences between regulatory recovery pace and assets' useful lives;²
 - (c) capitalised borrowing costs;³
 - (d) inflation adjustments to the regulatory capital base.⁴
4. Feedback from those meetings was used to develop staff recommendations. The appendix to this paper lists the relevant IASB agenda papers and the related tentative decisions.

Next steps

- 5. The IASB will consider the feedback received at this meeting in future redeliberations.
- 6. We are planning to have another meeting with the Consultative Group on disclosure in November 2023.

² This topic was discussed on 28 March 2022 ([Agenda Paper 1](#)).

³ This topic was discussed on 4 October 2022 ([Agenda Paper 2](#)).

⁴ This topic was discussed on 4 October 2022 ([Agenda Paper 3](#)).

Appendix

A1. The table below shows:

- (a) topics discussed with the Consultative Group;
- (b) IASB agenda papers developed by the staff considering feedback from the Consultative Group; and
- (c) related IASB's tentative decisions.

Consultative Group	Agenda papers	IASB's tentative decisions
Regulatory returns on construction work-in-progress	Agenda Paper 9B Agenda Paper 9C	The IASB tentatively decided that the prospective Standard specify that when an entity has an enforceable present right to regulatory returns on an asset not yet available for use, those returns would form part of the total allowed compensation for goods or services supplied during the construction period of that asset. The prospective Standard will provide guidance for entities to assess whether their rights to these regulatory returns are enforceable.
Accounting for regulatory assets and regulatory liabilities arising from differences between regulatory recovery pace and assets' useful lives	Agenda Paper 9B	The IASB tentatively decided that the prospective Standard: <ul style="list-style-type: none"> (a) provide guidance to help an entity determine whether its regulatory capital base and its property, plant and equipment have a direct relationship; (b) retain the proposals for an entity to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives if the entity has concluded that its regulatory capital base and its property, plant and equipment have a direct relationship; and (c) require an entity that has concluded that its regulatory capital base and its property, plant and equipment have no direct relationship to provide disclosures to enable users of financial statements to understand the reasons for its conclusion.

Capitalised borrowing cost	Agenda Paper 9A	<p>The IASB tentatively decided that when an entity's regulatory capital base and its property, plant and equipment have a direct relationship and the entity capitalises its borrowing costs:</p> <ul style="list-style-type: none"> (a) if the regulatory agreement provides the entity with both a debt and an equity return on an asset not yet available for use—to require the entity to reflect only those returns in excess of the entity's capitalised borrowing costs in the statement of financial performance during the construction period; and (b) if the regulatory agreement provides the entity with only a debt return on such an asset—to prohibit the entity from reflecting the return in the statement of financial performance during the construction period.
Inflation adjustments to the regulatory capital base	Agenda Paper 9A	The IASB tentatively decided that the prospective Standard specify that an entity is neither required nor permitted to recognise as a regulatory asset inflation adjustments to the regulatory capital base.