Staff paper

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IASB® Meeting

Date	**February 2024**
Project	**Rate-regulated Activities**
Topic	**Disclosures proposed in Exposure Draft**
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Objective

1. This paper sets out the staff analysis and recommendations on the disclosure requirements proposed in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft).

2. Agenda Paper 9D sets out the staff analysis and recommendations on new disclosure requirements arising from the IASB's redeliberations on the Exposure Draft.

3. Agenda Paper 9E includes illustrative drafting of the disclosure requirements suggested in this paper and Agenda Paper 9D.

Staff recommendations

4. The staff recommend that the final Accounting Standard:

   (a) retain the overall disclosure objective proposed in paragraph 72 of the Exposure Draft.

   (b) retain the proposals on aggregation or disaggregation of disclosures in paragraphs 75–76 of the Exposure Draft.

   (c) include examples of the characteristics an entity could use to aggregate or disaggregate disclosures.

(d) retain the specific disclosure objective relating to financial performance proposed in paragraph 77 of the Exposure Draft.

(e) retain the proposals in paragraphs 78(a)–(e) of the Exposure Draft requiring an entity to disclose components of regulatory income or regulatory expense relating to:

  (i) creation of regulatory assets;

  (ii) creation of regulatory liabilities;

  (iii) recovery of regulatory assets;

  (iv) fulfilment of regulatory liabilities; and

  (v) regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities.

(f) permit an entity to aggregate the following components of regulatory income or regulatory expense:

  (i) changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement; and

  (ii) remeasurements of regulatory assets and regulatory liabilities.

(g) require an entity to provide a qualitative explanation of the amounts included in (f).

(h) extend the proposals in paragraph 78 of the Exposure Draft to components of regulatory income or regulatory expense included in other comprehensive income.

(i) retain the specific disclosure objective relating to financial position proposed in paragraph 79 of the Exposure Draft.

(j) retain the proposals in paragraphs 80(a) and 81 of the Exposure Draft requiring an entity to disclose quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities.

(k) retain the proposal in paragraph 80(b) of the Exposure Draft requiring an entity to disclose the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period.

(l) retain the proposal in paragraph 80(c) of the Exposure Draft requiring an entity to disclose the regulatory interest rate provided by the regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate for that regulatory asset.

(m) retain the proposal in paragraph 80(d) of the Exposure Draft requiring an entity to disclose an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

(n) not include additional guidance on risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

(o) combine the specific disclosure objective relating to changes in regulatory assets and regulatory liabilities proposed in paragraph 82 of the Exposure Draft with the specific disclosure objective in paragraph 79 of the Exposure Draft.

(p) retain the proposals in paragraph 83 of the Exposure Draft requiring an entity to disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.

(q) provide examples of the significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense.

(r) require an entity to disclose a qualitative explanation of significant changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense.

(s) retain the proposal in paragraph 84 of the Exposure Draft relating to the disclosure of regulatory assets and regulatory liabilities measured applying paragraph 61 of the Exposure Draft.

Structure of the paper

5. This paper is structured as follows:

   (a) background (paragraphs 6–10);

   (b) overall disclosure objective (paragraphs 11–18);

   (c) level of aggregation and disaggregation (paragraphs 19–30);

   (d) disclosures about financial performance (paragraphs 31–50);

   (e) disclosures about financial position—maturity analysis, risk, uncertainty and discount rate (paragraphs 51–76);

   (f) reconciliation (paragraphs 77–85); and

   (g) regulatory assets and regulatory liabilities measured applying paragraph 61 of the Exposure Draft (paragraphs 86–89).

Background

6. The disclosure requirements proposed in the Exposure Draft are largely aligned with the *Guidance for developing and drafting disclosure requirements in IFRS Accounting Standards* (Guidance). The Guidance sets out a framework for developing disclosure requirements that comprise three main components:

   (a) an overall disclosure objective that describes the overall information needs of users of financial statements;

   (b) specific disclosure objectives that describe detailed information needs of users; and

   (c) a description of the items of information that satisfy the specific disclosure objectives.

7. In developing recommendations for the disclosure objectives and requirements in this paper and those in Agenda Paper 9D, we have also sought to follow the Guidance.

8. At its meeting on 30 November 2023, the Consultative Group for Rate Regulation (Consultative Group) discussed the disclosure requirements suggested in this paper and Agenda Paper 9D. Feedback from that meeting is included in the relevant sections of the papers. The meeting notes and the material discussed are available on the IFRS Foundation website and can be accessed here.

9. We met with users of financial statements—mainly credit and equity analysts covering energy, water and infrastructure in Europe and North America—to discuss the proposed disclosure requirements in the Exposure Draft and the recommendations included in this paper and Agenda Paper 9D. Feedback from those meetings is included in the relevant sections of the papers.

10. We have asked the IFRS Digital Reporting team to review a draft of the disclosures recommended in this paper and Agenda Paper 9D. We will continue to work with the IFRS Digital Reporting team as we further develop the drafting.

Overall disclosure objective

Proposals in the Exposure Draft

11. The overall disclosure objective proposed in the Exposure Draft requires an entity to disclose in the notes information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities to enable users of financial statements to understand:

    (a) the relationship between an entity's revenue and expenses as completely as would have been possible if the total allowed compensation for the goods or services supplied had been fully reflected in revenue in the period in which the entity supplied those goods or services. That understanding would provide insights into the entity's prospects for future cash flows.

    (b) the entity's regulatory assets and regulatory liabilities at the end of the reporting period. That understanding would provide insights into how regulatory assets and regulatory liabilities would affect the amount, timing and uncertainty of the entity's future cash flows.

12. In developing the overall disclosure objective in the Exposure Draft, the IASB decided to focus on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities, rather than on the information required by the broader disclosure objective in IFRS 14 *Regulatory Deferral Accounts*. The disclosure objective in IFRS 14 requires an entity to disclose information that enables users to understand the nature of, and the risks associated with, the rate regulation along with the effects of that rate regulation on the entity's financial position, financial performance and cash flows. Paragraphs BC191–BC194 of the Basis for Conclusions accompanying the Exposure Draft provide the IASB's rationale for the overall disclosure objective as proposed in the Exposure Draft (paragraph 15).

Summary of feedback

13. Most respondents agreed with the proposed overall disclosure objective for the reasons explained in the Basis for Conclusions.

14. However, some respondents across jurisdictions and across stakeholder types suggested the IASB develop a broader overall disclosure objective so that an entity provides information about the regulatory agreement, including the basis for determining the regulated rates charged to customers, the identity of the rate regulator, the length, exit provisions and the risks associated with the agreement and its effects on the entity's financial performance, financial position and cash flows.

Staff analysis

15. When developing the Exposure Draft, the IASB decided not to develop a broad overall disclosure objective. The IASB reasoned that, although information about the

nature of, and risks associated with, rate regulation is useful to users, they do not rely on financial statements to provide that information. In addition:

(a) the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) notes that financial statements do not and cannot provide all information users need. The users need to consider pertinent information from other sources.

(b) rate regulation can have pervasive effects on every aspect of an entity's financial performance, financial position and cash flows. An objective of enabling users to assess such pervasive effects would go beyond what financial statements can feasibly provide and beyond what IFRS Accounting Standards require for any other form or aspect of regulation.[1]

(c) the overall disclosure objective proposed in paragraph 72 of the Exposure Draft focuses on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities. That disclosure objective is aligned with the objective proposed in paragraphs 1–2 of the Exposure Draft.[2]

16. As mentioned in paragraph 13, most respondents agreed with the proposed overall disclosure objective for the reasons explained in paragraph 15. We continue to agree with the IASB's reasoning described in paragraph 15.

17. In addition:

(a) we think users will consider other sources such as regulatory reports to obtain information about the nature of, and risks associated with, rate regulation.

(b) some information about the nature of, and risks associated with, rate regulation will be disclosed when it relates to regulatory income, regulatory expense regulatory assets or regulatory liabilities. For example:

[1] Paragraph BC192 of the Basis for Conclusions on Exposure Draft

[2] Paragraph BC193 of the Basis for Conclusions on Exposure Draft

(i) paragraph 80(d) of the Exposure Draft proposes that an entity disclose an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

(ii) we are recommending that an entity disclose whether there is a direct (no direct) relationship between its regulatory capital base and its property, plant and equipment including the main reasons for its conclusions (Agenda Paper 9D).

18. Based on the staff analysis in paragraphs 15–17, we recommend that the final Accounting Standard retain the overall disclosure objective proposed in paragraph 72 of the Exposure Draft.

Question for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 18?

Level of aggregation and disaggregation

Proposals in the Exposure Draft

19. Paragraph 74 of the Exposure Draft proposes that an entity should determine the level of detail necessary to satisfy the overall disclosure objective and the specific disclosure objectives. If the information disclosed applying the proposed disclosure requirements is insufficient to meet the disclosure objectives, an entity should disclose additional information to satisfy those objectives.

20. Paragraph 75 of the Exposure Draft proposes that an entity should aggregate or disaggregate disclosures in a manner that does not obscure useful information either by including a large amount of insignificant detail or by aggregating items that have substantially different characteristics. Items whose characteristics may differ substantially include:

(a) items subject to substantially different risks or uncertainties; and

(b) items relating to the different revenue categories an entity discloses by applying paragraph 114 of IFRS 15 *Revenue from Contracts with Customers*.

21. Paragraph 76 of the Exposure Draft states that the appropriate level of aggregation or disaggregation may differ for different pieces of information and may depend on the nature of the information and on the disclosure objective that information would contribute to meeting.

Summary of feedback

22. A few respondents, mainly preparers, suggested the IASB provide further guidance on aggregation or disaggregation of disclosures clarifying whether the information should be disclosed at the level of individual regulatory agreements, or aggregated for regulatory agreements subject to the same regulatory framework or at a higher level.

23. A few members of the Consultative Group said an entity should disaggregate information in a manner that is aligned:

(a) with how it provides information to the regulator in regulatory reports; and

(b) with its reportable segments, if the entity applies IFRS 8 *Operating Segments*.

Staff analysis

24. The proposals requiring an entity to determine the level of detail necessary to satisfy the overall and specific disclosure objectives (paragraph 74 of the Exposure Draft) and the proposals on aggregation or disaggregation of disclosures (paragraphs 75–76 of the Exposure Draft) remind an entity of the need to exercise judgement when deciding what to disclose and at what level of aggregation or disaggregation. They are largely consistent with other IFRS Accounting Standards, including the requirements of the prospective [draft] IFRS 18 *Presentation and Disclosure in Financial Statements*. In addition, respondents did not raise any concerns about these proposals. Consequently, we think the final Standard should retain these proposals.

25. We think the appropriate level of aggregation or disaggregation will depend on facts and circumstances, and entities will need to exercise judgement when deciding what to disclose and at what level of aggregation or disaggregation. However, considering the request from a few respondents for further guidance on this matter, we discussed with the members of the Consultative Group and users of financial statements whether it would be helpful for the final Standard to provide examples of characteristics that might form the basis of aggregation or disaggregation of information. Most members of the Consultative Group said that non-mandatory examples would be helpful and suggested the following characteristics:

    (a) the type of rate-regulated activity—for example, electricity distribution or gas distribution;

    (b) the type of item the regulatory assets and regulatory liabilities relate to (type of regulatory assets and regulatory liabilities). For example:

        (i) recovery of operating cost variances.

        (ii) performance incentives.

        (iii) recovery of taxes, pension costs etc.

    (c) how information is aggregated or disaggregated in other information provided to users, for example the entity's regulatory reports.

26. Most users we spoke to agreed that information about the type of rate-regulated activity and the type of regulatory assets and regulatory liabilities would be useful in their analysis. They said that different types of rate-regulated activity can be subject to different risks. Hence, disaggregating information by the type of rate-regulated activity would give them insight into these risks. Information disaggregated by the type of regulatory assets and regulatory liabilities would enable users to understand the underlying item these regulatory assets and regulatory liabilities relate to (for example, recovery of commodity costs, recovery or fulfilment of performance incentives etc).

27. The staff think that considering information provided to users outside the financial statements, for example in regulatory reports, may also help an entity identify appropriate characteristics for disaggregation of information in the financial statements.

28. We agree that including in the final Standard examples of the characteristics an entity could use to aggregate or disaggregate disclosures would help entities to provide useful information to users of financial statements. Consequently, we recommend including examples, similar to those listed in paragraph 25, in the final Standard.

29. As mentioned in paragraph 23(b), a few members of the Consultative Group suggested disaggregating information by reportable segments. A few users we spoke to also said that information disaggregated by reportable segments would be useful in their analysis. Different reportable segments may be subject to different regulatory schemes that may expose entities to different risks. We think that disaggregation of information in a manner that is aligned with reportable segments is already addressed by the current guidance in paragraph 75(b) of the Exposure Draft. This paragraph states that items relating to the different revenue categories an entity discloses by applying paragraph 114 of IFRS 15 might have characteristics that differ substantially. Paragraph 114 of IFRS 15 and its associated application guidance in paragraph B88 require an entity to consider as a basis for disaggregation information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments.

30. Based on the staff analysis in paragraphs 24–29, we recommend that the final Accounting Standard:

    (a) retain the proposals on aggregation or disaggregation of disclosures in paragraphs 75–76 of the Exposure Draft; and

    (b) include examples of the characteristics an entity could use to aggregate or disaggregate disclosures.

Question for the IASB
2. Does the IASB agree with the staff recommendation in paragraph 30?

Disclosures about financial performance

Proposals in the Exposure Draft

31. Paragraph 77 of the Exposure Draft proposes a specific disclosure objective relating to financial performance. That objective states that an entity should disclose information that enables users of financial statements to understand how the entity's financial performance was affected because part of the total allowed compensation for the goods or services supplied in one period was (or will be) included in determining the regulated rates, and hence included in revenue, for goods or services supplied in a different period.

32. Paragraph 78 of the Exposure Draft states that to achieve the objective in paragraph 77, an entity should disclose in the notes the following components of regulatory income or regulatory expense included in profit or loss:

    (a) the part of the total allowed compensation for goods or services supplied in the current period that will be included in revenue in future periods (creating regulatory assets during the current period).

    (b) the amount included in revenue in the current period that will provide part of the total allowed compensation for goods or services to be supplied in future periods (creating regulatory liabilities during the current period).

    (c) the amount included in revenue in the current period that provides part of the total allowed compensation for goods or services supplied in past periods (recovering regulatory assets during the current period).

(d) the part of the total allowed compensation for goods or services supplied in the current period that was included in revenue in past periods (fulfilling regulatory liabilities during the current period).

(e) regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities.

(f) changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement, and the reasons for that change in the boundary.

(g) remeasurements of regulatory assets and regulatory liabilities, and the reasons for the remeasurements.

33. Paragraph BC198 of the Basis for Conclusions accompanying the Exposure Draft states that the IASB considered that:

> […] Disclosure of the components is necessary because each component is driven by a factor different from the factors that drive the other components. Each component has a different type of effect on the relationship between revenue and expenses recognised as a result of supplying goods or services. For example, if an entity recognises an allowable expense in the current period but the regulatory agreement requires the entity to include the compensation for that expense in determining the regulated rates in a future period, the entity would recognise a regulatory asset in the current period. The regulatory income arising on initial recognition of the regulatory asset (paragraph 78(a) of the Exposure Draft) would provide information about the amount of the difference in timing whereas the regulatory interest income on that regulatory asset (paragraph 78(e) of the Exposure Draft) would provide information about compensation for the time lag until the entity recovers the regulatory asset.

Summary of feedback

34. Some respondents to the Exposure Draft explicitly agreed with the proposed specific disclosure objective and disclosure requirements in paragraphs 77 and 78 of the Exposure Draft.

35. Some respondents expressed concerns about disclosing the components of regulatory income or regulatory expense required by paragraph 78 of the Exposure Draft. These respondents said:

    (a) the proposals impose a significant burden on preparers. A regulator typically does not require information at that level of granularity. Consequently, an entity may have to incur undue costs to develop the data and systems to provide such information. A few respondents suggested the IASB permit an entity to aggregate some components of regulatory income or regulatory expense that are currently not separately disclosed in regulatory reports.

    (b) tracking of changes at a component level in regulatory assets and regulatory liabilities over a potentially long period imposes a significant burden on preparers.

    (c) separate disclosure of regulatory interest income and regulatory interest expense may have little practical benefit, particularly for entities that operate under several regulatory agreements and apply different regulatory interest rates to measure different regulatory assets and regulatory liabilities.

    (d) the proposals may not provide insights into an entity's current and future performance.

36. A European standard-setter said that users of financial statements considered the disclosure of the components of regulatory income or regulatory expense and the reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities to be more important than other information proposed in the Exposure Draft.

37. We discussed the proposals in paragraph 78 of the Exposure Draft with the Consultative Group. Some members said the proposals would be costly for preparers to implement and some argued the proposals were too detailed:

    (a) a few members of the Consultative Group said that the proposals might not be proportionate taking into account the importance of regulatory assets and regulatory liabilities (and related regulatory income and regulatory expense) might have in an entity's statements of financial position and financial performance or the information regulators require an entity to disclose.

(b) some of these members said the proposals would require entities to invest in new systems. One of these members said the proposals would require an entity to disclose more detail than what would be required for an entity to apply the model in the Exposure Draft.

38. A few members said a qualitative explanation of the components of regulatory income or regulatory expense might provide sufficient information to users of financial statements. A user member of the Consultative Group said qualitative information is useful, but it might be less comparable between entities than quantitative information and could lead to users asking an entity to provide additional information.

39. We also met with users of financial statements to discuss the proposals in paragraph 78 of the Exposure Draft. Of the users we spoke to:

(a) almost all said the components of regulatory income or regulatory expense specified in paragraph 78 of the Exposure Draft provide useful information.

(b) a few said the following components are the most important to their analysis because having this information would enable them to reconcile forecast to actual performance and therefore should not be aggregated:

(i) creation of regulatory assets (paragraph 78(a) of the Exposure Draft);

(ii) creation of regulatory liabilities (paragraph 78(b) of the Exposure Draft);

(iii) recovery of regulatory assets (paragraph 78(c) of the Exposure Draft); and

(iv) fulfilment of regulatory liabilities (paragraph 78(d) of the Exposure Draft).

(c) a few said the components relating to regulatory interest income and regulatory interest expense (paragraph 78(e) of the Exposure Draft) could be aggregated and disclosed net.

(d) a few said the components relating to changes in the carrying amount of a regulatory asset or regulatory liability due to a change in the boundary (paragraph 78(f) of the Exposure Draft) and remeasurements of regulatory assets and regulatory liabilities (paragraph 78(g) of the Exposure Draft) could be aggregated and disclosed using the label ‘other components’. These users said that they would not expect these components to be individually significant. However, if the amount in ‘other components’ was significant, they would expect an entity to provide a qualitative explanation of the individual items aggregated in that component.

(e) almost all said quantitative information about the components of regulatory income or regulatory expense provides more useful information than qualitative information.

Staff analysis

40. The staff continue to think that a specific disclosure objective relating to financial performance will help users understand how the entity's financial performance was affected because part of the total allowed compensation for the goods or services supplied in one period was (or will be) included in revenue in a different period. Consequently, we recommend the final Standard retain the specific disclosure objective in paragraph 77 of the Exposure Draft.

41. Feeback from users of financial statements indicates that information about the components of regulatory income or regulatory expense is useful in their analysis. However, feedback from preparers and some members of the Consultative Group indicates that the information required by paragraph 78 of the Exposure Draft could be difficult and costly to produce, requiring costly and complex changes to their systems.

42. Paragraph 7.3 of the *Conceptual Framework* states:

> Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial statements by presenting or disclosing particular information are likely to justify the costs of providing and using that information.

43. Consequently, we have considered whether the costs of complying with paragraph 78 of the Exposure Draft could be reduced without a significant loss of useful information to users of financial statements.

44. Feedback from users of financial statements indicates that information about the following components of regulatory income or regulatory expense is particularly useful to them in their analysis because it enables them to better understand the drivers of an entity's financial performance and allows them to reconcile their forecasts to actual performance (paragraph 39):

    (a) creation of regulatory assets;

    (b) creation of regulatory liabilities;

    (c) recovery of regulatory assets; and

    (d) fulfilment of regulatory liabilities.

45. In addition, detailed information about the creation, recovery and fulfilment of regulatory assets and regulatory liabilities will be required to apply the recognition and measurement requirements of the final Standard. Consequently, requiring disclosure of information about these components of regulatory income or regulatory expense is unlikely to impose significant additional costs. Therefore, we recommend that the final Standard require the disclosure of the components of regulatory income or regulatory expense listed in paragraph 44.

46. We also think the final Standard should require the disclosure of regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities (paragraph 78(e) of the Exposure Draft). The effect of interest income and interest

expense on the measurement of some regulatory assets and regulatory liabilities can be significant. In addition, the nature of regulatory interest income and regulatory interest expense is very different from other components of regulatory income or regulatory expense. Consequently, information about regulatory interest income and regulatory interest expense can be important for an understanding of an entity's financial performance.

47. A few users we spoke to suggested that regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities could be merged into a single component—net regulatory interest income or regulatory interest expense. However, we do not think that this would significantly reduce the costs for preparers as an entity is required to measure regulatory assets separately from regulatory liabilities using a discounted cash flow approach.

48. Feedback from users, however, suggests that the following components of regulatory income or regulatory expense could be aggregated without significant loss of useful information as long as entities provide a qualitative explanation of the amounts included in the aggregated component:

    (a) changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement; and

    (b) remeasurements of regulatory assets and regulatory liabilities.

49. The proposals in paragraph 78 of the Exposure Draft deal with the disclosure of components of regulatory income or regulatory expense included in profit or loss. We think these proposals should also be extended to regulatory income or regulatory expense included in other comprehensive income.[3]

[3] At its December 2023 meeting, the IASB discussed examples of regulatory assets or regulatory liabilities that are remeasured applying paragraph 61 of the Exposure Draft (Agenda Paper 9D). In those cases, the regulatory income or regulatory expense relating to the remeasurement may be presented in other comprehensive income to the extent that it results from remeasuring the related liability or related asset through other comprehensive income.

50. Based on the staff analysis in paragraphs 40–49, we recommend that the final Accounting Standard:

   (a) retain the specific disclosure objective relating to financial performance proposed in paragraph 77 of the Exposure Draft;

   (b) retain the proposals in paragraphs 78(a)–(e) of the Exposure Draft requiring an entity to disclose components of regulatory income or regulatory expense relating to:

      (i) creation of regulatory assets;

      (ii) creation of regulatory liabilities;

      (iii) recovery of regulatory assets;

      (iv) fulfilment of regulatory liabilities; and

      (v) regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities;

   (c) permit an entity to aggregate the following components of regulatory income or regulatory expense:

      (i) changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement; and

      (ii) remeasurements of regulatory assets and regulatory liabilities;

   (d) require an entity to provide a qualitative explanation of the amounts included in (c); and

   (e) extend the proposals in paragraph 78 of the Exposure Draft to components of regulatory income or regulatory expense included in other comprehensive income.

Question for the IASB
3. Does the IASB agree with the staff recommendation in paragraph 50?

Disclosures about financial position—Maturity analysis, risk, uncertainty and discount rate

Proposals in the Exposure Draft

51. Paragraph 79 of the Exposure Draft proposes a specific disclosure objective relating to financial position. That objective states that an entity should disclose information that enables users of financial statements to understand the entity's regulatory assets and regulatory liabilities at the end of the reporting period. That understanding would provide insights into how regulatory assets and regulatory liabilities would affect the amount, timing and uncertainty of the entity's future cash flows.

52. Paragraph 80 of the Exposure Draft proposes that to achieve the objective in paragraph 79, an entity should disclose in the notes:

    (a) quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities.

    (b) the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period.

    (c) the regulatory interest rate provided by the regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate for that regulatory asset as a result of applying paragraphs 50–53 of the Exposure Draft.

    (d) an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

53. Paragraph 81 of the Exposure Draft proposes that in disclosing the information required by paragraph 80(a), an entity should:

    (a) specify whether the amounts disclosed in the notes are undiscounted or discounted;

(b) use judgement to determine an appropriate number of time bands. For example, an entity might determine appropriate time bands to be:

   (i) not later than one year;

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

   (iii) later than three years and not later than five years; and

   (iv) later than five years.

Summary of feedback

54. Some respondents explicitly agreed with the proposed specific disclosure objective and disclosure requirements in paragraphs 79–81 of the Exposure Draft.

55. A few respondents, mainly preparers, suggested the IASB permit an entity to disclose qualitative rather than quantitative information about when and how it expects to recover regulatory assets and fulfil regulatory liabilities. A few members of the Consultative Group agreed with these respondents, saying that entities may be able to use qualitative disclosures to convey sufficient information about the time frame over which regulatory assets or regulatory liabilities are expected to be recovered or fulfilled.

56. These respondents also said that disclosing quantitative information relating to the recovery of regulatory assets (fulfilment of regulatory liabilities) would be costly because determining the time bands and the amounts to be disclosed would require significant judgement. For example, the amount or timing of recovery or fulfilment may be subject to approval by the regulator, or the fulfilment pattern of a regulatory liability may be indeterminate. A few members of the Consultative Group agreed with these respondents, saying that the proposed time-band disclosures could be difficult to implement, particularly for regulatory assets and regulatory liabilities that are related to long-lived pension liabilities, deferred taxes or decommissioning provisions with settlement periods than can change over time. They suggested that a current/non-current split would be easier to apply and could still provide useful information.

57. A European preparer suggested the IASB delete the example in paragraph 81(b) of the Exposure Draft specifying the time bands that an entity might determine as appropriate. That respondent said that such an example may become the default disaggregation of the time bands leading to less useful information.

58. A few respondents, mainly preparers across jurisdictions, said:

    (a) disclosure of discount rates or ranges of discount rates used in measuring regulatory assets and regulatory liabilities may not provide useful information in cases when entities operate under several regulatory agreements and apply different regulatory interest rates to measure different regulatory assets and regulatory liabilities.

    (b) a regulatory agreement may specify that an entity is not entitled to regulatory interest on a few regulatory assets. In such cases, a disclosure that the interest rate is zero for a minority of regulatory assets may not provide useful information, particularly if the regulatory interest rate on other regulatory assets sufficiently compensates the entity for the time value of money and for uncertainty in the future cash flows.

59. A European preparer suggested the IASB provide guidance or examples on what information an entity should disclose about risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities. In some well-established rate-regulatory schemes, there may not be significant risks and uncertainties affecting the recovery of regulatory assets, even if those regulatory assets are yet to be approved by the regulator.

Staff analysis

60. The staff analysis is structured as follows:

    (a) specific disclosure objective about regulatory assets and regulatory liabilities (paragraphs 61–62);

    (b) disclosure of time bands (paragraphs 63–66);

(c) disclosure of discount rates or ranges of discount rates (paragraphs 67–70);

(d) disclosure of regulatory interest rate if an entity uses the minimum interest rate as the discount rate (paragraphs 71–73); and

(e) disclosure of risks and uncertainties (paragraphs 74–76).

Specific disclosure objective about regulatory assets and regulatory liabilities

61. The staff continue to think that a specific disclosure objective focused on providing information about the entity's financial position would provide context for the disclosure requirements about regulatory assets and regulatory liabilities and help entities apply judgement when deciding what to disclose. Consequently, we recommend the final Accounting Standard retain the specific disclosure objective relating to financial position in paragraph 79 of the Exposure Draft.

62. However, we recommend that, to streamline the disclosure objectives, the final Accounting Standard combine this specific disclosure objective with the specific disclosure objective relating to changes in regulatory assets and regulatory liabilities not attributable to regulatory income or regulatory expense proposed in paragraph 82 of the Exposure Draft (see paragraph 82 of this paper).

Disclosure of time bands

63. As mentioned in paragraph 55, a few respondents, mainly preparers, suggested the IASB permit an entity to disclose qualitative rather than quantitative information about when and how it expects to recover regulatory assets and fulfil regulatory liabilities.

64. However, we recommend that the final Standard retain the requirement to provide quantitative information using time bands about the expected recovery of regulatory assets and fulfilment of regulatory liabilities because:

(a) most users of financial statements with whom we spoke identified quantitative information about the recovery of regulatory assets and fulfilment of regulatory liabilities to be useful in predicting future cash flows; and

(b) entities should already have information about the amount and timing of future cash flows as this information is required to measure regulatory assets and regulatory liabilities.

65. We disagree with the suggestion that the example of time bands illustrated in paragraph 81(b) of the Exposure Draft should be deleted (paragraph 57). The time bands illustrated in paragraph 81(b) are only an example of how the information could be disclosed. Paragraph 81(b) of the Exposure Draft states that an entity should use judgement to determine the appropriate number of time bands. Consequently, entities should use different time bands if doing so would result in more useful information than using the time bands illustrated. However, we think it is helpful to preparers if the final Standard includes an example of time bands to illustrate how an entity could comply with the requirements of paragraph 80(a) of the Exposure Draft.

66. Based on the staff analysis in paragraphs 63–65, we recommend the final Accounting Standard retain the proposals in paragraphs 80(a) and 81 of the Exposure Draft requiring an entity to disclose quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities.

Disclosure of discount rates or ranges of discount rates

67. A few respondents mainly preparers said disclosure of discount rates or ranges of discount rates may not provide useful information in cases when entities operate under several regulatory agreements and apply different regulatory interest rates to measure different regulatory assets and regulatory liabilities.

68. Feedback from most users we spoke to in outreach meetings, however, indicated that disclosure of discount rates or ranges of discount rates used in measuring regulatory assets and regulatory liabilities provides useful information for their analysis. This information enables users to better predict an entity’s future cash flows.

69. To address the concern in paragraph 58(a), an entity that operates under several regulatory agreements would, applying the disaggregation principles discussed in paragraphs 19–30, disaggregate disclosure of discount rates by individual regulatory agreements if substantially different regulatory interest rates are used to measure regulatory assets and regulatory liabilities.

70. Based on the staff analysis in paragraphs 67–69, we recommend the final Accounting Standard retain the proposal in paragraph 80(b) of the Exposure Draft requiring an entity to disclose the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period.

Disclosure of regulatory interest rate if an entity uses the minimum interest rate as the discount rate

71. We continue to think that requiring an entity to disclose the regulatory interest rate provided by a regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate, would provide useful information.[4] This information would enable users to understand the measurement of an entity's regulatory assets at the end of the reporting period.

72. We think that even if the regulatory interest rate provided by the regulatory agreement is zero for a regulatory asset, disclosure that the regulatory interest rate is zero would still provide useful information. The information would help users better predict an entity's future cash flows.

73. We recommend the final Accounting Standard retain the proposal in paragraph 80(c) of the Exposure Draft requiring an entity to disclose the regulatory interest rate provided by the regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate for that regulatory asset.

[4] We plan to discuss the minimum interest rate proposals in paragraphs 50–53 of the Exposure Draft at a future meeting.

Disclosure of risks and uncertainties

74. In outreach meeting with users, several users identified information about how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities as particularly useful to their analysis, allowing them to better predict future cash flows. Consequently, we recommend retaining the proposal to require an entity to explain how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

75. We do not think it is necessary to provide guidance or examples on what information an entity should disclose about risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities (paragraph 59). Only one respondent requested such guidance. In addition, the information required would depend on facts and circumstances and entities would need to exercise judgement to determine what information is likely to be useful to its users.

76. Consequently, we recommend the final Accounting Standard:

    (a) retain the proposal in paragraph 80(d) of the Exposure Draft requiring an entity to disclose an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities; and

    (b) not include additional guidance on risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

Question for the IASB
4. Does the IASB agree with the staff recommendation that the final Accounting Standard: a. retain the specific disclosure objective relating to financial position proposed in paragraph 79 of the Exposure Draft? b. retain the proposals in paragraphs 80(a) and 81 of the Exposure Draft requiring an entity to disclose quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities?

Question for the IASB

c. retain the proposal in paragraph 80(b) of the Exposure Draft requiring an entity to disclose the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period?

d. retain the proposal in paragraph 80(c) of the Exposure Draft requiring an entity to disclose the regulatory interest rate provided by the regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate for that regulatory asset?

e. retain the proposal in paragraph 80(d) of the Exposure Draft requiring an entity to disclose an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities?

f. not include additional guidance on risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities?

Reconciliation

Proposals in the Exposure Draft

77. Paragraph 82 of the Exposure Draft proposes a specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand any changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense.

78. Paragraph 83 of the Exposure Draft states that to achieve the objective in paragraph 82, an entity should disclose in the notes a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.

Summary of feedback

79. Some respondents explicitly agreed with the proposed specific disclosure objective and disclosure requirement in paragraphs 82 and 83 of the Exposure Draft.

80. A few respondents, mainly a preparer and standard-setters from Europe:

(a) suggested the IASB provide examples of the significant changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense, and

(b) suggested that instead of requiring an entity to disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities, the IASB should require an entity to provide an explanation—qualitative and quantitative information—of the significant changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense. Such a requirement would be in line with paragraph 118 of IFRS 15 that requires an entity to provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.

Staff analysis

81. The staff continue to think that it is important for users to have a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities (paragraph 83 of the Exposure Draft). This information would help users understand the relationship between the statement of financial position and the statement of financial performance as well as providing information about changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense (paragraph 82 of the Exposure Draft). Consequently, we recommend retaining the proposal for an entity to disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities. We continue to think that a reconciliation, rather than a qualitative explanation, is required to provide users with the information needed for their analysis.

82. However, we recommend that, to streamline the disclosure objectives, the final Standard combine the specific disclosure objective relating to changes in regulatory

assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense proposed in paragraph 82 of the Exposure Draft with the objective on financial position in paragraph 79 of the Exposure Draft (see paragraph 62). The requirement to disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities should be included under the combined objective.

83. We agree that it would be helpful to preparers if the final Standard provided examples of changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense. Examples of such items include regulatory assets acquired or regulatory liabilities assumed in a business combination and regulatory assets or regulatory liabilities forming part of a disposal group.

84. In addition to the reconciliation, we think the IASB should require an entity to provide a qualitative explanation of significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense. Such changes are unusual in nature—they are unlikely to occur in every reporting period. Consequently, users of financial statements are likely to want to understand the reasons for these changes.

85. Based on the staff analysis in paragraphs 81–84 we recommend the final Accounting Standard:

(a) combine the specific disclosure objective relating to changes in regulatory assets and regulatory liabilities proposed in paragraph 82 of the Exposure Draft with the specific disclosure objective in paragraph 79 of the Exposure Draft.

(b) retain the proposals in paragraph 83 of the Exposure Draft requiring an entity to disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.

(c) provide examples of the significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense.

(d) require an entity to disclose a qualitative explanation of significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense.

Question for the IASB
5. Does the IASB agree with the staff recommendation in paragraph 85?

Regulatory assets and regulatory liabilities measured applying paragraph 61 of the Exposure Draft

Proposals in the Exposure Draft

86. Paragraph 61 of the Exposure Draft proposes that an entity should measure a regulatory asset or regulatory liability arising from items that affect regulated rates only when the related cash is paid or received using the measurement basis used in measuring the related liability or related asset.

87. Paragraph 84 of the Exposure Draft states that, in considering what information to disclose about regulatory assets and regulatory liabilities measured applying paragraph 61, and how to disclose that information, an entity should also consider what information to disclose about the related liabilities and the related assets. Considering these matters together can help an entity explain that the cash flows arising from such regulatory assets and regulatory liabilities are largely a replica of the cash flows arising from the related liabilities and related assets and that the discount rates, risks and remeasurements are largely the same.

Staff analysis

88. We think the guidance proposed in paragraph 84 of the Exposure Draft is a useful reminder to preparers to think about how best to disclose information about regulatory assets and regulatory liabilities measured applying paragraph 61 of the Exposure Draft.

89. We therefore recommend the final Accounting Standard retain the proposal in paragraph 84 of the Exposure Draft relating to the disclosure of regulatory assets and regulatory liabilities measured applying paragraph 61 of the Exposure Draft.

Question for the IASB
6. Does the IASB agree with the staff recommendation in paragraph 89?