
IASB[®] Meeting

Date **February 2024**
Project **Rate-regulated Activities**
Topic **Disclosures—Drafting**
Contacts Nhlanhla Mungwe (nmungwe@ifrs.org)

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Objective

1. This paper includes illustrative drafting for the disclosure requirements suggested in Agenda Paper 9C and Agenda Paper 9D. New text is in green and underlined and deleted text is struck through. The drafting is for illustration only and it may not coincide with the drafting of the disclosure section in the final Accounting Standard. We are not seeking detailed feedback on the drafting at this stage.

Disclosure

72. **The overall objective of the requirements in paragraphs 74–85 is for an entity to disclose in the notes information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities. ~~This information~~ that, together with all other information provided in the financial statements, shall 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 will 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 will provide insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entity’s future cash flows.**
73. The information described in paragraph 72(a) contributes to a better understanding of the relationship between an entity’s revenue and expenses. That understanding contributes to providing insights into the entity’s prospects for future cash flows over many periods. In contrast, the information described in paragraph 72(b) provides insights into a narrower set of future cash flows—those that will arise from the regulatory assets and regulatory liabilities that exist at the end of the reporting period.
74. An entity shall determine the level of detail necessary to satisfy the overall disclosure objective and the specific disclosure objectives in paragraphs 77, 79 and ~~82~~83A. If the information disclosed applying paragraphs 75–83B is insufficient to meet the disclosure objectives, an entity shall disclose additional information to satisfy those objectives.
75. Paragraphs X – X of IFRS 18 *Presentation and Disclosure in Financial Statements* set out principles relating to aggregation or disaggregation of information. An entity shall 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~~ sufficiently dissimilar characteristics that their disaggregation provides material information.
~~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;~~
- 75A. Characteristics that might form the basis of aggregation or disaggregation include the following:
- (a) exposure ~~items subject~~ to substantially different risks or uncertainties;

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- (b) the type of rate-regulated activity—for example, electricity distribution and gas distribution;
 - (c) the type of item the regulatory asset or regulatory liability relates to, for example:
 - (i) recovery of operating cost variances;
 - (ii) performance incentives;
 - (iii) recovery of taxes; and
 - (iv) recovery of pension costs.
 - (d) items relating to the different revenue categories an entity discloses by applying paragraph 114 of IFRS 15; and
 - (e) how information is disaggregated in other information provided to users of financial statements, for example the entity’s regulatory reports.
76. 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.
- 77. An entity shall 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. That information is intended to enable users of financial statements to understand:**
- (a) how different factors have affected the entity’s financial performance during the period; and
 - (b) the entity’s prospects for future cash flows.
78. To achieve the objective in paragraph 77, an entity shall disclose in the notes the following components of regulatory income or regulatory expense included in profit or loss the statement(s) of financial performance, disclosing separately amounts

included in the statement of profit or loss and amounts included in other comprehensive income:

- (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) 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.~~
- (g) other changes to regulatory assets and a qualitative explanation of the amounts included in those changes.
- (h) other changes to regulatory liabilities and a qualitative explanation of the amounts included in those changes.

79. An entity shall 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 and changes in those regulatory assets and regulatory liabilities during the period. That understanding will provide insights into:

- (a) how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entity's future cash flows; and
- (b) the relationship between the entity's financial position and financial performance.

80. To achieve the objective in paragraph 79, an entity shall 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.
- (d) an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.
- (e) a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities disclosing separately:
 - (i) amounts included in the statement of profit or loss;
 - (ii) amounts included in other comprehensive income; and
 - (iii) changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense and a qualitative explanation of the amounts included in these changes. Examples of such changes include items acquired or assumed in a business combination and items disposed of.
- (f) a description of the nature of any regulatory assets or regulatory liabilities that are unrecognised because they do not meet the criterion for

recognition in paragraph 28, including the reasons why there is uncertainty about their existence and, when practicable, an estimate of the amount unrecognised.

81. In disclosing the information required by paragraph 80(a), an entity shall:
- (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.
82. ~~An entity shall 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.~~
83. ~~To achieve the objective in paragraph 82, an entity shall disclose in the notes a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities~~
- 83A. An entity shall disclose information that enables users of financial statements to understand the relationship between the entity's regulatory capital base and its property, plant and equipment. That understanding will provide insights into the nature of the regulatory scheme, the effect of that scheme on the entity's financial position and financial performance and allow users to make comparisons between entities subject to different types of regulatory schemes.**
- 83B. To achieve the objective in paragraph 83A, an entity shall disclose:
- (a) whether there is a direct relationship between its regulatory capital base and its property, plant and equipment.

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- (b) the main reasons why it has concluded that its regulatory capital base has a direct or no direct relationship with its property, plant and equipment.
 - (c) when an entity's regulatory capital base has no direct relationship with its property, plant and equipment, information:
 - (i) that allows users to understand any differences between the recovery period of the regulatory capital base and the assets' useful lives, including a description of the main factors considered in determining the regulatory recovery period that are not considered in the determination of the assets' useful lives.
 - (ii) about whether the recovery period of the regulatory capital base has changed during the period and, if so, the main reasons for that change.
 - (d) when an entity's regulatory capital base has no direct relationship with its property, plant and equipment, the nature of any unrecognised regulatory assets or unrecognised regulatory liabilities that arise when a regulator requires the entity to add (deduct) allowable expenses or performance incentives to (from) its regulatory capital base.
 - (e) the regulatory approach (nominal approach or real approach) used by the regulator to compensate an entity for inflation.
 - (f) when an entity's regulatory capital base has a direct relationship with its property, plant and equipment and the entity capitalises its borrowing costs, a qualitative explanation of:
 - (i) whether the entity receives regulatory returns on assets not yet available for use;
 - (ii) whether those regulatory returns comprise both a debt and an equity return or only a debt return and whether those regulatory returns are included in regulated rates charged during the construction period or operational period of the asset; and

- (iii) the effect of those regulatory returns on changes in the related regulatory assets or regulatory liabilities.

Regulatory assets and regulatory liabilities measured applying paragraph 61

84. In considering what information to disclose about regulatory assets and regulatory liabilities measured applying paragraph 61, and how to disclose that information, an entity shall also consider what information to disclose about the related liabilities and related assets and how to disclose the information. Considering these matters together can help an entity explain clearly 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.
85. For example, if a regulatory asset arises from pension costs and is measured applying paragraph 61, an entity will need to consider how to disclose the information required by this [draft] Standard and the information required by IAS 19 in a manner that shows: how regulatory income or regulatory expense includes amounts that counterbalance the effects of the pension costs recognised; how the regulatory asset counterbalances the risks in the pension liability; and, if applicable, that the discount rate is the same for the regulatory asset as for the pension liability.