STAFF PAPER

July 2018

IASB Meeting

Project	**Rate-regulated Activities**		
Paper topic	Amended recommendations and question for the Board		

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Purpose of this paper

1. The purpose of this paper is to replace our recommendations to the Board in slides 29 and 30 of Agenda Paper 9B to simplify them.

Recommendations and question for the Board

2. Recommendations 1 and 2 in slide 29 have been replaced by recommendations 1 and 2 below. Recommendation 3 in slide 30 has been deleted and recommendation 3 below has been added.

    1. If the regulatory agreement does not provide explicit compensation for the effects of time between origination and reversal of a timing difference, an entity should use judgement to determine, based on its particular facts and circumstances, whether the financing component of the timing difference is significant. If so, an entity should use a 'reasonable rate', as described in slide 27 of Agenda Paper 9B, to discount the estimated future cash flows and recognise any loss in profit or loss immediately.

    2. When the financing component is explicit, an entity should measure the regulatory asset by discounting estimated future cash flows using the interest or return rate established by the regulatory agreement for those cash

flows unless there is clear evidence to show the regulatory interest or return rate is set a level that provides an excess or deficit in compensation because of an identifiable event or decision. If so, an entity should recognise the excess or deficit, in the period in which the identifiable event or decision occurs.

3. If an entity does not have clear evidence that the excess or deficit in compensation results from an identifiable event or decision, the entity should recognise the gain or loss over the period in which the timing difference is outstanding by using the regulatory interest or return rate to discount the estimated future cash flows.

Question for the Board

Significant financing component and discount rate
2. Does the Board agree with the three recommendations above?