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Paper topic	Interactions between the model and IFRS® Standards

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Introduction and purpose of the paper

1. We are developing an accounting model for activities subject to defined rate regulation (model). The Board tentatively decided that:

   (a) the model should focus on regulatory timing differences between the time an entity carries out an activity to fulfil its service requirements and the time the rate(s) charged to customers includes amounts related to that activity; and

   (b) the requirements of IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers*, will continue to be applied without modification before the model is applied.

2. The information about the regulatory timing differences provided by the model supplements the information provided by applying current IFRS Standards. Consequently, it is often said that the model applies a 'supplementary approach'.

3. IFRS 14 *Regulatory Deferral Accounts* applies a similar supplementary approach to the regulatory deferral account balances recognised using IFRS 14. As a result, IFRS 14 contains requirements and application guidance relating to the interaction of that Standard with the requirements of other IFRS Standards.

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4. The purpose of this paper is to assess whether the requirements or guidance for the interactions between IFRS 14 and other Standards would still be valid for the interactions between the model and those Standards.

5. This paper focuses on the interactions dealt with in IFRS 14. We have reviewed requirements in other IFRS Standards not referred to in IFRS 14, including IFRIC 12 *Service Concession Arrangements* to identify whether the model would need to deal specifically with any interactions with those other Standards. In Agenda Paper 9C for the Board's July 2018 meeting, we indicated our initial view that the model should include some requirements about the presentation of some government grants and for some transfers of assets from customers. We have not identified other issues requiring specific requirements but continue to analyse the need for application guidance in other areas. We will bring to the Board in a future meeting our analysis and recommendations for these further interactions.

Summary of conclusions and recommendations

6. Many of the requirements and much of the guidance about interactions between IFRS 14 and other IFRS Standards would not be valid for the model and so we recommend excluding them from the model, with limited exceptions.

7. The staff make the following recommendations:

   (a) The model should contain exceptions to the measurement requirements of IAS 36 *Impairment of Assets* (paragraphs 18–22) and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (paragraphs 23–27).

   (b) The Board should make consequential amendments to IAS 36 and IFRS 5 to confirm the exceptions to the scope of the measurement requirements for regulatory assets and regulatory liabilities (paragraphs 22 and 27).

   (c) The Board should not retain in the model the exceptions to the requirements of IFRS 3 *Business Combinations* provided by IFRS 14 (paragraphs 28–45)

(d) The Board should not retain in the model an explicit requirement to apply other IFRS Standards, such as IAS 10 *Events after the Reporting Date*, to regulatory assets, regulatory liabilities and regulatory income/ (expense) (paragraphs 46–53).

(e) The description of the model should include application guidance about the interaction with IAS 12 *Income Taxes*, similar to the application guidance in paragraph B10 of IFRS 14 (paragraphs 54–59).

(f) The presentation and disclosure requirements in IFRS 14 requiring regulatory items to be isolated from assets, liabilities and net income/ (expense) by use of sub-totals should not be retained in the model (paragraphs 60–65).[1]

(g) Requirements and application guidance relating to interactions between the model and other IFRS Standards should be contained within the Standard on rate-regulated activities (paragraphs 66–67).

Background—IFRS 14 *Regulatory Deferral Accounts*

8. The Board issued IFRS 14 in January 2014. IFRS 14 describes regulatory deferral account balances as:

> amounts of expense or income that would not be recognised as assets or liabilities in accordance with other Standards, but that qualify to be deferred in accordance with IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

9. IFRS 14 is a temporary IFRS Standard. It permits an entity that adopts IFRS and is within IFRS 14's scope to continue to use, in its first and subsequent IFRS financial statements, the entity's previous GAAP[2] accounting policies for the

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[1] Staff's recommendations for presentation and disclosure requirements for the model are contained in agenda papers 9C and 9D for this meeting.

[2] Appendix A of IFRS 1 defines previous GAAP as the 'basis of accounting that a first-time adopter used immediately before adopting IFRSs'.

recognition, measurement, impairment and derecognition of regulatory deferral account balances.

10. However, the description of regulatory deferral account balances in paragraph 8 means that an entity applying IFRS 14 may need to make limited changes to some previous GAAP accounting practices for regulatory deferral account balances, primarily related to the presentation of these accounts. This is because some previous GAAP accounting policies resulted in regulatory deferral account balances being incorporated into the carrying amount of some assets such as property, plant and equipment, rather than being presented separately.

11. When the Board issued IFRS 14 in January 2014 it had not decided whether regulatory deferral account balances meet the definitions of an asset or a liability in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).[3] Consequently, the Board decided to isolate the presentation of regulatory deferral account balances and movements in those balances below subtotals for the assets, liabilities and net income or expense recognised in accordance with other IFRS Standards. The Board concluded that this would enable users of financial statements to compare the financial statements of entities that recognise such balances in accordance with IFRS 14 against the financial statements of entities that do not recognise such balances.

12. The combination of the definition of regulatory deferral account balances and the requirement to present separately regulatory deferral accounts balances means that an entity applies the requirements of other IFRS Standards before applying the requirements of the model. In this respect, the requirements in IFRS 14 are similar to the supplementary approach proposed for the model.

13. In applying the supplementary approach of IFRS 14 the Board needed to provide some specific requirements and application guidance related to the interaction of IFRS 14 with other Standards. Paragraphs 16–17 of IFRS 14 state:

> 16 **Any specific exception, exemption or additional requirements related to the interaction of this Standard with other Standards are contained within**

[3] Since issuing IFRS 14 the Board issued in March 2018 a revised *Conceptual Framework*.

> **this Standard (see paragraphs B7–B28). In the absence of any such exception, exemption or additional requirements, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets, liabilities, income and expenses that are recognised in accordance with other Standards.**
>
> 17 In some situations, another Standard might need to be applied to a regulatory deferral account balance that has been measured in accordance with an entity's accounting policies that are established in accordance with paragraphs 11–12 in order to reflect that balance appropriately in the financial statements. For example, the entity might have rate-regulated activities in a foreign country for which the transactions and regulatory deferral account balances are denominated in a currency that is not the functional currency of the reporting entity. The regulatory deferral account balances and the movements in those balances are translated by applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

14. The requirements and application guidance related to the interaction of IFRS 14 with other Standards contained in paragraphs 16–17 and B7–B28 of IFRS 14 can be grouped into the following categories:

    (a) exceptions to the requirements of other IFRS Standards to allow entities within the scope of IFRS 14 to grandfather existing recognition and measurement policies for regulatory deferral account balances (paragraphs 15–45);

    (b) guidance to confirm that the requirements of other IFRS Standards apply, when applicable, to regulatory deferral account balances as though they were assets and liabilities and apply to movements in those balances as though those movements were income or expense (paragraphs 46–59); and

(c) presentation and disclosure requirements designed to isolate the presentation and disclosure of regulatory deferral account balances and movements in those balances from assets, liabilities, income and expenses recognised by applying other IFRS Standards (paragraphs 60–65 and Appendix).

IFRS 14 exemptions from the requirements of other IFRS Standards

15. As noted in paragraphs 9–10, IFRS 14 allows an entity within its scope to grandfather its previous GAAP accounting policies for regulatory deferral account balances, subject to limited changes to presentation and disclosure requirements. To preserve the grandfathered recognition and measurement policies, IFRS 14 provides exemptions from the measurement requirements of IAS 36 and IFRS 5, and an exemption from both the recognition and measurement requirements of IFRS 3.

16. The following paragraphs consider whether those exemptions would still be valid for the regulatory assets and regulatory liabilities that would be recognised using the model.

Exemptions considered still valid for the model

17. IFRS 14 excluded regulatory deferral account balances from the scope of the measurement requirements of both IAS 36 and IFRS 5 because IFRS 14 requires an entity within its scope to apply its previous GAAP accounting policies for impairment or reduced recoverability of those balances. We suggest the exceptions are also valid for the application of the model for the following reasons.

IAS 36

18. IAS 36 excludes from its scope various assets for which other IFRS Standards provide more specific measurement requirements to account for impairment or reduced recoverability of the assets within their scope. Examples include inventories, contracts assets recognised using IFRS 15 and financial assets within the scope of IFRS 9.

19. The accounting model being developed establishes criteria for the recognition of regulatory assets and regulatory liabilities and establishes measurement requirements for those items. When considering the measurement requirements for the model, the Board considered the nature and characteristics of regulatory assets and regulatory liabilities.

20. The Board concluded that the effects of those assets and liabilities on an entity's future cash flows can be identified separately from other cash flows included in the regulated rate(s) charged to customers. Consequently, the model would require an entity to apply a cash-flow-based measurement technique that measures regulatory assets[4] at the amount of the estimated cash flows that will result from that regulatory asset, discounted at a reasonable rate. Changes in estimates of those cash flows will be recognised in profit or loss.

21. Those requirements eliminate the need for a specific impairment test for regulatory assets because, instead, a recurring review of the estimates used to measure the asset is required.

22. Consequently, we recommend the model provides an exception to the measurement requirements of IAS 36. We also recommend a consequential amendment to IAS 36 to confirm the exception.

IFRS 5

23. Paragraph BC13 of the Basis for Conclusions on IFRS 5 notes that, when establishing the scope of IFRS 5, the Board concluded that any exclusions from the scope of IFRS 5 should relate only to the measurement requirements.

24. In relation to the measurement requirements, the Board decided that non-current assets should be excluded only if (i) they are already carried at fair value with changes in fair value recognised in profit or loss or (ii) there would be difficulties in determining their fair value less costs to sell. In addition, all financial assets within the scope of IFRS 9 are excluded from the measurement requirements of IFRS 5.

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[4] The Board also tentatively decided the same measurement technique would be applied to regulatory liabilities.

25. The measurement technique required by the model (paragraph 20) is in many respects broadly similar to a fair value measure with changes recognised in profit or loss, except that the discount rate is not updated to reflect present market rates.

26. When developing the measurement technique, the Board discussed difficulties in determining a fair value for regulatory timing differences. The difficulties arise because the regulatory agreement provides rights and imposes obligations on the entity that do not exist in a competitive market. In addition, the entity is typically the only supplier in the market and so finding observable inputs against which to benchmark regulatory interest or return rates is difficult.

27. Consequently, we conclude that the conditions described in paragraph 24 are met sufficiently to support exclusion of regulatory assets from the measurement requirements of IFRS 5. As a result, we recommend the model provides an exception to the measurement requirements of IFRS 5. We also recommend a consequential amendment to IFRS 5 to confirm the exception.

Exemptions considered no longer valid for the model

28. IFRS 3 sets out the following general recognition and measurement principles:

    (a) as of the acquisition date, an acquirer shall recognise the identifiable assets acquired and liabilities assumed—to qualify for recognition, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Conceptual Framework*;[5] and

    (b) the recognised assets acquired and liabilities assumed shall be measured at acquisition-date fair value.[6]

29. IFRS 3 does not contain requirements about how to measure assets and liabilities at fair value. The requirements for fair value measurement are instead contained in IFRS 13 *Fair Value Measurement*. When an entity is determining the fair value of the assets acquired and liabilities assumed in a business combination,

[5] Paragraphs 10–11 of IFRS 3.

[6] Paragraph 18 of IFRS 3.

IFRS 13 requires an entity to use assumptions that market participants would use when pricing the asset or liability.

30. IFRS 14 contains an exception to the general recognition and measurement principles of IFRS 3 for the regulatory deferral account balances recognised using IFRS 14. As noted in paragraph 9, IFRS 14 was designed to permit entities to grandfather their previous GAAP accounting policies for regulatory deferral account balances. IFRS 14 does not provide any further exception to, or exemption from, the requirements of IFRS 3 relating to other assets acquired or liabilities assumed in a business combination involving an acquire subject to defined rate regulation.

31. When considering whether the exception to applying the recognition and measurement principles in IFRS 3 to regulatory deferral account balances recognised using IFRS 14 would be valid for regulatory assets and regulatory liabilities recognised using the model, we considered:

    (a) whether the acquiror in a business combination should recognise the regulatory agreement to which an acquire entity is subject as a separate asset acquired—this is a unit of account question;

    (b) whether, and if so how, the regulatory agreement affects the acquisition-date fair value of assets acquired and liabilities assumed in a business combination; and

    (c) whether and how the acquisition-date fair value of regulatory assets and regulatory liabilities would differ from the pre-acquisition carrying amount measured using the requirements of the model.

Unit of account

32. The regulatory agreement establishes a range of rights and obligations for the entity that encompass many aspects of the entity's rate-regulated business and how it is operated. Consequently, the regulatory agreement has such a pervasive

effect on the value of the entity's rate-regulated business that it can be seen to be part of, but not separable from, the business as a whole.[7]

33. In February 2018, the Board tentatively decided the accounting model will use as its unit of account the individual regulatory timing differences that create the incremental rights and obligations arising from the regulatory agreement, not the regulatory agreement as a whole. As a result, the model being developed does not require an entity subject to defined rate regulation to recognise the regulatory agreement as an intangible asset. Instead, the model would focus on regulatory timing differences and the recognition and measurement of resulting regulatory assets and regulatory liabilities.

34. We see no reason to change the unit of account for applying IFRS 3. Some of the terms and conditions in the regulatory agreement relate directly to the ways in which the acquired entity can use some of its assets (such as infrastructure and regulatory assets) and fulfil some of its liabilities (including its regulatory liabilities). Any more pervasive effects of the regulatory agreement on the business acquired would be reflected in the amount of goodwill recognised.

Reflecting terms and conditions of the regulatory agreement in the fair value of assets acquired and liabilities assumed

35. We understand that general practice already reflects our conclusions in paragraph 34. Our observations are the same for acquiring entities applying IFRS 14 and for those outside the scope of IFRS 14.

36. We observe that entities applying IFRS 3 when acquiring a business subject to defined rate regulation do not recognise the regulatory agreement as a separate asset. Instead, general practice is to use the features of the defined rate regulation in the acquisition-date fair value measurements required by IFRS 3 for the recognised assets acquired and liabilities assumed, if these features would be considered by market participants.

[7] See paragraphs 51–54 of Agenda Paper 9 from the Board May 2017 meeting, which summarised why the Board previously rejected developing a model focusing on recognising the regulatory agreement as an intangible asset.

37. For example, in the case of infrastructure assets,[8] defined rate regulation may create:

    (a) legal rights to recover the cost of the asset plus a return; and

    (b) legal restrictions on the use of infrastructure assets with the assets being exclusively operated for the benefit of the customers, which makes it difficult for entities to realise the potential value of the assets outside of the rate-regulated environment.

38. When such restrictions prevent market participants from changing the use of an acquired asset, we would expect the fair value of the asset to reflect the regulatory terms and conditions, including the rate of return included in the regulatory agreement. This may result in the fair value of those assets approximating their carrying amounts in the acquiree's financial statements immediately prior to the acquisition.

Regulatory assets acquired and regulatory liabilities assumed in a business combination

39. Acquiring entities outside the scope of IFRS 14 (or that were eligible to apply IFRS 14 but elected not to do so) generally do not recognise regulatory deferral account balances. Instead, the value of such balances is subsumed within the carrying amount of goodwill (or gain on a bargain purchase).

40. Acquiring entities applying IFRS 14 recognise regulatory deferral account balances separately from goodwill and measure such balances using their previous GAAP accounting policies.

41. When considering whether the model should provide an exception to the acquisition-date fair value measurement principle of IFRS 3 for regulatory assets and regulatory liabilities, we have considered how different a fair-value measurement technique would be from the measurement technique that would be used on an ongoing basis in the model.

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[8] SEC staff reviewed the accounting for several mergers occurring since the FASB adopted ASC805 Business Combinations, which is substantially converged with IFRS 3. The SEC staff supported the view that regulation is a characteristic of the asset and should be incorporated into its fair value measurement. (Source: PwC Accounting Guide Utilities and power companies (2016)).

42. As noted in paragraph 20, the Board tentatively decided that the model would require regulatory assets and regulatory liabilities to be measured using a cash-flow-based-measurement technique. That technique would require the reporting entity to estimate the future cash flows that will result from the regulatory timing differences and discount those cash flows to a present value using a 'reasonable' discount rate.

43. The Board considered that a reasonable rate would commonly reflect the interest or return rate provided by the regulatory agreement. This is because the regulatory interest or return rate typically reflects the risks and uncertainties of the regulatory market in which the entity operates, and reflects the regulatory objectives underpinning the entity's rights and obligations under the regulatory agreement.

44. Regulatory timing differences result from the operation of the rate-setting mechanism within the regulatory agreement. The nature of the mechanism restricts the use of regulatory assets and the ability of the entity to transfer its regulatory liabilities. Regulators update the regulatory interest or return rates at intervals, reacting to changes in regulatory objectives and market conditions. We assume that market participants consider such objectives and conditions when determining the fair value of regulatory assets and liabilities. Consequently, at the acquisition-date, we conclude that the fair value of a regulatory timing difference would typically approximate to the carrying amount determined by using the measurement technique that would be used by when applying the model.

45. As a result of the above analysis, we see no reason to provide an exception to the general requirements of IFRS 3 for the acquisition of an entity subject to defined rate regulation.

Questions for the Board

Questions 1 and 2—exceptions to the requirements of other IFRS Standards
1. Does the Board agree with the Staff's recommendations: (a) to include in the model exceptions to the measurement requirements of IAS 36 and IFRS 5; and (b) to make consequential amendments to the scope of the measurement requirements of IAS 36 and IFRS 5 to confirm the exceptions (paragraphs 17–27)? 2. Does the Board agree with the Staff's recommendation not to retain in the model exceptions to the requirements of IFRS 3 provided by IFRS 14 (paragraphs 28–45)?

IFRS 14 guidance confirming the application of other Standards

46. As noted in paragraph 13, paragraphs 16–17 of IFRS 14 clarify that when a regulatory deferral account balance has been recognised and measured in accordance with an entity's accounting policies that are established in accordance with IFRS 14, another Standard might need to be applied to that balance to reflect it appropriately in the financial statements in some situations. Paragraph 17 of IFRS 14 uses IAS 21 as an example. That paragraph confirms that IAS 21 may need to be applied to transactions denominated in a currency that is not the functional currency of the reporting entity. The guidance in paragraphs 16–17 of IFRS 14 was included because, during the development of the Standard, some stakeholders asked how Standards such as IAS 21 should apply to regulatory deferral account balances if those balances were not considered to be assets or liabilities.

47. In addition to guidance about applying IAS 21, IFRS 14 also provides guidance confirming the requirements of IAS 10, IAS 12 and IFRS 10/ IAS 28 apply to regulatory deferral account balances in the same way as they apply to assets and liabilities recognised using other IFRS Standards (see Appendix).

IAS 10 Events after the Reporting Date

48. IAS 10 prescribes when an entity should adjust its financial statements for events after the reporting date and the disclosures an entity should give about events (both adjusting and non-adjusting) after the reporting date. During the development of IFRS 14, staff identified that some previous GAAP requirements for updating estimates may differ from those in IAS 10.

49. When issuing IFRS 14, the Board decided it would, to enhance comparability, confirm that amounts recognised for regulatory deferral accounts should be updated consistently with the requirements of IAS 10 (paragraph B8 of IFRS 14).

50. The model will supersede previous GAAP requirements and so there should be no question about the applicability of the general requirements of IAS 10.

IFRS 10 and IAS 28

51. Paragraphs B23–B24 of IFRS 14 confirm that the general principle in both IFRS 10 and IAS 28 is that, when preparing consolidated financial statements and when applying the equity method, the same accounting policies are applied to all entities. Consequently, a parent entity would, in its consolidated financial statements, recognise regulatory deferral account balances that exist in any subsidiary, associate or joint venture (investee)—even when that investee does not recognise regulatory deferral account balances in its own financial statements. This may be the case when the reporting entity is in the scope of IFRS 14, but the investee is not and has previously adopted IFRS Standards.

52. When the Board was developing IFRS 14, some opponents to recognising regulatory deferral account balances suggested that an exception to the general principle of IFRS 10 and IAS 28 should be created. This exception would restrict an entity within the scope of IFRS 14 to recognising only those regulatory deferral account balances previously recognised in the statutory financial statements of the entity's investees. The Board confirmed, in paragraphs B23–B24 of IFRS 14, that there was no basis to support an exception to the general principle in IFRS 10 and IAS 28.

53. Since issuing IFRS 14, we have identified the rights and obligations resulting from regulatory timing differences. The Board has tentatively decided that those

rights and obligations do meet the definitions of an asset or a liability in the *Conceptual Framework*. Consequently, staff consider the guidance in paragraph 17 and paragraphs B8 and B23–24 of IFRS 14 would be redundant in the model. Consequently, we recommend the description of the model does not include an explicit requirement to apply other IFRS Standards, such as IAS 21, IAS 10 and IFRS 10/ IAS 28 to regulatory assets, regulatory liabilities and net regulatory income/ (expenses) to reflect those elements appropriately in the entity's financial statements.

IAS 12 Income Taxes

54. During the development of IFRS 14, some stakeholders raised questions about the interaction of the recognition of regulatory deferral account balances with the recognition of deferred tax assets or deferred tax liabilities. Staff are hearing similar questions about the interaction of IAS 12 with the model being developed.

55. The objective of IAS 12 notes:

> IAS 12 requires an entity to account for the tax consequences of transactions or other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. . . .

56. This means that an entity may recognise a tax expense and related liability, or a tax income and related asset, in a period before the time the entity includes that amount in the tax payable for the period. Guidance in paragraph B10 of IFRS 14 highlights that when the regulatory agreement gives an entity the right to recover all or part of its income tax expense through the rate(s), this could create a regulatory timing difference. This would occur when, for example, the regulatory agreement includes the taxation in the rate(s) when it is paid, rather than when it is accrued for financial reporting purposes.

57. Consequently, when the conditions for recognition of a regulatory asset or regulatory liability in the model are met, an entity would recognise such an asset or liability when it recognises a related tax liability or tax asset.

58. The guidance in paragraph B10 of IFRS 14 further highlights that the recognition of this regulatory asset or regulatory liability might itself create an additional temporary tax difference for which a further tax amount would be recognised using IAS 12. The recognition of this additional tax amount would itself create an additional regulatory timing difference.

59. This grossing up of both the tax liability/ asset and the related regulatory asset/ liability would faithfully reflect the economic substance of both the tax requirements and the regulatory agreement. This treatment also reflects observed practice and so we consider that the cost to preparers does not outweigh the benefit of more complete representation of the entity's financial position in the financial statements. Consequently, we recommend, for the avoidance of doubt, providing in the description of the model application guidance similar to that in paragraph B10 of IFRS 14.

Question for the Board

Questions 3 and 4—guidance on applicability of other IFRS Standards
3. Does the Board agree with the Staff's recommendation not to retain in the model the general guidance provided by IFRS 14 confirming that other IFRS Standards, when applicable, apply to regulatory assets, regulatory liabilities, and regulatory income/ expense in the same way as they apply to assets, liabilities, income or expenses recognised using other IFRS Standards (paragraphs 46–53)?
4. Does the Board agree with the Staff's recommendation to provide in the model application guidance about the interaction with IAS 12, similar to the application guidance in paragraph B10 of IFRS 14 (paragraphs 54–59)?

IFRS 14 presentation and disclosure requirements designed to isolate regulatory items

60. The Appendix lists the requirements in IFRS 14 designed to isolate regulatory deferral account balances and movements in those balances from the assets,

liabilities income and expenses recognised using other IFRS Standards. Those requirements involve the use of sub-totals in addition to separate line items in the statements of financial performance and of financial position. As a result, IFRS 14 requirements extended the isolation of regulatory items to presentation of income taxes, earning per share, non-current assets held for sale and discontinued operations, and to disclosures of interests in other entities.

61. While developing the model, we have identified the rights and obligations resulting from regulatory timing differences. The Board has tentatively decided that those rights and obligations do meet the definitions of an asset or a liability in the *Conceptual Framework*.

62. Consequently, staff suggest that there is no need to isolate regulatory assets, regulatory liabilities, and regulatory net income or expense from other assets, liabilities and net income or expense in separate sections of the statements of financial position and financial performance by using the sub-totals required by IFRS 14. Staff also suggest that there would no benefit in requiring such isolation, and that such isolation would damage the integrity and clarity of those statements, making their structure less clear and less understandable.

63. We recommend, therefore, the presentation and disclosure requirements in IFRS 14 that required such isolation of regulatory deferral account balances (paragraph 60 and Appendix) are not carried forward into the model because they are not valid for the regulatory assets, regulatory liabilities and net regulatory income/ (expense) that would be recognised using the model.

64. However, when developing measurement requirements for the model we identified that the characteristics of regulatory assets and regulatory liabilities differ from those of other assets and liabilities. Consequently, regulatory assets and regulatory liabilities do not fit neatly into any existing categories of assets and liabilities.[9]

65. As a result, staff recommend in Agenda Paper 9C that separate line items should be used to present regulatory assets, regulatory liabilities and regulatory income or expense within the primary financial statements to give users of financial

[9] See slide 19 of Agenda Paper 9B *Measurement*, May 2018.

statements relevant information about regulatory timing differences recognised by using the model.

Question for the Board

Question 5—isolation of regulatory items
5. Does the Board agree with the staff recommendation not to carry forward the IFRS 14 presentation and disclosure requirements requiring regulatory items to be isolated from the assets, liabilities and net income/ (expense) recognised using other IFRS Standards (paragraphs 60–65)?

Consequential amendments to other IFRS Standards

66. When issuing IFRS 14, the Board did not make consequential amendments to other Standards, except IFRS 1 *First-time Adoption of International Financial Reporting Standards*.[10] This was because IFRS 14 applies to a limited population of entities and because IFRS 14 was intended to be a temporary Standard.

67. Although a Standard replacing IFRS 14 would not be intended to be temporary, it would still apply to only a limited population of entities. Consequently, the Staff recommend that any requirements and application guidance relating to interactions between the model and other IFRS Standards should be placed within the Standard on rate-regulated activities.

[10] The amendment to IFRS 1 refined the definition of rate regulation in an existing exemption allowing first-time adopters of IFRS Standards to use, as deemed cost, the previous GAAP carrying amount of some assets that included regulatory timing differences.

Question for the Board

Question 6—requirements and guidance on interactions and consequential amendments
6. Does the Board agree with the staff recommendations to place requirements and guidance on interactions with other IFRS Standards within the Standard on rate-regulated activities (paragraphs 66–67)?

APPENDIX: Isolation of regulatory deferral account balances and movements in those balances

The following table outlines the requirements of IFRS 14 related to the isolation of regulatory deferral account balances and movements in those balances from the assets, liabilities and net income/ (expenses) recognised using other IFRS Standards.

IFRS Standard	Related IFRS 14 requirements

IAS 1 *Presentation of Financial Statements*	IFRS 14 contains specific requirements about the presentation in the primary financial statements of regulatory deferral account balances and movements in those balances:
	Statement of financial position (paragraphs 20–21)
	• An entity shall present separate line items in the statement of financial position for the total of all regulatory deferral account:
	  o debit balances; and
	  o credit balances.
	• An entity shall not classify the totals of regulatory deferral account balances as current or non-current.
	• the separate line items shall be distinguished from the assets and liabilities that are presented in accordance with other Standards by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented.

IFRS Standard	Related IFRS 14 requirements
	Income statement(s) (paragraphs 22–23) • An entity shall present, in the other comprehensive income (OCI) section, separate line items for the net movement in regulatory deferral account balances for the reporting period that relate to items that, in accordance with other Standards: o will not be reclassified subsequently to profit or loss; and o will be reclassified subsequently to profit or loss when specific conditions are met. An entity shall present a separate line item in the profit or loss section for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item shall be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.
IAS 12 *Income Taxes*	Paragraph 24 of IFRS 14 requires that when an entity recognises a deferred tax asset or a deferred tax liability as a result of recognising regulatory deferral account balances, the entity shall present the resulting deferred tax asset (liability) and the related movement in that deferred tax asset (liability) with the related regulatory deferral account balances and movements in those balances, instead of within the total presented in accordance with IAS 12 *Income Taxes* for deferred tax assets (liabilities) and the tax expense (income) (see paragraphs B9–B12 of IFRS 14).

IFRS Standard	Related IFRS 14 requirements
IAS 33 *Earnings per Share*	Paragraphs B13–B14 of IFRS 14 require, for each earnings per share amount presented in accordance with IAS 33, an entity to present additional basic and diluted earnings per share amounts that are calculated in the same way, except that those amounts shall exclude the net movement in the regulatory deferral account balances.
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Paragraphs B20–B22 of IFRS 14 requires the entity to present the movement in regulatory deferral account balances that arose from the rate-regulated activities of the discontinued operation either: (a) within the line item that is presented for movements in the regulatory deferral account balances related to profit or loss; or (b) as a separate line item alongside the related line item that is presented for movements in the regulatory deferral account balances related to profit or loss. In addition, when an entity presents a disposal group, the entity shall present the total of the regulatory deferral account debit balances and credit balances that are part of the disposal group either: (a) within the line items that are presented for the regulatory deferral account debit balances and credit balances; or (b) as separate line items alongside the other regulatory deferral account debit balances and credit balances.

IFRS Standard	Related IFRS 14 requirements
IFRS 12 *Disclosure of Interests in Other Entities*	Paragraph 35 of IFRS 14 requires that, when an entity provides disclosures in accordance with IFRS 12 for an interest in a subsidiary, associate or joint venture that has rate-regulated activities and for which regulatory deferral account balances are recognised in accordance with IFRS 14, the entity shall disclose the amounts that are included for the regulatory deferral account debit and credit balances and the net movement in those balances for the interests disclosed (see paragraphs B25–B28 of IFRS 14).