IFRS

STAFF PAPER

June 2019

Project	Rate-regulated Activities		
Paper topic	Summary of tentative decisions made to date		
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Purpose of this paper

1. The purpose of this paper is to summarise the Board's tentative decisions to date and outline staff views on the consistency of those decisions with the refined description of the model in Agenda Papers 9A-9E.

Tentative decisions about the model

2. So far, the Board has reached tentative decisions on proposals for:
   - (a) Scope;
   - (b) Unit of account;
   - (c) Recognition of regulatory assets and regulatory liabilities;
   - (d) Measurement of regulatory assets and regulatory liabilities;
   - (e) Presentation and disclosure objectives and requirements.

3. The Board's tentative decisions to date on the model are included in an appendix to this paper, along with staff views on whether any changes maybe needed to the Board's tentative decisions as a result of the refined description of the model discussed in Agenda Papers 9A-9E presented in this meeting.

APPENDIX—summary of tentative decisions to date

A1. The following table summarises the Board's tentative decisions made while developing the model. The bolded meeting references also include a hyperlink to the respective Board meeting webpages.

Topic	**Tentative decisions** (extracts from IASB Update)	Staff views on consistency of tentative decisions with the refined description of the model
General approach in the model	**February 2017 (Agenda Paper 9A)** The Board examined how the principle proposed in the model, as well as its general approach, make use of principles in IFRS 15 *Revenue from Contracts with Customers* and of the Board's latest thinking in the *Conceptual Framework* project. The Board tentatively decided that the staff should continue developing the model using the general approach. However, it asked the staff to rework the analysis describing the principles supporting the approach.	We do not suggest any changes to this tentative decision. The related principles supporting the model's general approach are discussed in paragraphs 22-25 of Agenda Paper 9A, June 2019.
Scope	**March 2018 (Agenda Paper 9B)** The Board tentatively decided that the accounting model should apply to defined rate regulation established through a formal regulatory framework that: (a) is binding on both the entity and the regulator; and (b) establishes a basis for setting the rate for specified goods or services that includes a rate-adjustment mechanism. That mechanism creates, and subsequently reverses, rights and obligations caused by the regulated rate in one period including amounts related to specified activities the entity carries out in a different period.	We suggest refinements to the wording used to describe the basis for setting the rate. We consider the refinements improve the specificity and clarity of the description but do not represent a change to this tentative decision (see paragraphs 4-9 of Agenda Paper 9B, June 2019).

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Unit of account	**February 2018 (Agenda Paper 9A)** The Board tentatively decided that: (a) the accounting model will use as its unit of account the individual timing differences that create the incremental rights and obligations arising from the regulatory agreement. (b) the present regulatory right—to charge a rate increased by an amount as a result of past events—meets the definition of an asset in the *Conceptual Framework*. (c) the present regulatory obligation—to provide goods or services at a rate reduced by an amount as a result of past events—meets the definition of a liability in the *Conceptual Framework*.	Subsequent to this tentative decision, the Board has made other tentative decisions that provide alternative units of account that are more specifically designed for measurement, presentation and disclosure purposes. Consequently, we suggest changes to this tentative decision to avoid conflict with the more specific tentative decisions (see paragraphs 32-43 of Agenda Paper 9A, June 2019). We suggest refinements to the wording used to define a regulatory asset and a regulatory liability. We consider the refinements improve the specificity and clarity of the definitions but do not represent a change to this tentative decision (see paragraphs 10-14 of Agenda Paper 9B, June 2019).

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Recognition of regulatory assets and regulatory liabilities	**March 2018 (Agenda Paper 9B)** The Board tentatively decided that the accounting model: (a) should require the recognition of regulatory assets or regulatory liabilities if it is more likely than not that they **exist**—the model sets a symmetrical recognition threshold in cases of **existence uncertainty**; and (b) should not set thresholds that would prevent recognition of a regulatory asset or regulatory liability for which there is: (i) low probability of an inflow or outflow of economic benefits; or (ii) high measurement uncertainty.	We suggest no changes to this tentative decision (see paragraphs 22-24 of Agenda Paper 9B, June 2019).
Measurement of regulatory assets	**May 2018 (Agenda Paper 9B)** The Board tentatively decided that the measurement of regulatory assets should reflect: (a) estimates of the future cash flows the regulatory assets will generate. These cash flows include amounts that result from: (i) the costs of assets used and operating expenses incurred; (ii) any margins on the operating expenses incurred; and (iii) any interest on the operating expenses incurred or returns on the costs of assets used. (b) discounting the estimates of future cash flows if there is a significant financing component.	In December 2018, staff proposed excluding the interest or return from the estimated future cash flows when measuring regulatory assets that form part of the regulatory capital base (RCB). We revisit that recommendation in paragraphs 16-20 of Agenda Paper 9C and paragraph 12 of Agenda Paper 9D, June 2019. Otherwise, we suggest no changes to these tentative decisions.

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	The Board also tentatively decided that: (a) the measurement of regulatory assets should reflect changes, if any, in the estimates of the future cash flows the regulatory assets will generate. (b) the discount rate established at initial recognition should remain unchanged during the subsequent measurement of the regulatory assets. (In its July 2018 meeting, the Board tentatively decided the discount rate established at initial recognition should change if the interest or return rate provided by the regulatory agreement changes—see 'Changes in estimated cash flows, including changes caused by changes in the discount rate' section of this table).	
	July 2018 (Agenda Papers 9B and 9D) ***Estimating future cash flows*** The Board tentatively decided that, for each regulatory asset recognised, an entity should: (a) estimate future cash flows using either the 'most likely amount' method or the 'expected value' method, depending on which method the entity concludes would better predict the amount of the cash flows arising from a particular timing difference; and (b) apply the same method consistently from the origination of the timing difference until its reversal.	We suggest no changes to these tentative decisions about estimating future cash flows (see paragraph 23 of Agenda Paper 9C, June 2019).

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	The Board also discussed how an entity should determine whether to consider the outcome of each timing difference separately or together with one or more other timing differences. The Board tentatively decided such determinations should be based on the approach that would better predict the amount of the resulting future cash flows.	
	Significant financing component and discount rate	
	No explicit financing component The Board tentatively decided that, if a regulatory agreement does not provide explicit compensation for the effects of time between the origination and reversal of a timing difference, an entity should use judgement to determine whether the financing component of the timing difference is significant. Such judgement should be based on the entity's facts and circumstances. If the entity concludes the financing component is not significant, discounting the future cash flows is not required. However, if the entity concludes the financing component is significant, the entity should use a 'reasonable rate' to discount the estimated future cash flows and recognise any loss in profit or loss immediately. *Explicit financing component* The Board tentatively decided that, when a financing component is explicit, an entity should measure the regulatory asset by discounting the estimated future cash flows using	These tentative decisions about the financing component and discount rate were reconsidered in Agenda Paper 9B December 2018. We have summarised, in paragraph 11 of Agenda Paper 9D, June 2019, the principles identified from the Board's July 2018 and December 2018 discussions of the discount rate. We provide further analyis suggesting refinements to these principles, together with revised and new recommendations for the discounting aspect of measurement in paragraphs 9-47 of Agenda Paper 9D.

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	the interest rate or return rate established by the regulatory agreement for those cash flows. However, that requirement would not apply where clear evidence shows that the regulatory interest rate or return rate is set at a level that provides an excess or deficit in compensation because of an identifiable event or decision. In this circumstance, an entity should recognise the excess or deficit in compensation in the period in which the identifiable event or decision occurs. ***Changes in estimated cash flows, including changes caused by changes in the discount rate*** The Board tentatively decided that the model should adopt the treatment required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to account for changes in estimated future cash flows. Consequently: (a) the effect of a change in estimated future cash flows should be recognised prospectively in profit or loss in: (i) the period of change, if the change affects only that period; or (ii) the period of change and future periods, if the change affects both; and (b) if the change gives rise to a change in a regulatory asset, the change should be recognised by adjusting the carrying amount of the related asset in the period of change.	We suggest no changes to these tentative decision about changes in estimated cash flows (see paragraphs 28-29 of Agenda Paper 9C, June 2019 and paragraphs 61-66 of Agenda Paper 9D, June 2019).

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	When a regulator changes the interest rate or return rate used to compensate an entity for the period between the origination and reversal of a timing difference, the Board tentatively decided that the entity should: (a) measure the outstanding regulatory asset balance using the revised interest rate or return rate to discount the estimated future cash flows; and (b) recognise any resulting change in the carrying amount of the regulatory asset in the period of change.	
Measurement of regulatory liabilities	**July 2018 (Agenda Paper 9B)** ***Measurement of regulatory liabilities*** The Board also tentatively decided that the model should apply the same measurement requirements for regulatory liabilities and regulatory assets.	We suggest no changes to this tentative decision (see paragraphs 48-57 of Agenda Paper 9D, June 2019).
Discount rate	**December 2018 (Agenda Paper 9B)** The Board discussed the discount rate to be used when measuring regulatory assets or regulatory liabilities arising from regulatory timing differences, identifying three categories: (a) those that relate to items forming part of the regulatory capital base; (b) those that relate to items forming part of the regulatory operating expenditure; and	

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	(c) those that do not fall within (a) or (b) but relate to items of expense or income that will form part of the regulatory operating expenditure or the regulatory capital base when cash is paid or received. ***Regulatory timing differences that relate to items forming part of the regulatory capital base*** For regulatory timing differences that relate to items forming part of the regulatory capital base, the Board tentatively decided that an entity should include only the estimated future cash flows arising from the original regulatory timing difference and discount them at a rate of 0%—that is, the entity should exclude the cash flows relating to the regulatory overall return and recognise that overall return as revenue in profit or loss as it is included in the rate charged to customers. ***Regulatory timing differences that relate to items forming part of the regulatory operating expenditure*** For measuring regulatory assets resulting from regulatory timing differences that relate to items forming part of the regulatory operating expenditure, the Board tentatively decided that: (a) an entity should use a discount rate that reflects, at least, compensation for the time value of money and uncertainty inherent in the cash flows; but	In view of concerns expressed by some Board members during the December 2018 meeting, we have reconsidered our previous recommendation to apply different approaches to measuring regulatory assets and regulatory liabilities that relate to (a) the regulatory capital base and (b) regulatory operating expenditure. Consequently, we plan to ask the Board to consider a revised recommendation in a future meeting (see paragraphs 16-20 of Agenda Paper 9C and paragraph 12 of Agenda Paper 9D, June 2019).

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	(b) when the regulatory interest rate or regulatory return rate provides an additional return above the compensation in (a), an entity should use that regulatory interest rate or regulatory return rate as the discount rate unless there is clear evidence that the excess relates to an identifiable transaction or event. The Board asked the staff to bring to a future meeting further analysis on the implications of this decision for measuring regulatory liabilities relating to items forming part of the regulatory operating expenditure. ***Regulatory timing differences relating to items of expense or income that will form part of the regulatory operating expenditure or the regulatory capital base when cash is paid or received*** The Board discussed what discount rate to use when measuring regulatory assets or regulatory liabilities resulting from regulatory timing differences relating to items of expense or income that will form part of the regulatory operating expenditure or the regulatory capital base when cash is paid or received. The Board tentatively decided to reject the staff's recommended approach. The Board expressed concerns about how the staff's recommendations would apply to particular cases such as deferred tax and asked the staff to provide further analysis.	The staff recommended in December 2018 that regulatory assets and regulatory liabilities in this category should be measured at the same amount as the related liability or asset. In paragraphs 50-54 of Agenda Paper 9C, June 2019, we clarify that our recommendation is an exception to the measurement principles proposed for the model. However, we remain convinced the exception would provide users of financial statements with the most relevant and understandable information

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		about the regulatory assets and regulatory liabilities in this category. Consequently, we ask the Board to reconsider this tentative decision In paragraph 54 of Agenda Paper 9C, June 2019.
Presentation and Disclosure	**July 2018 (Agenda Paper 9C)** The Board started its discussions about an objective to guide the development of presentation and disclosure requirements for the model. The Board was not asked to make any decisions.	
Presentation	**November 2018 (Agenda Paper 9C)** *Statement of financial position* The Board tentatively decided that an entity should: (a) present regulatory assets and regulatory liabilities as separate line items in addition to the line items required by IAS 1 *Presentation of Financial Statements*; (b) applying IAS 1, classify regulatory assets and regulatory liabilities as current or noncurrent, except when a presentation based on liquidity is used; and (c) offset regulatory assets and regulatory liabilities only if they are expected to lead to adjustments to the same future rate(s) charged to customers and, consequently: (i) they have the same pattern and timing of reversal;	We suggest no changes to these tentative decisions about presentation in the statement of financial position (see paragraph 52 of Agenda Paper 9A, June 2019).

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	(ii) they arise in the same regulatory regime; and (iii) the entity has a legally enforceable right to offset them. The Board also tentatively decided that although offsetting would be permitted when the conditions in subparagraphs (c)(i)–(iii) are met, it should not be required. *Profit or loss section of the statement(s) of financial performance* The Board tentatively decided that an entity should: (a) present all regulatory income and regulatory expense in profit or loss, and not in other comprehensive income; (b) present regulatory income and regulatory expense netted as a separate line item (regulatory income or regulatory expense line item) in addition to the line items required by IAS 1; (c) present the regulatory income or regulatory expense line item immediately below the revenue line item(s) required by IAS 1; and (d) include regulatory interest income and regulatory interest expense within the regulatory income or regulatory expense line item. The Board tentatively decided not to prohibit an entity from disaggregating the required line items and presenting additional line items or subtotals in the primary financial	Some regulatory income or regulatory expense arises when related expense or income is recognised in other comprehensive income (OCI)—such a situation may occur when a regulatory asset or regulatory liability arises when an item of expense or income will form part of the regulatory operating expenditure or the regulatory capital base when cash is paid or received entity (see the measurement section of this table). We discuss this further and ask the Board to consider requiring entities to present such regulatory income or regulatory expense immediately above or below the related expense or income item in OCI (see paragraphs 3-19 of Agenda Paper 9E, June 2019).

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	statements when such presentation would be relevant to an understanding of the entity's financial position and/or financial performance, as required by IAS 1.	
Disclosure	**November 2018 (Agenda Papers 9D-9E)** *Disclosure objectives* The Board tentatively decided that: (a) the overall disclosure objective for defined rate regulation should be focused on the effects that the transactions or other events that give rise to regulatory timing differences have on an entity's financial performance and financial position. The objective should not be broadened to include the provision of information about the general regulatory and economic environment; nor to include information about all the effects of defined rate regulation on the entity's financial performance, financial position and cash flows. (b) the specific disclosure objectives should focus on information to help users of financial statements: (i) to understand the effects of regulatory timing differences on the entity's financial performance by distinguishing between: (1) fluctuations in revenue and expenses compensated for through the rate-adjustment mechanism; and (2) fluctuations in revenue and expenses for which there is no such compensation;	We suggest no changes to these tentative decisions about disclosure but ask the Board to consider requiring disclosure of regulatory interest and regulatory return income or expense separately from originations of regulatory assets and regulatory liabilities (see paragraphs 22-30 of Agenda paper 9E, June 2019).

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	(ii) to understand and assess the amount, timing and uncertainty of (prospects for) future cash flows that will result from the entity's regulatory assets and regulatory liabilities; and (iii) to understand how the entity's financial position was affected during the period by transactions or other events that caused changes in the carrying amounts of regulatory assets and regulatory liabilities. *Disclosure requirements* The Board tentatively decided that an entity should disclose: (a) a breakdown of the regulatory income or regulatory expense line item in profit or loss into the following components: (i) originations of regulatory assets, together with qualitative and quantitative information about the reasons for their amounts; (ii) originations of regulatory liabilities, together with qualitative and quantitative information about the reasons for their amounts; (iii) recovery of regulatory assets; (iv) fulfilment of regulatory liabilities; and	

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	(v) changes in the carrying amount of regulatory assets and regulatory liabilities due to changes in estimates, together with qualitative and quantitative information about the reasons for those changes; (b) a maturity analysis of the carrying amounts of regulatory assets and of regulatory liabilities at the end of the period, and an explanation of how the future recovery of regulatory assets or the future fulfilment of regulatory liabilities is affected by risks and uncertainty; (c) the discount rate or ranges of discount rates used to discount the estimated cash flows reflected in the carrying amounts of regulatory assets and of regulatory liabilities at the end of the period and, if different, the related regulatory interest or return rate(s) approved by the regulator, together with qualitative and quantitative information about the reasons for those differences; and (d) a reconciliation of the carrying amount of regulatory assets and of regulatory liabilities from the beginning to the end of the period. The Board also tentatively decided that an entity should assess whether the information provided through the disclosure requirements in paragraphs a–d is sufficient to meet the overall disclosure objective. If not, the entity should disclose any additional information needed to meet that objective.	

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Interactions between the model and IFRS Standards	**November 2018 (Agenda Paper 9B)** *Exceptions to the requirements of other IFRS Standards* The Board tentatively decided that the measurement requirements of IAS 36 *Impairment of Assets* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* should not be applied to regulatory assets and regulatory liabilities. *Guidance on applicability of other IFRS Standards* The Board tentatively decided that the model should include application guidance about its interaction with IAS 12 *Income Taxes*, similar to the application guidance in paragraph B10 of IFRS 14 *Regulatory Deferral Accounts*. However, the Board tentatively decided against including an explicit statement—similar to that made in paragraph 16 of IFRS 14 in relation to regulatory deferral items—that other IFRS Standards apply to regulatory assets, regulatory liabilities, regulatory income and regulatory expense in the same way as they apply to other assets, liabilities, income and expenses. *Isolation of regulatory items through presentation and disclosure requirements* The Board tentatively decided that the model should not carry forward the presentation and disclosure requirements in IFRS 14 for an entity to isolate, using subtotals, regulatory items from the assets, liabilities and net income and expense recognised using other IFRS Standards.	We suggest no changes to these tentative decisions about interactions with other IFRS Standards. In November 2018, the Board also discussed aspects of the interaction between the model and IFRS 3 *Business Combinations*. The staff plans to bring further analysis for discussion on this topic at a future meeting.

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	Location of requirements and guidance on interactions with other IFRS Standards The Board tentatively decided that any requirements and application guidance on interactions between the model and other IFRS Standards should be included in a future Standard on rate-regulated activities, rather than added to those other Standards.	