AP1E

Rate-regulated Activities

Presentation

EEG meeting
March 2019

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Statement of financial position

Board's tentative decisions

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 non-current, 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;
(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.

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Statement(s) of financial performance

Board's tentative decisions

The Board tentatively decided that an entity should:

(a) 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;   Slide 6

(b) include regulatory interest income and regulatory interest expense within the regulatory income or regulatory expense line item;   Slide 7

(c) present the regulatory income or regulatory expense line item immediately below the revenue line item(s) required by IAS 1; and   Slide 8

(d) present all regulatory income and regulatory expense in profit or loss, and not in other comprehensive income.   Slide 9

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 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.   Slide 8
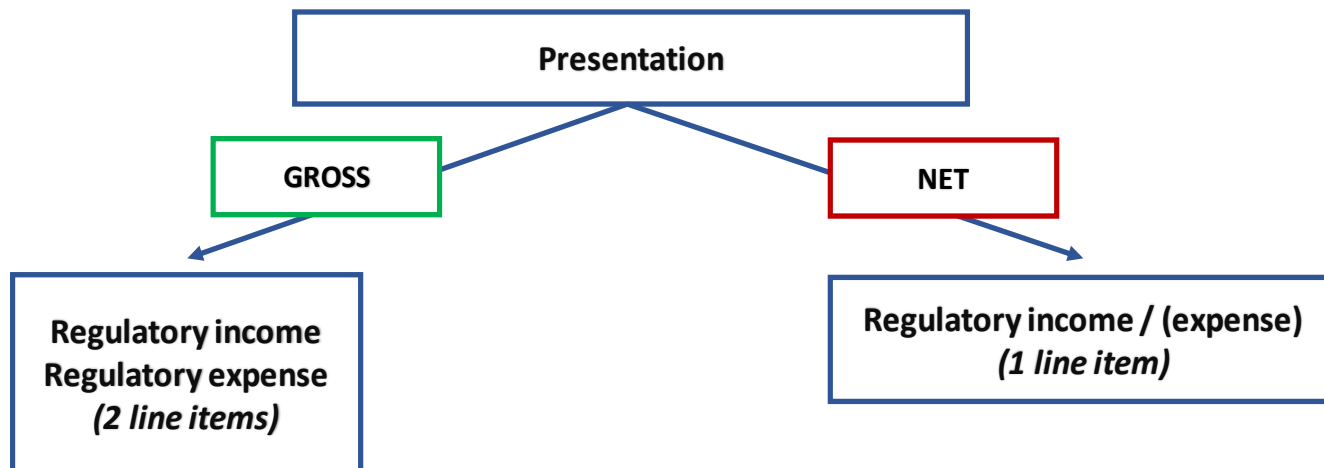
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Board's considerations—regulatory income and regulatory expense

Chart 1—Presentation of regulatory income and regulatory expense

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                      │    Presentation     │
                      └─────────────────────┘
                       /                    \
          ┌──────────┐                      ┌──────────┐
          │  GROSS   │                      │   NET    │
          └──────────┘                      └──────────┘
               │                                  │
  ┌─────────────────────────┐        ┌─────────────────────────────┐
  │  Regulatory income      │        │ Regulatory income / (expense)│
  │  Regulatory expense     │        │      (1 line item)          │
  │  (2 line items)         │        │                             │
  └─────────────────────────┘        └─────────────────────────────┘
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Separate presentation of regulatory income and regulatory expense would still not provide information about the different components of regulatory income or regulatory expense:

Regulatory income	Origination of regulatory asset
	Fulfilment of reguatory liability
Regulatory expense	Recovery of regulatory asset
	Origination of regulatory liability

Providing that level granularity in the primary financial statements would contribute to clutter and confusion.

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Regulator's common objectives when setting the regulated rate
Stability and affordability of pricing for current and future customers
Entity's financial viability

The regulated rate enables the entity to:

(a)   recover operating expenses and the costs of assets utilised; and

(b)   earn **interest or return** on the cost of these assets

Compensation provided through the regulatory interest or return rates is related to an entity 's **principal revenue-producing activities** (ie **operating activities**) rather than to its financing activities.

Figure 1

Statement(s) of financial performance	X0	X1
Revenue	10,200	10,498
Regulatory income / (expense)	1,280	(38)
Operating expenses	(10,700)	(9,350)
Profit / (loss)	**780**	**1,110**

Figure 2

Statement(s) of financial performance	X0	X1
Revenue	10,200	10,498
Regulatory income / (expense)	1,280	(38)
Subtotal	**11,480**	**10,460**
Operating expenses	(10,700)	(9,350)
Profit / (loss)	**780**	**1,110**

The Board tentatively decided that an entity should present the regulatory income/(expense) line item immediately below the revenue line item(s) required by IAS 1.

Para 85 of IAS 1

An entity shall present additional line items […], headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance

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The Board tentatively decided to present all regulatory income and regulatory expense in profit or loss, and not in other comprehensive income.

- Some regulatory timing differences arise when an entity recognises an item of expense or income in the current period, but the regulatory agreement will not include that item in 'allowable expenditures' until a future period when the entity pays or receives the related cash. At that time, the item will be reflected in the rate charged to customers.

- The nature of a regulatory income/(expense) adjustment reflects the expected adjustment to the future rate, which will ultimately be reflected in revenue as the rate is charged to customers.

- However, some IFRS Standards result in an entity presenting as income or expense in other comprehensive income the movement (or part of the movement) between the opening and closing balances of a liability or asset (eg the remeasurement of a net pension liability)—this raises the question of whether, in such cases, presenting in other comprehensive income the movement (or part of the movement) of the related regulatory asset or regulatory liability resulting from the remeasurement of the underlying asset or liability would result in more useful information to users than reflecting those movements entirely in profit or loss.

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Appendix

Presentation using

IFRS 14 *Regulatory Deferral Accounts*

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XYZ Group—Statement of financial position as at 31 December 20X7
(in currency units)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Investments in equity instruments	129,790	146,460
	888,910	935,920
Current assets		
Inventories	135,230	132,500
...	...	...
Cash and cash equivalents	212,160	220,570
	464,640	476,410
Total assets	1,353,550	1,412,330
Regulatory deferral account debit balances and related deferred tax asset	112,950	111,870
Total assets and regulatory deferral account debit balances	1,466,500	1,524,200

XYZ Group—Statement of financial position as at 31 December 20X7
(in currency units)

	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	164,500
Other components of equity	10,200	21,200
	903,700	785,700
Non-controlling interests	70,050	45,800
Total equity	973,750	831,500
Non-current liabilities		
Long-term borrowings	120,000	160,000
...	...	...
Short-term borrowings	80,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
	217,140	377,950
Total liabilities	394,790	616,230
Total equity and liabilities	1,368,540	1,447,730
Regulatory deferral account credit balances	97,960	76,470
Total equity, liabilities and regulatory deferral account credit balances	1,466,500	1,524,200

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.

XYZ Group—Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7 (extract)
(illustrating the presentation of profit or loss and other comprehensive income in one statement)
(in currency units)

	20X7	20X6
Revenue	390,000	358,784
FFF	x	x
Profit before tax	196,685	106,204
Income tax expense	(43,587)	(44,320)
Profit for the year from continuing operations	153,098	61,884
Loss for the year from discontinued operations	(3,500)	–
Profit for the year before net movements in regulatory deferral account balances	149,598	61,884
Net movement in regulatory deferral account balances related to profit or loss	(30,720)	(9,127)
Net movement in the deferred tax asset arising from regulatory deferral account balances related to profit or loss	3,170	12,320
Profit for the year and net movements in regulatory deferral account balances	122,048	65,077
Other comprehensive income: Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit pension plans	(7,938)	(3,784)
Net movement in regulatory deferral account balances related to other comprehensive income	7,140	4,207
Other comprehensive income for the year, net of income tax	(798)	423
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	121,250	65,500

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.

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