

STAFF PAPER

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IASB® Meeting

Project	Rate-regulated Activities		
Paper topic	Summary of staff recommendations		
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Purpose of this paper

1. This paper sets out all staff recommendations in agenda papers 9A–9C prepared for this meeting and asks the Board related questions.

Summary of staff recommendations

2. The general principle of the model is that an entity shall reflect compensation for goods or services in the period those goods or services are supplied. For **target profit**, the staff recommends that the model's general principle is operationalised as follows:

Recommendation 1 (Agenda Paper 9A)

Target profit that a regulatory agreement entitles an entity to charge customers for a specified period forms part of total allowed compensation for goods or services supplied in that period.

3. The staff think that the principle for target profit in paragraph 2 should be applied to **regulatory returns on regulatory capital base (RCB)** that a regulatory agreement entitles an entity to include in the regulated rates during the operating period of an asset.

Recommendation 2 (Agenda Paper 9B)

Regulatory returns on a RCB that a regulatory agreement entitles an entity to charge customers for a specified period form part of total allowed compensation for goods or services supplied in that period.

4. The staff however do not think the principle for regulatory returns in paragraph 3 should apply to the case when a regulatory agreement entitles an entity to include in the regulated rates charged to customers **regulatory returns on a construction work in progress (CWIP) base** during the period when the asset is being constructed.

Recommendation 3 (Agenda Paper 9B)

Regulatory returns on a CWIP base that are included in the regulated rates during the construction period form part of total allowed compensation only during the operating period(s) of the asset (ie when goods or services are being supplied with the asset to which those regulatory returns relate—ie over its useful life).

5. For **performance incentives** the staff recommend not to apply the principle for target profit in paragraph 2 but that instead performance incentives form part of total allowed compensation as follows:

Recommendation 4 (Agenda Paper 9C)

Performance incentives, whether construction-related or non-construction-related, form part of total allowed compensation for goods or services supplied in the period when the relevant performance criteria are monitored and evaluated.

7. If the Board agrees with the staff recommendations 1–4 above, Table 1 below summarises the recognition of the components of total allowed compensation for goods or services supplied (in other words, **when** those components affect profit).

Table 1	
Component of total allowed compensation	When treated by the model as giving rise to or forming part of total allowed compensation
Allowable expense less chargeable income*	The period when allowable expense less chargeable income is incurred and recognised by applying IFRS Standards
Regulatory returns on a regulatory capital base (RCB)**	The period when an entity is entitled by the regulatory agreement to include them in the regulated rates ¹
Regulatory returns on assets under construction**	During the operating period(s) of the underlying asset (ie over the useful life of an asset determined in accordance with IFRS Standards)
Regulatory interest*	In the period(s) over which the related regulatory asset or regulatory liability is outstanding
Performance incentives (non-construction* or construction-related**)	During the period in which the relevant performance criteria were monitored and evaluated (ie the period to which the performance incentive relates)

* Items discussed by the Board in previous Board meetings.

** Items not discussed in previous Board meetings.

¹ When a RCB includes assets with useful lives that differ from their recovery period as established by the regulatory agreement, the regulatory return on those assets over their recovery period includes both (a) regulatory return on those assets over their useful lives and (b) the regulatory interest on the resulting regulatory assets and/or regulatory liabilities. This is illustrated in Example 2 in Agenda Paper 9A.

Question for the Board**Staff recommendations**

1. Does the Board agree with the staff recommendations 1–4 above?