



STAFF PAPER

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Project	Rate-regulated Activities	
Paper topic	Feedback summary—Discount rate	
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Objective

1. This paper analyses the feedback from comment letters and outreach events on the proposed requirements relating to the discount rate used in measuring regulatory assets and regulatory liabilities set out in the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (Question 6 of the Invitation to Comment).

Key messages

2. Most respondents agreed with the proposed requirement to use the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability.
3. A few respondents did not support the proposal. Many of these respondents supported instead a discount rate that would be determined using principles similar to those in other IFRS Standards.
4. Many respondents—including accounting firms, preparers in Europe and North and Latin Americas, and standard-setters in Asia-Oceania and Europe—said that an entity should be exempted from discounting the future cash flows arising from a regulatory asset or regulatory liability, if the effect of discounting is not significant, or the regulatory asset or regulatory liability is expected to be recovered within a specified period, for example one year.

5. Most respondents did not support the proposal for an entity to use the minimum interest rate as the discount rate when the regulatory interest rate provided for a regulatory asset is insufficient to compensate the entity for the time value of money and for uncertainty. These respondents are concerned the costs to implement the proposal would outweigh any benefits. Some also raised concerns about the asymmetric treatment of regulatory assets and regulatory liabilities. Most of these respondents supported instead using the regulatory interest rate as the discount rate for all regulatory assets and regulatory liabilities in all circumstances.
6. Most of the users of financial statements from whom we received feedback on this topic during the comment period of the Exposure Draft said the minimum interest rate proposal would not facilitate comparability amongst entities and would be confusing for users.
7. Fewer respondents commented on the proposal to translate uneven regulatory interest rates into a single discount rate and to use that rate throughout the life of a regulatory asset or regulatory liability. Many of these respondents provided mixed views about whether the proposal would simplify or add complexity to the measurement of regulatory assets and regulatory liabilities.
8. Some respondents also asked for the final Standard to provide further clarification and additional guidance on certain aspects of the discount rate proposals.

Structure of the paper

9. The feedback received on the proposals is structured as follows:
 - (a) regulatory interest rate as the discount rate (Question 6(a)) (paragraphs 10–21);
 - (b) assessing sufficiency and other situations for using a rate different from the regulatory interest rate (Questions 6(b)–(c)) (paragraphs 22–37);
 - (c) uneven regulatory interest rates (Question 6(d)) (paragraphs 38–43); and
 - (d) other comments (paragraphs 44–49).

Regulatory interest rate as the discount rate (Question 6(a))

Proposed requirements

10. Paragraphs 46–49 and 55 of the Exposure Draft propose that an entity:
 - (a) measures a regulatory asset or regulatory liability by discounting to their present value the future cash flows;
 - (b) uses the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability, except in specified circumstances; and
 - (c) continues to use the discount rate at initial recognition, except when the regulatory agreement changes the regulatory interest rate subsequently. In that case, the entity would use the new regulatory interest rate as the new discount rate.
11. The Exposure Draft defines *regulatory interest rate* as ‘the interest rate provided by a regulatory agreement to compensate an entity for the time lag until recovery of a regulatory asset or to charge the entity for the time lag until fulfilment of a regulatory liability’.

Summary of comments received

12. The Board asked stakeholders whether they agree with the proposals.
13. Respondents’ comments focused on two main topics:
 - (a) regulatory interest rate as the discount rate (paragraphs 14–19); and
 - (b) exemptions from discounting (paragraphs 20–21).

Regulatory interest rate as the discount rate

14. Most respondents agreed with the proposed requirement to use the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability. Some of these respondents said that:

- (a) the regulatory interest rate is an objective rate that reflects the regulatory interest that the entity will be compensated or charged under the regulatory agreement; and
 - (b) the proposal would simplify the application of the cash-flow-based measurement technique.¹
15. A few respondents disagreed with discounting estimates of future cash flows in some circumstances. For example:
- (a) a few respondents—mainly preparers in Asia-Oceania, Europe and North America—did not consider discounting necessary for regulatory assets and regulatory liabilities that attract regulatory interest. These respondents thought the costs to implement would outweigh the benefits because the proposals would:
 - (i) result in similar measurements to those that would be obtained using an approach that does not discount estimates of future cash flows; and
 - (ii) not affect the cash flows (ie the amounts that an entity will ultimately add to, or deduct from, the future regulated rates).
 - (b) a few preparers in Europe disagreed with discounting estimates of future cash flows arising from regulatory assets or regulatory liabilities for which the regulatory agreement does not provide a regulatory interest rate. These respondents said determining the discount rate for these cases would be challenging.
16. A few respondents did not support using the regulatory interest rate as the discount rate. They said that often, the regulatory interest rate provides compensation beyond the time value of money and uncertainty in the future cash flows to fulfil broader regulatory objectives, such as to ensure the financial viability of the entity. In those cases, the regulatory interest rate may not just reflect the features of the future cash flows. Consequently, using the regulatory interest rate could be inconsistent with the principles for determining discount rates in IFRS Standards. Many of these respondents supported a discount rate that is determined using principles similar to

¹ Paragraph BC162 of the Basis for Conclusions on the Exposure Draft.

those in other IFRS Standards—for example, a rate that reflects only the time value of money and the risks inherent in the asset or liability. According to these respondents, such an approach would avoid:

- (a) introducing a new concept for discount rates; and
- (b) the need for the proposed use of the minimum interest rate as the discount rate when the regulatory interest rate for a regulatory asset is insufficient.

17. Some respondents suggested using other discount rates:

- (a) some members of a global securities regulator supported a discount rate that would be either:
 - (i) the entity's weighted average cost of capital; or
 - (ii) consistent with the discount rate used to derive the significant financing component in IFRS 15 *Revenue from Contracts with Customers*.
- (b) a few respondents suggested:
 - (i) a *current* interest rate that reflects the timing and risks of future cash flows;
 - (ii) the cost of debt; or
 - (iii) a long-term interest rate (for example, a long-term regulatory return rate or a long-term risk-adjusted rate for regulatory assets and long-term risk-free rate for regulatory liabilities).
- (c) a preparer in Europe suggested developing the concept of a single average regulatory interest rate to discount all regulatory assets and regulatory liabilities. An entity may have many regulatory assets and regulatory liabilities that are subject to different regulatory interest rates and are recovered or fulfilled over different periods of time. According to this preparer, the continued tracking and unwinding of the discount for each regulatory asset and regulatory liability would be costly and complex.

18. A few respondents asked for further clarification and guidance:

- (a) a few respondents mainly preparers in Europe and North America said that regulatory agreements may not stipulate a regulatory interest rate for a

regulatory asset or regulatory liability. In such cases, according to these respondents, it is unclear what discount rate entities should use (paragraphs 45–48).

- (b) a European preparer said that there may be uncertainty about the period in which a regulatory asset is recovered, or a regulatory liability is fulfilled because:
 - (i) the regulatory agreement does not specify a timeframe in which the related difference in timing would be included in determining future regulated rates; and/or
 - (ii) the related difference in timing is subject to approval by the regulator after a lengthy negotiation.
 - (c) a national standard-setter in Asia-Oceania said that it may be useful to clarify that an entity should use consistent assumptions in the estimates of future cash flows and the discount rate, particularly when considering the regulatory interest rate may be expressed in real terms or on post-tax basis.
 - (d) a few national standard-setters in Europe and Latin America said the Exposure Draft can be read as assuming regulatory agreements provide one regulatory interest rate only. According to these respondents, regulatory agreements may provide different regulatory interest rates for different regulatory assets and regulatory liabilities. Consequently, these respondents recommended the final Standard clarifies that each of these interest rates would be the regulatory interest rates an entity would use as the discount rate in the measurement of these assets or liabilities.
19. A few standard setters in Europe and a few preparers in Europe and Latin America said that the definition of regulatory interest rate may be inconsistent with regulatory interest rates that compensate for more than just time value of money. Some of these respondents suggested expanding the definition of regulatory interest rate to accommodate discount rates that provide a compensation beyond time value of money, such as the regulatory return rate for a larger base.

Exemptions from discounting

20. Many respondents—including many accounting firms, preparers in Europe and North and Latin Americas, and standard-setters in Asia-Oceania and Europe—said that the final Standard should provide an exemption from discounting the estimates of future cash flows arising from a regulatory asset or regulatory liability. Those respondents, including many respondents who agreed with the proposed requirement to use the regulatory interest rate as the discount rate, supported such an exemption if:
- (a) the effect of discounting is not significant, similar to the exemption in IFRS 16 *Leases* or to the practical expedient in IFRS 15; or
 - (b) the regulatory asset or regulatory liability is expected to be recovered or fulfilled within a specified period, for example one year.
21. A few respondents said that an entity should be exempted from discounting when:
- (a) the regulatory agreement does not specify a timeframe in which the estimated future cash flows arising from a regulatory asset or regulatory liability would be included in determining future regulated rates; or
 - (b) a difference in timing changes frequently from being a regulatory asset to becoming a regulatory liability and vice versa.

Assessing sufficiency and other situations for using a rate different from the regulatory interest rate (Questions 6(b)–(c))

Proposed requirements

22. Paragraphs 50–51 of the Exposure Draft propose that, on initial recognition of a regulatory asset and then subsequently if the regulatory agreement changes the regulatory interest rate:
- (a) an entity assesses whether there is any indication that the regulatory interest rate may be insufficient to compensate the entity for the time value of money and for uncertainty in the amount and timing of future cash flows arising from that regulatory asset; and

- (b) if such an indication exists, the entity estimates the minimum interest rate sufficient to provide that compensation and use the minimum interest rate as the discount rate if it is higher than the regulatory interest rate.
23. Paragraph 52 of the Exposure Draft provides examples of such indications.
24. For a regulatory liability, the Exposure Draft proposes that the entity uses the regulatory interest rate as the discount rate in all circumstances.

Summary of comments received

25. The Board asked stakeholders whether they:
- (a) agree with the proposals for cases when the regulatory interest rate provided for a regulatory asset is insufficient; and
 - (b) have identified any other situations in which it would be appropriate to use a discount rate that is not the regulatory interest rate, and if so, what those situations are and what discount rate should be used.
26. Respondents' comments focused on two main topics:
- (a) minimum interest rate for regulatory assets (paragraphs 27–35); and
 - (b) appropriate discount rates in other situations (paragraphs 36–37).

Minimum interest rate for regulatory assets

27. Some respondents—including accountancy bodies in Africa, a few preparers in North America, and a few national standard-setters in Europe, and North and Latin America—agreed with the proposals for cases when the regulatory interest rate provided for a regulatory asset is insufficient. A few of these respondents said that this proposal strikes a balance between reflecting the provisions of the regulatory agreement and providing relevant information when the regulatory interest rate is insufficient. A few of these respondents also said that the proposal for using the regulatory interest rate for a regulatory liability in all circumstances avoids unnecessary cost and complexity.

28. However, most respondents did not support the proposals. Their concerns were mainly:
- (a) the complexity and costs of applying the proposals would outweigh any benefits (paragraph 29); and
 - (b) the asymmetric treatment of regulatory assets and regulatory liabilities (paragraph 30).
29. Many of these respondents explained that the complexity and costs of applying the proposals would outweigh any benefits arising from the resulting information. For example:
- (a) the assessment of whether the regulatory interest rate is sufficient for a regulatory asset and the determination of the minimum interest rate for that regulatory asset would be very complex and subjective because:
 - (i) the minimum interest rate is not used in the rate-setting process; and
 - (ii) regulatory assets have a different nature and risk profile from other assets which, according to these respondents, means that an entity may be unable to find relevant interest rates that can be used as a reference to determine the minimum interest rate.
 - (b) regulatory agreements may review interest rates frequently and, consequently, regulatory interest rates may also change frequently. According to these respondents, this would imply that an entity reassesses whether the new regulatory interest rate is sufficient, and if not, determines the (new) minimum interest rate, whenever such a change occurs.
 - (c) situations in which the regulatory interest rate is insufficient are expected to occur infrequently. Despite this, according to these respondents, an entity would need to assess whether there is any indication that the regulatory interest rate may be insufficient. Entities may have a large number of regulatory assets, which may further increase the implementation costs.
 - (d) an insufficient regulatory interest rate on a regulatory asset may merely offset an insufficient regulatory interest rate on a larger regulatory liability. These respondents said this reason is similar to that the Board provided for not

proposing that an entity assesses whether the regulatory interest rate for a regulatory liability is excessive.²

- (e) IFRS Standards do not have a consistent approach for how discount rates are determined and what effects discounting is intended to depict. According to these respondents, the proposals would introduce further inconsistencies.
- (f) using the minimum interest rate as the discount rate would not result in more useful information than using the regulatory interest rate as the discount rate. This is because:
 - (i) the minimum interest rate does not reflect the regulatory interest that an entity will be compensated in accordance with the regulatory agreement;
 - (ii) an entity will recognise a loss on a regulatory asset to which the minimum interest rate is applied, even if the regulatory agreement provides the entity with an overall adequate compensation; and
 - (iii) the significant estimation uncertainty involved in determining the minimum interest rate may reduce comparability of the resulting information provided by different entities.

30. Many respondents—including accounting firms, securities regulators, preparers in Europe and Latin America, and standard-setters in Asia-Oceania and Europe—said that the asymmetric treatment of regulatory assets and regulatory liabilities produces outcomes that can undermine the understandability and neutrality of the resulting information. It also makes the requirements more complex to apply. For example:

- (a) the same regulatory interest rate may apply to both allowable items and chargeable items that give rise to regulatory assets and regulatory liabilities. In that case, the proposals would not result in useful information by requiring an entity to:
 - (i) reflect a ‘day-1’ loss for the regulatory assets because the regulatory income is lower than the corresponding allowable expenses; and

² Paragraph BC169 of the Basis for Conclusions on the Exposure Draft.

- (ii) *not* reflect a ‘day-1’ gain for the regulatory liabilities.
 - (b) the analogous case of an insufficient regulatory interest rate on a regulatory asset would be an excessive regulatory interest rate on a regulatory liability. According to these respondents, the proposals reflect the effect of an insufficient regulatory interest rate on a regulatory asset as lower regulatory income *at initial recognition*. However, the proposals reflect the effect of an excessive regulatory interest rate on a regulatory liability as higher regulatory interest expense *over time*. These respondents thought this outcome is unusual because, according to them, IFRS Standards generally:
 - (i) do not specify different approaches for determining the discount rate for assets and liabilities of the same nature; and
 - (ii) require a risk-adjusted discount rate for a liability to be lower than a risk-free interest rate, which in turn is likely to be lower than a regulatory interest rate applied to a regulatory liability.
 - (c) some differences in timing may give rise to a regulatory asset in some periods and a regulatory liability in other periods. For example, a regulatory asset that had been discounted using the minimum interest rate may become a regulatory liability that an entity would discount using the regulatory interest rate. According to these respondents, using different discount rates in those cases:
 - (i) would result in gains or losses that do not reflect a change in economics; and
 - (ii) increases the burden of recurring recalculations and continued tracking to unwind the discount.
31. Most of the users of financial statements that provided feedback on this topic during the comment period of the Exposure Draft said that the proposals would not facilitate comparability amongst entities and would be confusing for users.
32. An accounting firm said that the proposed minimum interest rate appears to be inconsistent with:
- (a) the rate-setting process—this respondent said that the Exposure Draft may be read as tying the minimum interest rate solely to an entity’s cost of borrowing.

According to this respondent, this seems inconsistent with the rate-setting process in which a regulator provides a regulatory interest rate that typically includes a return on equity, which is beyond the entity's cost of borrowing; and

- (b) the incremental borrowing rate in IFRS 16 *Leases*—according to this respondent, the Exposure Draft indicates that an entity may determine the minimum interest rate with reference to the interest rate on a comparable loan. However, according to this respondent, the entity may, as indicated in the Exposure Draft, exclude from the minimum interest rate any part of the interest rate on the loan that is intended to recover the cost of servicing the loan and any estimated credit losses already included in the estimated cash flows. In contrast, according to this respondent, the incremental borrowing rate in IFRS 16 is not adjusted for those components. This respondent suggested aligning the minimum interest rate more closely with the requirements in IFRS 16. An academic and a national standard-setter in Europe also recommended using a rate similar to the incremental borrowing rate in IFRS 16 as the discount rate when the regulatory interest rate for a regulatory asset is insufficient.
33. Of the respondents that did not support the minimum interest rate proposal:
- (a) most supported using the regulatory interest rate as the discount rate in all circumstances for all regulatory assets and all regulatory liabilities; and
 - (b) a few supported a discount rate that is determined using principles similar to those in other IFRS Standards.
34. Some respondents provided the following suggestions if the minimum interest rate proposal is retained in the final Standard:
- (a) a few respondents said that similar requirements should be applied to regulatory liabilities.
 - (b) a national standard-setter in Asia-Oceania suggested that the Board clarify the reasons for not specifying similar requirements for regulatory liabilities when the regulatory interest rate for a regulatory liability is insufficient.

- (c) a preparer representative body in Europe said that an entity should be permitted to use either the regulatory interest rate or the minimum interest rate as the discount rate for both regulatory assets and regulatory liabilities.
- (d) a few respondents provided suggestions to reduce the burden of assessing the sufficiency of regulatory interest rates—for example:
 - (i) a preparer and a few standard-setters in Europe, along with an accounting firm and a global securities regulator, suggested the final Standard includes a rebuttable presumption that the regulatory interest rate is sufficient, unless the indications described in paragraph 52 of the Exposure Draft are present.
 - (ii) a preparer in Europe and a national standard-setter in Asia-Oceania suggested that the final Standard specify that the regulated rates are typically designed to support entities' financial viability, and therefore, situations in which a regulatory interest rate is insufficient are expected to occur infrequently.
 - (iii) an accounting firm suggested assessing the sufficiency of regulatory interest rates at the regulatory agreement level, similar to the approach in IFRS 15 to assess onerous contracts with customers in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- (e) a few respondents asked for additional guidance on determining the minimum interest rate, including what factors should be considered. For example:
 - (i) a European preparer asked whether an entity should determine a minimum interest rate for each regulatory asset for which the regulatory interest rate may be insufficient.
 - (ii) another accounting firm asked for guidance on determining the sufficiency of regulatory interest rates in a negative interest rate environment.
- (f) a national standard-setter in Europe suggested the final Standard clarifies the objective of discounting. This objective could then be used to help an entity determine when to use the minimum interest rate.

35. A few respondents—mainly a preparer and a standard-setter in Europe—suggested that the Board identifies practical situations in which the regulatory interest rate for a regulatory asset is insufficient, assesses how common those situations are, and if those situations are common, illustrates those situations as examples in the final Standard.

Appropriate discount rates in other situations

36. An accounting firm said that using the regulatory interest rate as the discount rate for regulatory liabilities *in all circumstances* appears to be inconsistent with the requirements in IFRS 15 to reflect the effect of a significant financing component. According to this respondent, this is particularly the case when a regulator helps finance an entity by allowing the entity to include an amount in determining the regulated rate in advance of supplying the goods or services.
37. An accountancy body in Africa said that using the minimum interest rate as the discount rate may be more appropriate than the proposal for using the regulatory interest rate as the discount rate. This is particularly the case when the regulatory agreement does not update the regulatory interest rates with sufficient regularity to reflect prevailing economic conditions.

Uneven regulatory interest rates (Question 6(d))

Proposed requirements

38. A regulatory agreement may specify a series of different regulatory interest rates for successive periods over the life of a regulatory asset or regulatory liability. Paragraph 54 of the Exposure Draft proposes that an entity, on initial recognition of the regulatory asset or regulatory liability and subsequently if the regulatory agreement changes the regulatory interest rate:
- (a) translates those uneven regulatory interest rates into a single discount rate and use that rate throughout the life of the regulatory asset or regulatory liability; and
 - (b) does not consider possible future changes in the regulatory interest rate in determining the single discount rate.

Summary of comments received

39. The Board asked stakeholders whether they agree with the proposal.
40. Fewer respondents commented on this proposal than on other aspects of the discount rate proposals. Many respondents who commented agreed with the proposed approach, with a few of these respondents saying that the proposal:
- (a) reflects the effect of uneven regulatory interest rates over the life of a regulatory asset or regulatory liability in a way similar to the effective interest method in IFRS 9 *Financial Instruments*; and
 - (b) simplifies the proposed measurement requirements by relieving an entity from continued tracking of the different regulatory interest rates and from accounting for the pre-determined changes as they occur.
41. However, many respondents did not support the proposal. A few respondents—mainly accounting firms and European preparers—said that the proposal adds complexity to the proposed measurement requirements. For example:
- (a) in some cases, there is a time lag between when an entity recognises a regulatory asset or regulatory liability, and when that regulatory asset or regulatory liability is recovered or fulfilled. The regulatory agreement may provide or charge a regulatory interest rate only when that regulatory asset or regulatory liability starts being recovered or fulfilled through the rates charged. A preparer and a national standard-setter in Europe wondered whether the proposal for uneven regulatory interest rates would be applicable to this case. They thought the costs of applying the proposal in this case would be high. According to them, an entity would have to recompute the single discount rate and remeasure each regulatory asset and regulatory liability whenever there are recurring changes to the regulatory interest rates.
 - (b) an accounting firm said that the proposal would create an additional difference between the regulatory assets and regulatory liabilities reported in financial statements and the regulatory balances determined in accordance with the regulatory agreement. Another accounting firm said that the proposal introduces complexity and compliance costs with no obvious benefits.

42. A few respondents expressed mixed views about whether uneven regulatory interest rates are expected to be common:
- (a) a few preparers in North America and a European national standard-setter said that they have not encountered any situation in which a regulatory agreement provides for uneven regulatory interest rates in their jurisdictions.
 - (b) a European preparer and national standard-setter said that the proposal would be applied more frequently than initially thought, such as the situations described in paragraph 414141(a).
43. A few respondents asked for clarification and additional guidance as follows:
- (a) a few national standard-setters in Asia-Oceania and Europe, along with preparers in Europe, asked how an entity should translate a series of regulatory interest rates into a single discount rate. Specifically, the respondents asked whether an entity should use only a method similar to the effective interest method as described in Example 5 in the Illustrative Examples accompanying the Exposure Draft, or whether other methods may be appropriate.
 - (b) a few respondents asked whether and how the proposal would be applied to regulatory interest rates that depend on a benchmark, and therefore, change periodically over the life of a regulatory asset or regulatory liability.
Specifically:
 - (i) a few preparers in Latin America said that the proposal should not apply to such regulatory interest rates.
 - (ii) an accounting firm asked whether the single discount rate would be determined based on the series of different rates in a benchmark, or by holding the benchmark constant, without considering possible future changes in the regulatory interest rate (paragraph 38(b)).
 - (c) an academic in Latin America asked at which point over the life of a regulatory asset or regulatory liability the proposal would be applied. An accounting firm said that the proposal should apply from the date when the allowable or chargeable item is approved by the regulator, rather than when the regulatory asset or regulatory liability is recognised.

Other comments

Summary of comments received

44. Some respondents identified situations for which the application of the proposals was unclear:
- (a) unspecified regulatory interest rate (paragraphs 45–48); and
 - (b) regulatory return rate on a larger asset base and minimum interest rate (paragraph 4949).

Unspecified regulatory interest rate

45. A few respondents raised questions about how the proposals are applied when a regulatory agreement does not specify a regulatory interest rate for a regulatory asset or regulatory liability, for example:
- (a) a preparer in North America said their regulatory agreement does not prescribe a regulatory interest rate as the entity operates on a breakeven basis.
 - (b) a preparer in Asia-Oceania said that in some cases a regulatory agreement may specify compensation as a future value without identifying regulatory interest as a separate component of that future value.
46. In those cases, these respondents said it is unclear whether the regulatory interest rate for a regulatory asset or regulatory liability is nil. If the regulatory interest rate is nil, according to these respondents, it is also unclear:
- (a) what the discount rate should be—whether it is the minimum interest rate (for regulatory assets only), either of the rates as described in paragraph 494949, or other rates such as the incremental borrowing rate in IFRS 16 or the weighted average cost of capital; or
 - (b) what factors should be considered in determining the discount rate.
47. For the entity described in paragraph 45(a) operating on a breakeven basis, the respondent added that using any discount rate other than nil would, in itself, create a new regulatory asset or regulatory liability to achieve a breakeven position, potentially resulting in circular accounting.

48. A few European preparers asked for clarification about how an entity determines the regulatory interest rate when that rate has not been set for the full life of a regulatory asset or regulatory liability. This can be the case when a regulatory asset or regulatory liability forms part of a larger base that is recovered over a shorter period than the period of reversal of the regulatory asset or regulatory liability. In that case, the regulatory asset or regulatory liability is measured using the regulatory return rate on the larger base as the discount rate. However, it is known that, after the larger base is fully recovered, the regulatory return rate will be nil because no observable rate will be available.

Regulatory return rate on a larger asset base and minimum interest rate

49. A few respondents asked how an entity would assess sufficiency of the regulatory interest rate for regulatory assets forming part of a larger asset base on which a regulatory agreement provides the entity with a regulatory return rate. Specifically, the respondents asked whether the entity should consider:
- (a) the regulatory return rate on the larger base, which is expected to be always sufficient to compensate the entity for the time value of money and for uncertainty in the future cash flows arising from the regulatory asset; or
 - (b) only the borrowing interest rate component of that regulatory return rate—and therefore an entity would account for the remaining components of the regulatory interest rate as part of target profit.

Question for the Board

Does the Board have any questions or comments on the feedback discussed in this paper? Specifically:

- a. Is there any feedback that is unclear?
- b. Are there any points you think the Board did not consider in developing the Exposure Draft but should consider in the re-deliberations?

c. Are there any points you would like staff to research further for the re-deliberations?