



STAFF PAPER

October 2021

IASB® meeting

Project	Rate-regulated Activities	
Paper topic	Feedback summary—Items affecting regulated rates only when related cash is paid or received	
CONTACT(S)	Siok Mun Leong	smleong@ifrs.org
	Mariela Isern	misern@ifrs.org

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Objective

1. This paper analyses the feedback from comment letters and outreach events on the proposed measurement and presentation requirements for items affecting regulated rates only when the related cash is paid or received, set out in the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (Question 7 of the Invitation to Comment).

Key messages

2. Most respondents agreed with the proposals to:
 - (a) measure a regulatory asset or regulatory liability using the measurement basis used in measuring the related liability or related asset by applying IFRS Standards (subject to adjustments for any uncertainty that is present in the regulatory asset or regulatory liability but not present in the related liability or related asset); and
 - (b) present in other comprehensive income the regulatory income or regulatory expense arising when an entity remeasures a regulatory asset or regulatory liability to the extent that the regulatory income or regulatory expense results from remeasuring the related liability or related asset through other comprehensive income.

3. A few respondents—mainly an accounting firm, and an accountancy body, a preparer and a regulator in Asia-Oceania—disagreed with the measurement proposals—and consequently the presentation proposal—because the proposals would, according to them:
 - (a) result in the recognition of regulatory assets and regulatory liabilities arising from differences in timing that will not represent adjustments to future regulated rates in accordance with the regulatory agreements; and
 - (b) create an exception for a subset of items, which may add complexity to the model in the Exposure Draft.
4. Some respondents raised questions and concerns about certain aspects of the measurement proposals, including:
 - (a) the proposal to limit this measurement to those cases when a regulatory agreement treats an item of expense or income as allowable or chargeable only *once an entity pays or receives the related cash* (cash basis); and
 - (b) the interaction between the proposals and the boundary of a regulatory agreement.
5. A few respondents—mainly preparers in North America—supported extending the presentation proposal to *all* regulatory income and regulatory expense that arise from a remeasurement of the related liability or related asset through other comprehensive income. They supported this approach regardless of whether the regulatory assets or regulatory liabilities from which the regulatory income and regulatory expense arise are measured using the proposals for items that are allowable or chargeable on a cash basis. According to these respondents, this would result in a presentation that would be more understandable to users of financial statements and would be consistent with previous conclusions reached by the Board in IFRS 14 *Regulatory Deferral Accounts*.
6. A few respondents—mainly national standard-setters in Asia-Oceania and Latin America—disagreed with the presentation proposal, and instead supported presenting all regulatory income and regulatory expense in profit or loss. They said that presentation in profit or loss would help portray better the total allowed compensation for the goods or services supplied to customers during the period. This approach

would also avoid the additional complexity that may result from presenting regulatory income and regulatory expense wholly or partly in other comprehensive income.

7. A few respondents raised questions about whether and how the cumulative amount of regulatory income or regulatory expense presented in other comprehensive income should be reclassified to profit or loss.

Structure of the paper

8. The feedback received on the proposals is structured as follows:
 - (a) Question 7(a)—Measurement (paragraphs 9–21); and
 - (b) Question 7(b)—Presentation in the statement(s) of financial performance (paragraphs 22–31).

Question 7(a)—Measurement

Proposed requirements

9. In some cases, a regulatory asset or regulatory liability arises because a regulatory agreement treats an item of expense or income as allowable or chargeable in determining the regulated rates only once an entity pays or receives the related cash, or soon after that, instead of when the entity recognises that item as expense or income in its financial statements by applying IFRS Standards. For such a regulatory asset or regulatory liability, its:
 - (a) cash flows are a replica of the cash flows arising from the related liability or related asset, except for the effect of any uncertainty present in the regulatory asset or regulatory liability but not present in the related liability or related asset; and
 - (b) regulatory interest rate is not observable from the regulatory agreement because the regulatory agreement does not identify regulatory interest as a separate part of the cash flows arising from the regulatory asset or regulatory liability.

10. Paragraph 61 of the Exposure Draft proposes that, in such cases, the entity measures the regulatory asset and regulatory liability by:
 - (a) using the measurement basis used in measuring the related liability or related asset by applying IFRS Standards; and
 - (b) adjusting the measurement of the regulatory asset or regulatory liability to reflect any uncertainty present in it but not present in the related liability or related asset.

11. Paragraph 66 of the Exposure Draft proposes that an entity ceases applying paragraph 61 when the entity pays cash to settle the related liability or receives cash that recovers the related asset. From that date, the entity measures any remaining part of the regulatory asset or regulatory liability by applying the cash-flow-based measurement technique proposed for all other regulatory assets and regulatory liabilities.

12. The alternative view on the Exposure Draft disagreed with the proposed measurement. According to this view, the cash-flow-based measurement technique proposed for all other regulatory assets and regulatory liabilities should also apply to this case.¹

Summary of comments received

13. The Board asked stakeholders whether they agree with the proposals.

14. Most respondents agreed with the proposals as described in paragraph 10. Many of these respondents said that the proposals would:
 - (a) avoid creating accounting mismatches that would arise when using bases to measure a regulatory asset or regulatory liability that differ from the bases used to measure its related liability or related asset;

¹ Paragraphs AV2–AV6 of the alternative view on the Exposure Draft.

- (b) simplify the measurement of the regulatory assets or regulatory liabilities by using the same judgements that were applied to the measurement of the related liabilities or related assets;
- (c) reflect that the cash flows arising from the regulatory asset or regulatory liability are a replica of the cash flows arising from the related liability or related asset; and
- (d) be consistent with the requirements in IFRS Standards for indemnification assets and reimbursement assets.

15. A few respondents disagreed with the proposals:

- (a) an accounting firm, a preparer and a regulator in Asia-Oceania said the model in the Exposure Draft would give rise to the recognition of regulatory assets and regulatory liabilities that would represent differences in timing between the criteria used in IFRS Standards (for example, accrual basis) and those used in the regulatory agreements (for example, cash basis). These respondents disagreed that these differences in timing represent an entity's enforceable rights or enforceable obligations to adjust future regulated rates in accordance with the regulatory agreements. Those respondents disagreed with the recognition of—and therefore with the proposed measurement requirements for—such regulatory assets and regulatory liabilities.²
- (b) an individual expressed explicit support for the alternative view (paragraph 12). Similarly, an accountancy body in Asia-Oceania was also concerned that creating a measurement exception for a subset of items would add complexity to the model in the Exposure Draft and reduce understandability of the resulting information.
- (c) an intergovernmental body in Asia-Oceania thought preparers would find the requirements difficult to interpret and apply in their current form. This respondent recommended the final Standard provides further clarity about the

² These respondents had similar views for regulatory assets and regulatory liabilities arising from differences between assets' regulatory recovery pace and assets' useful lives (Agenda Paper 9C).

specific problem it intends to address and further guidance for preparers to apply the related requirements.

16. Some respondents raised questions and concerns about certain aspects of the proposals:
- (a) applicability of the proposals (paragraph 17);
 - (b) scope of the proposals (paragraphs 18–19);
 - (c) interaction between the proposals and the boundary of a regulatory agreement (paragraph 20); and
 - (d) need for additional application guidance (paragraph 21).

Applicability of the proposals

17. A few respondents—mainly accounting firms, a few preparers in Europe and a few national standard-setters in Asia-Oceania—questioned the applicability of the proposals based on their views on whether an entity would have enforceable rights or enforceable obligations before the cash for a related liability or related asset is paid or received:
- (a) some of these respondents disagreeing with the proposals did not think an entity would have enforceable rights or enforceable obligations to adjust future regulated rates until cash is paid or received for the related liability or related asset (paragraph 15(a)); and
 - (b) some others did not think an entity would have enforceable rights and enforceable obligations:
 - (i) when the cash paid or received for the related liability or related asset falls outside the boundary of a regulatory agreement (paragraph 20); or
 - (ii) when an entity recognises remeasurement gains or losses on derivatives—an accounting firm said that any remeasurement gain or loss on derivatives may be reversed before the related cash is paid or received, and therefore, may never be added or deducted in determining future regulated rates.

Scope of the proposals

18. A few respondents—an accounting firm, an accountancy body in Asia-Oceania, a few preparers in North America and Europe, and a national standard-setter in Europe—asked whether and how the proposals in paragraph 61 of the Exposure Draft would apply when a regulatory agreement treats an item of expense or income as allowable or chargeable using a criterion other than the *cash basis* used in the proposals. For example:
- (a) an item is allowable or chargeable on *an accrual basis*, for example, when it is recognised as an expense or income in accordance with other generally accepted accounting principles. A few of these respondents were of the view that entities should also be able to apply the proposed requirements to such items (paragraph 27).
 - (b) only a substantial part of an item is allowable or chargeable on a cash basis, while the remaining balance is allowable or chargeable *using a different criterion*.
 - (c) in some instances, a regulatory agreement may treat employee benefits in the scope of IAS 19 *Employee Benefits* as allowable when a fund pays the benefits to the employee, rather than when an entity made prepayments to the fund in advance of the employee receiving the benefits. In this case, the respondent thought the *cash basis* criterion should be determined based on *when the fund pays the benefits to the employee*, rather than when the entity pays the fund.
19. A preparer representative body in Europe asked whether and how the proposals in paragraph 61 of the Exposure Draft would apply when a regulatory agreement includes in the rates for a regulatory period an estimate of the pension amounts that will be paid over that period. In this case, any difference between the actual pension amounts disbursed and the estimated amounts is a gain or loss for the entity.

Interaction with the boundary of a regulatory agreement

20. A few respondents—mainly accounting firms, a few preparers in Europe and a few national standard-setters in Asia-Oceania—raised concerns about the interaction of the proposals in paragraph 61 of the Exposure Draft with the proposed guidance on

the boundary of a regulatory agreement. For example, the cash to settle the related liability, or the cash to recover the related asset, may not be expected to be paid or received within the boundary of the regulatory agreement, or there may be uncertainty as to whether the cash will be paid or received within the boundary. In such cases, it is unclear:

- (a) how the proposals would be applied. Some of these respondents said that in these circumstances, the entity may not have an enforceable right or enforceable obligation to add or deduct an amount in determining future regulated rates. Because of this, these respondents were of the view that an entity should not recognise a regulatory asset or regulatory liability until the cash to settle the related liability is paid or the cash to recover the related asset is received; and
- (b) how the proposals would interact with the guidance relating to compensation for cancellation of a regulatory agreement (paragraphs B35–B38 of the Exposure Draft) and with the guidance relating to changes to the boundary (paragraphs B39–B40 of the Exposure Draft).

Additional application guidance

21. A few respondents asked for additional application guidance:
- (a) adjustment for uncertainty—an accounting firm and a regulator in Asia-Oceania asked for additional guidance on what types of uncertainties would be present in a regulatory asset or regulatory liability that would not be present in the related liability or related asset, and how such uncertainty would be factored into the measurement of the regulatory asset or regulatory liability.
 - (b) illustrative examples—a few accounting firms and a preparer representative body in North America asked for additional illustrative examples to address the measurement of regulatory assets or regulatory liabilities related to items such as current and deferred income taxes, post-employment benefits in cases when the items of expense or income are allowable or chargeable on an accrual basis, leases, derivatives and share-based payment transactions.

Question 7(b)—Presentation in the statement(s) of financial performance***Proposed requirements***

22. Paragraph 69 of the Exposure Draft proposes that when an entity remeasures a regulatory asset or regulatory liability applying the proposals in paragraph 61 of the Exposure Draft, the entity presents the resulting regulatory income or regulatory expense in other comprehensive income to the extent that the regulatory income or regulatory expense results from remeasuring the related liability or related asset through other comprehensive income.
23. The alternative view on the Exposure Draft disagreed with the proposed presentation. According to this view, the presentation proposed for all other regulatory assets and regulatory liabilities—ie to present in the statement(s) of financial performance all regulatory income minus all regulatory expense in a separate line item immediately below revenue—should also apply in this case.³

Summary of comments received

24. The Board asked stakeholders whether they agree with the proposal.
25. Most respondents agreed with the proposal. Many of these respondents said that the proposed presentation would be more understandable to users of financial statements because it would avoid presenting the same underlying remeasurement, with opposite effects, in profit or loss and other comprehensive income.
26. A few respondents who agreed with the proposed presentation—a few preparers in North America, an accounting firm and a national standard-setter in Europe—did not support limiting the presentation of regulatory income or regulatory expense in other comprehensive income to regulatory assets and regulatory liabilities to which the proposed measurement in paragraph 61 of the Exposure Draft applies.
27. According to these respondents, the presentation proposal should apply to *all* regulatory income and regulatory expense that arise from a remeasurement of the

³ Paragraphs AV2–AV6 of the alternative view on the Exposure Draft.

related liability or related asset through other comprehensive income. Those respondents said that their recommendation would:

- (a) result in a presentation that would be more understandable to users of financial statements, similar to the benefits described in paragraph 25; and
- (b) be consistent with the Board's conclusion in paragraph BC59(c) of the Basis for Conclusions on IFRS 14. That paragraph states that presenting all net movements in regulatory deferral account balances in a single line item in profit or loss could be confusing or misleading when a material portion of the movement related to items that are presented in other comprehensive income.

28. A few respondents—mainly national standard-setters in Asia-Oceania and Latin America—disagreed with the proposal. An individual expressed explicit support for the alternative view (paragraph 23). Many of those respondents that disagreed with the proposal said that all regulatory income and regulatory expense should be presented in profit or loss because such presentation would:

- (a) show the effects on revenue of regulatory assets and regulatory liabilities and changes in them. In addition, this would better portray the total allowed compensation for the goods or services supplied to customers during the period;
- (b) avoid implying that the proposal incorporates a matching concept;
- (c) avoid additional complexity that may result from presenting regulatory income and regulatory expense wholly or partly in other comprehensive income (paragraph 29); and
- (d) avoid extending the list of items presented in other comprehensive income because no conceptual basis has been developed for what should be included in other comprehensive income.

29. A few respondents—mainly accounting firms and standard-setters in Europe—raised questions about whether and how the cumulative amount of regulatory income or regulatory expense presented in other comprehensive income should be reclassified to profit or loss.

30. These respondents asked for the final Standard to include examples on the presentation of regulatory income or regulatory expense in other comprehensive income, in particular for pension costs and their related income tax effects.
31. A national standard-setter in Asia-Oceania asked whether the principle underlying the proposal should be extended to require an entity to present regulatory income or regulatory expense relating to allowable or chargeable income taxes within the tax expense line item in profit or loss.

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?