



STAFF PAPER

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Project	Rate-regulated Activities	
Paper topic	Scope—Customers	
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Objective

1. This paper sets out staff analysis and recommendations about application questions raised by respondents relating to the term ‘customers’ in the Exposure Draft [*Regulatory Assets and Regulatory Liabilities*](#).

Summary of staff recommendations

2. We recommend the final Standard clarifies that for a regulatory asset or a regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue applying IFRS 15 *Revenue from Contracts with Customers*. This is the case even when:
 - (a) an entity charges the regulated rates to its customers indirectly through another party.
 - (b) the origination and reversal of differences in timing occur in different revenue streams through regulated rates charged to different groups of customers (that is, the customers of the different revenue streams).

Structure of the paper

3. This paper is structured as follows:
 - (a) proposals in the Exposure Draft (paragraphs 4–6);
 - (b) summary of comments received (paragraph 7); and
 - (c) staff analysis (paragraphs 8–22).

Proposals in the Exposure Draft

4. Paragraphs 3–6 of the Exposure Draft describe the scope of the proposed requirements. The Exposure Draft proposes that an entity applies the requirements to all its regulatory assets and all its regulatory liabilities. Paragraph 6 of the Exposure Draft says that a regulatory asset or a regulatory liability can exist only if (**emphasis added**):

- (a) an entity is party to a regulatory agreement;
- (b) the regulatory agreement determines the regulated rate the entity charges for the goods or services it supplies to customers; and
- (c) part of the total allowed compensation for goods or services supplied in one period is **charged to customers** through the regulated rates for goods or services supplied in a different period.

5. The following terms are included in paragraph 6 of the Exposure Draft and are defined as following (**emphasis added**):

Regulatory asset—An enforceable present right, created by a regulatory agreement, to add an amount in determining a regulated rate to be **charged to customers** in future periods because part of the total allowed compensation for **goods or services already supplied** will be **included in revenue in the future**.

Regulatory liability—An enforceable present obligation, created by a regulatory agreement, to **deduct an amount in**

determining a regulated rate to be **charged to customers** in future periods¹ because the **revenue already recognised** includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future.

Regulatory agreement—A set of enforceable rights and obligations that determine a regulated rate to be applied in contracts with customers.

Regulated rate (for goods or services)—A price for goods or services, determined by a regulatory agreement, that **an entity charges its customers** in the period when it supplies those goods or services.

Total allowed compensation (for goods or services)—The full amount of compensation for goods or services supplied that a regulatory agreement entitles **an entity to charge customers** through the regulated rates, in either the period when the entity supplies those goods or services or a different period.

6. The Exposure Draft does not define or describe the term ‘customers’ included in the defined terms above. The Exposure draft does, however, specify that the amount of revenue an entity recognises in a period applying IFRS 15 depends on the regulated rates for goods or services the entity supplies in the period (paragraph 12 of the Exposure Draft). IFRS 15 defines a customer as ‘a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration’.

Summary of comments received

7. A few respondents to the Exposure Draft said that it can sometimes be difficult to determine whether a regulatory agreement is within the scope of the Exposure Draft because of a lack of clarity about how to interpret the term ‘customers’ in the

¹ Paragraph BC31(g) of the Basis for Conclusions says that (**emphasis added**) ‘when an entity fulfils a regulatory liability by decreasing the regulated rates charged to customers, **that decrease is reflected in revenue (by applying IFRS 15).**’

definitions of ‘regulatory agreement’ and ‘regulated rate’ in certain situations.² For example, when:

- (a) an entity charges the regulated rate to customers indirectly through another party.
- (b) an entity recovers or returns differences in timing arising from goods or services supplied to a group of customers (for example, customers within an entity’s electricity interconnection services) through the rate charged for the goods or services supplied to a different group of customers (for example, customers within the entity’s electricity transmission services). This paper uses the expression ‘customers from different revenue streams’ to refer to these different groups of customers.

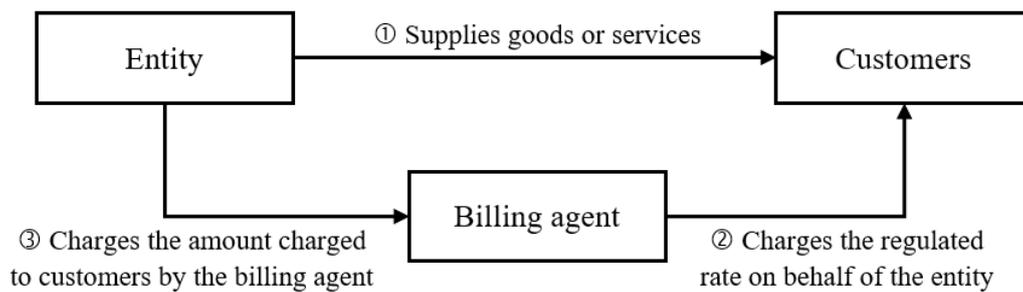
Staff analysis

- 8. The analysis is structured as follows:
 - (a) rates charged to customers indirectly through another party (paragraphs 9–16); and
 - (b) rates charged to customers from a different revenue stream (paragraphs 17–22).

Rates charged to customers indirectly through another party

- 9. In some arrangements, an entity supplies goods or services to customers and applies IFRS 15 to recognise revenue. Another party (billing agent) charges the customers the regulated rates for the goods or services supplied by the entity, including any amounts arising from differences in timing that adjust the regulated rates. The entity subsequently charges the billing agent the same amounts the billing agent charged the entity’s customers.

² [Agenda Paper 9B](#) of February 2022 IASB meeting discussed some of those concerns.



10. Respondents to the Exposure Draft said it is unclear from the phrase ‘an entity charges the regulated rate to its customers’ whether the entity would be in the scope of the proposals as it is not directly charging the regulated rates to its customers. This is because paragraph 6(b) of the Exposure Draft and the proposed definitions of ‘regulated rate’ and ‘total allowed compensation’ explicitly specify that it is the entity that charges its customers the regulated rate for the goods or services it supplies.
11. The definitions of a regulatory asset and a regulatory liability focus on rights to add an amount, or obligations to deduct an amount, in determining regulated rates as a result of goods or services already supplied or revenue already recognised. Those definitions require that:
- (a) a regulatory asset or a regulatory liability arises because the entity’s revenue in the period does not include part of the total allowed compensation for goods or services already supplied, or includes part of the total allowed compensation for goods or services to be supplied in the future (paragraph 5).
 - (b) the recovery of a regulatory asset or the fulfilment of a regulatory liability affect the amount of revenue the entity will recognise in the future when charging customers the adjusted rates (paragraph 5).
12. The staff think that the final Standard should apply to arrangements of the type described in paragraph 9. Even if an entity charges the regulated rates to its customers indirectly through another party, it would have an enforceable right or an enforceable obligation to adjust future regulated rates for the amounts arising from differences in timing.
13. We think requiring an entity to apply the Standard to account for such rights and obligations would result in useful information. Although the entity charges its customers through a billing agent, the entity would, applying IFRS 15, recognise

revenue when it transfers control of the goods or services to its customers. In other words, what matters is that the entity accounts for the amounts included in the regulated rates as revenue applying IFRS 15. Accounting for regulatory assets and regulatory liabilities would supplement the information the entity already provides by applying IFRS 15.

14. Following from the above analysis, the billing agent would not have a regulatory asset or regulatory liability that arises from the arrangement described in paragraph 9. The billing agent is required by the regulator to charge the regulated rates on behalf of the entity.³ However, the amounts included in the regulated rates did not arise from goods or services already supplied, or revenue already recognised, by the billing agent.
15. Therefore, the staff recommend the final Standard clarifies that:
 - (a) for a regulatory asset or regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue applying IFRS 15.
 - (b) a regulatory asset or a regulatory liability would arise in (a), even if the entity charges the regulated rates to its customers indirectly through another party.
16. Our recommendation does not pre-empt the IASB’s future redeliberation on whether the scope of the final Standard should be restricted to supplement only the information already provided by applying IFRS 15. This topic includes assessing the interaction of the proposed model with IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*.^{4, 5} Should the IASB decide the model should also supplement information provided by applying IFRS 9 or IFRS 17, we would consider whether and what changes would be necessary to the references to ‘customers’ and ‘IFRS 15’ in the final Standard.

³ In some cases, we have learned the billing agent may be the regulator or the grantor in a service concession arrangement.

⁴ [Agenda Paper 9A](#) discussed at the IASB meeting in February 2022.

⁵ Agenda Paper 9E for this meeting discusses whether the scope should exclude any regulatory assets or regulatory liabilities that may arise from financial instruments within the scope of IFRS 9.

Rates charged to customers from a different revenue stream

17. In some arrangements, a reporting entity supplies goods or services in two markets, Market A and Market B. The two markets represent different revenue streams for the entity. The entity supplies goods or services in Market A at market-based prices, but is subject to a regulatory revenue cap or floor. The entity supplies goods or services in Market B at regulated rates. When actual revenues from goods or services supplied in Market A exceed the cap, the entity is required by the regulator to pass the excess to customers in Market B by reducing the regulated rates it charges those customers in the future.⁶



18. Feedback on the Exposure Draft indicated uncertainty as to whether the reporting entity would be required to account in its consolidated financial statements for amounts exceeding the cap as a regulatory liability or amounts below the floor as a regulatory asset. This uncertainty arises because any excess or shortfall is included in the rates charged to the entity’s customers in Market B instead of those customers in Market A.
19. In the arrangement described in paragraph 17, the reporting entity’s revenue for a period reflects the revenues from both Market A and Market B (that is, the customers in both Market A and Market B are the reporting entity’s customers as defined in IFRS 15). Therefore, regulatory assets or regulatory liabilities may arise even if they are recovered or fulfilled through rates charged to customers from a revenue stream (that is, Market B) that is different from the revenue stream from which the

⁶ A similar recovery mechanism applies when actual revenues from goods or services supplied in Market A fall below the floor.

differences in timing arose (that is, Market A). In other words, what matters is that the reporting entity accounts for the amounts included in the rates charged to the customers in both revenue streams as revenue applying IFRS 15 (paragraph 15(a)). Accounting for regulatory assets and regulatory liabilities would supplement the information the reporting entity already provides by applying IFRS 15.

20. The conclusion in paragraph 19 is consistent with the principle underlying the proposed model in paragraph 16 of the Exposure Draft. Applying the proposals, the reporting entity would reflect the total allowed compensation for goods or services supplied as part of its reported financial performance for the period in which those goods or services are supplied.
21. Therefore, the staff recommend the final Standard clarifies that a regulatory asset or regulatory liability would arise even if the origination and reversal of differences in timing occur in different revenue streams of the entity through amounts included in the regulated rates charged to different groups of customers, as defined in IFRS 15.
22. A related question is how the reporting entity would report regulatory assets and regulatory liabilities, and the related regulatory income and regulatory expense, for its reportable segments applying IFRS 8 *Operating Segments*. For example, it is possible that income or expenses arising from the recognition of a regulatory asset or regulatory liability could be included in an operating segment that is different from the segment in which the income or expenses from fulfilment or recovery are included. The staff will consider this issue as part of the IASB's redeliberations on the proposed disclosure requirements.

Question for the IASB

Does the IASB agree that the final Standard clarifies that for a regulatory asset or regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue applying IFRS 15. This is the case even when:

- (a) an entity charges the regulated rates to its customers indirectly through another party (paragraphs 9–16).
- (b) the origination and reversal of differences in timing occur in different revenue streams of an entity through regulated rates charged to different groups of customers (that is, the customers of the different revenue streams) (paragraphs 17–21).