

## Consultative Group for Rate Regulation

Date **30 November 2023**

The Consultative Group for Rate Regulation supports the IFRS Foundation and the International Accounting Standards Board in their objectives, and contributes toward the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

The Consultative Group for Rate Regulation (CGRR) held a virtual meeting on 30 November 2023. The staff of the International Accounting Standards Board (IASB) prepared these notes, which summarise the discussion.<sup>1</sup>

## CGRR members who attended the meeting

| <i>Member</i>             | <i>Organisation</i>               | <i>Country/Region</i> |
|---------------------------|-----------------------------------|-----------------------|
| Giorgio Acunzo            | Ernst & Young                     | Italy                 |
| Michael Dixon             | National Grid                     | United States         |
| Jesús Herranz Lumbreras   | Ferrovial S.A.                    | Spain                 |
| Luciana Maximino Maia     | Neoenergia S.A.                   | Brazil                |
| Richard McCabe            | Consultant for Electricity Canada | Canada                |
| Sureta Moolman            | Eskom Holdings SOC Ltd            | South Africa          |
| Pascale Mourvillier       | PAM Expertise                     | France                |
| Michel Picard             | KPMG                              | Canada                |
| Christina Scharf          | TenneT Holding B.V.               | Germany               |
| Stefanie Voelz (observer) | Moody's Investors Service Ltd     | United Kingdom        |

## About the meeting

1. The purpose of the meeting was:
  - (a) to discuss feedback on the proposals on disclosure in the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#); and
  - (b) to gather input from CGRR members to help develop staff recommendations for the IASB.
2. CGRR members discussed the proposed disclosure requirements in the Exposure Draft and potential new disclosure requirements arising from the IASB's redeliberations on the Exposure Draft.

<sup>1</sup> The paper discussed with the CGRR and a recording of the meeting can be found on [the IFRS Foundation website](#).

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## Breakdown of regulatory income or regulatory expense

3. CGRR members discussed:
  - (a) how difficult or costly it would be for an entity to provide the components of regulatory income or regulatory expense proposed in paragraph 78 of the Exposure Draft;
  - (b) whether any of the components of regulatory income or regulatory expense listed in paragraph 78 could be aggregated without loss of material information; and
  - (c) whether a qualitative explanation of the components of regulatory income or regulatory expense would provide useful information to users of financial statements (users).
4. Some members supported the proposed disclosure requirements, but many members expressed concerns about the difficulty or costs of implementing these requirements.
5. One member who supported the proposals thought the information an entity would be required to disclose would have both predictive and confirmative value. This member said an entity would incur costs in implementing a new process, but commented that IFRS 15 *Revenue from Contracts with Customers* already requires similar disclosures. This member also said auditors would want to be able to track changes in regulatory assets and regulatory liabilities.
6. Some members said the proposals would be costly for preparers to implement and some argued the Exposure Draft proposals were too detailed. During their discussion:
  - (a) a few members said the proposals might not be proportionate taking into account the importance regulatory assets and regulatory liabilities might have in an entity's statements of financial position or the information regulators require an entity to disclose. One member, a user, said users would not expect an entity to disclose more information than what the entity currently reports to regulators.
  - (b) a few members said the proposals would require entities to invest in new systems. A few members said even an entity already reporting regulatory balances would incur additional costs because the proposed disclosure requirements would require an entity to disclose more detailed information. One of these members said the proposals would also require an entity to disclose more detail than what would be required for an entity to apply the model in the Exposure Draft.
  - (c) one of these members said the proposals would be challenging for an entity that is subject to more than one regulatory scheme.
  - (d) a few members suggested the proposed requirements should group some of the components of regulatory income and regulatory expense.
  - (e) a few members said the reconciliation between opening and closing balances proposed in paragraph 83 of the Exposure Draft would provide enough information.

7. A few members said a qualitative explanation of the components of regulatory income or regulatory expense could be useful information to users. A few members said requiring an entity to disclose only qualitative information would be enough. One member, a user, said qualitative information is useful, but it might be less comparable between entities and could lead to users asking an entity to provide additional information.

## **Reconciliation of regulatory asset and regulatory liability balances**

8. CGRR members discussed paragraph 83 of the Exposure Draft, which proposes to require an entity to present a reconciliation between the opening and closing amounts of regulatory assets and regulatory liabilities. Specifically, members discussed whether:
  - (a) examples of the types of changes to regulatory assets and regulatory liabilities that are not reflected in the statement of comprehensive income would be useful to users; and
  - (b) a requirement to provide a qualitative explanation of such changes would provide useful information to users.
9. The members who commented agreed providing examples of such changes and requiring an entity to explain such changes would provide useful information to users.

## **Maturity analysis, risk, uncertainty and discount rate**

10. CGRR members discussed whether:
  - (a) paragraphs 79–81 of the Exposure Draft, which propose to require an entity to disclose information about regulatory assets and regulatory liabilities, were enough;
  - (b) any of the proposed requirements should be omitted; and
  - (c) members had any suggestions for improving the proposals.
11. Much of the discussion focused on paragraph 80(a) of the Exposure Draft, which proposes to require an entity to disclose the time bands over which regulatory assets are expected to be recovered and regulatory liabilities are expected to be fulfilled. During their discussion:
  - (a) a few members said the proposed time-band disclosure requirement could be difficult to implement, particularly for regulatory assets and regulatory liabilities with long lives that are related to pension liabilities, deferred taxes or decommissioning provisions. The estimated recovery periods or fulfilment periods for the underlying long-lived items can change over time. They suggested a current/non-current split would be easier to apply and could still provide useful information to users.
  - (b) one member said the prospective Standard should not mandate specific time bands.

- (c) a few members said an entity should not be required to provide information about the maturity of regulatory assets and regulatory liabilities in a table. Some said an entity could instead use a narrative description to convey enough information about the expected time frame for an item's recovery or fulfilment.
12. There was limited feedback on paragraph 80(b) of the Exposure Draft, which proposes to require an entity to disclose the discount rate (or ranges of rates) used in discounting regulatory assets and regulatory liabilities. During their discussion:
- (a) a few members, including a user, agreed it was important to know if regulatory assets or regulatory liabilities have been discounted.
  - (b) a few members said discount rate disclosure requirements could be challenging for an entity operating in more than one jurisdiction or under more than one regulatory regime to apply because such an entity would use more than one discount rate. These members said the disclosure of a range would not provide useful information to users in such circumstances.

### **Aggregation and disaggregation**

13. CGRR members discussed whether the IASB should develop guidance to help an entity aggregate or disaggregate information to fulfil specific disclosure requirements. Most members who commented agreed non-mandatory guidance on disaggregation could be useful to preparers. During their discussion:
- (a) one member said guidance on disaggregation could be helpful for an entity seeking to explain why it has used specific categories when disclosing information; and
  - (b) a few members said an entity would need to consider how to align information disclosed in accordance with rate-regulated disclosure requirements with information disclosed in accordance with other disclosure requirements—for example, those in IAS 1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments*—and with disaggregated information in regulatory reports.

### **Direct (no direct) relationship between an entity's regulatory capital base and its property, plant and equipment**

14. CGRR members discussed whether the prospective Standard should require an entity to disclose whether its regulatory capital base and its property, plant and equipment have a direct (no direct) relationship. Most members who commented supported requiring an entity to disclose this information.
15. CGRR members discussed what information the prospective Standard should require an entity to disclose if the entity concludes its regulatory capital base and its property, plant and equipment have no direct relationship. Most members who commented agreed some information about the differences

between an entity's regulatory capital base and its property, plant and equipment would provide useful information to users, but cautioned against requiring an entity to provide too much detail.

## Unrecognised differences in timing

16. CGRR members discussed whether the prospective Standard should require an entity to disclose information about unrecognised differences in timing and, more specifically, about unrecognised differences in timing arising from inflation adjustments to the regulatory capital base.
17. Members expressed mixed views about the potential disclosure of information about unrecognised differences in timing. During their discussion:
  - (a) one member, a user, said some disclosure of unrecognised differences in timing would be useful information to users.
  - (b) one member questioned whether an entity would be able to disclose information on items that are not recognised because they are difficult to track in many cases. This member also expressed concern about the overall effect of such additional disclosures on the financial statements, given how much information the proposed requirements would already require an entity to disclose.
18. No members supported the prospective Standard require an entity to disclose information about unrecognised differences in timing arising from inflation adjustments to the regulatory capital base. Members expressed concerns about the feasibility of quantifying such differences and the potential for the costs of providing such information to exceed the benefits to users.

## Long-term performance incentives

19. CGRR members discussed whether any specific disclosure requirements about long-term performance incentives that are subject to significant outcome and measurement uncertainty would result in useful information for users.
20. One member said the prospective Standard should not require an entity to disclose additional information about long-term performance incentives because the requirements in IAS 1 should be enough. Another member suggested the prospective Standard require an entity to disclose conditions that might affect recoverability of a regulatory asset associated with such an incentive over the long term.

## Next steps

21. The staff will consider the feedback from the CGRR members when developing recommendations for future IASB meetings.