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Regulatory Assets and Regulatory Liabilities Cover Note

Objective

- 1 The objective of this session is twofold:
 - (a) Ask EFRAG TEG to recommend for approval to the Board the EFRAG Final comment letter ('FCL') in response to the IASB Exposure Draft *Regulatory Assets and Regulatory Liabilities* (the ED).
 - (b) Ask the EFRAG Board to approve the EFRAG FCL on the ED.
- 2 After a joint discussion by EFRAG TEG and EFRAG Board of the feedback obtained in the consultation and the changes proposed to the DCL by the EFRAG Secretariat, EFRAG TEG members and EFRAG Board members will be asked to vote (first EFRAG TEG, after the EFRAG Board).

Background

- 3 The IASB published its ED in January 2021 with comments requested by 31 July 2021. In the ED, the IASB proposes an accounting model for regulatory assets and regulatory liabilities to supplement the information already provided by applying existing IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers*. The ED's objective is to provide relevant information that faithfully represents how regulatory balances affect an entity's financial performance and financial position.

Main positions in EFRAG's draft comment letter

- 4 In April 2021, EFRAG published its draft comment letter on the ED.
- 5 In the DCL, EFRAG broadly supports the approach proposed by the IASB noting that if finalised as a new IFRS Standard, the accounting model would replace IFRS 14 *Regulatory Deferral Accounts*, an interim Standard issued in January 2014 but not endorsed in the EU, which permits a variety of accounting approaches for the effects of rate regulation to continue temporarily. The new Standard will enhance comparability of information for users of financial statements of affected entities and enable the faithful representation of performance by these entities.
- 6 EFRAG also agrees with the IASB's proposal that the accounting model for regulatory assets and regulatory liabilities will supplement the information that an entity already provides by applying IFRS Standards.
- 7 However, EFRAG in its DCL sought views on several topics where EFRAG could not conclude on a preferred view. Therefore, the DCL provides mixed views on the following three topics:

- (a) A component of the total allowed compensation, namely, Regulatory returns on construction work in progress (CWIP);
 - (b) use of discount rate; and
 - (c) the proposed exception from IFRS 3 *Business Combinations* recognition and requirements for acquired regulatory assets and assumed regulatory liabilities (IFRS 3 exception).
- 8 Regarding the proposed disclosure requirements EFRAG observed that the level of detail required to meet the specific disclosure objectives might impose a significant burden on reporting entities to generate the information.
- 9 Finally, EFRAG recommended the formation of a transition resource group to help preparers with the implementation of the proposed Standard.

EFRAG draft Final Comment Letter

- 10 The key changes (i.e. additions or change in positions) made to the draft EFRAG final comment letter relative to the EFRAG draft comment letter are summarised in **paragraphs 4 to 24 of agenda paper 05-02**. The key changes made relate to: scope of the proposed Standard; definitions of regulatory assets, regulatory liabilities and total allowed compensation; regulatory returns on CWIP and allowable expense component of the total allowed compensation; recognition requirements; discounting proposals; disclosures; and transition requirements.

Question to EFRAG TEG/EFRAG Board

- 11 Do EFRAG TEG and Board members agree with the EFRAG FCL covering letter in **agenda paper 05-03 (marked-up version)**?

Question to EFRAG TEG

- 12 Does EFRAG TEG recommend the FCL in **agenda paper 05-03 (marked-up version)** for approval by the EFRAG Board subject to agreed drafting changes?

Question to the EFRAG Board

- 13 Does the EFRAG Board approve the FCL in **agenda paper 05-03 (marked-up version)** subject to agreed drafting changes?

- 14 Questions to EFRAG TEG and the EFRAG Board on the EFRAG Secretariat suggested changes to the EFRAG preliminary position in its DCL, per each Question asked in the ED, are included in agenda paper 05-02.

Agenda Papers

- 15 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 05-02 – Analysis of constituents’ feedback and EFRAG Secretariat recommendations;
 - (b) Agenda paper 05-03 – [Draft] EFRAG Final Comment Letter – marked-up version;
 - (c) Agenda paper 05- 04 – [Draft] EFRAG Final Comment Letter – clean version;
 - (d) *Agenda paper 05-05 (background paper) –Outreach Feedback on Regulated Assets and Regulated Liabilities; and*
 - (e) *Agenda paper 05-06 (background paper) –Effects Analysis.*