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This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **Regulatory Assets and Regulatory Liabilities Cover Note**

### **Objective**

- 1 The objectives of the session are to ask EFRAG CFSS members for feedback on various aspects of the IASB Exposure Draft *Regulatory Assets and Regulatory Liabilities* ('the ED') published in January 2021 and discuss EFRAG's outreach on the ED.
- 2 Feedback received during this session will inform the discussion points that EFRAG TEG Chairwoman will present at the ASAF meeting in June 2021 and contribute to enhance outreach efforts.

### **Background of the IASB project**

- 3 On 28 January 2021, the IASB published the ED with a comment period of 180 days and a comment deadline of 30 July 2021.
- 4 EFRAG published its [draft comment letter \(DCL\) on the ED](#) in April 2021 and asks for comments by 28 July 2021. The DCL was developed after extensive consultation with and input from the EFRAG Rate-regulated Activities Working Group (RRAWG) before the EFRAG TEG recommendation for the EFRAG Board approval.
- 5 The ED sets out a new accounting model on the impacts of rate regulation and requires an entity, that falls within the scope of the proposed Standard, to recognise regulatory assets and regulatory liabilities.
- 6 The accounting model aims to align an entity's total revenue and expenses recognised in a period under IFRS Standards with "total allowed compensation" which is the amount of compensation for goods or services supplied that an entity is entitled to charge its customers under the regulatory agreement (either in the period when the entity supplies those goods or services or a different period).
- 7 The ED proposes an "overlay" approach in which an entity would first apply the requirements of existing IFRS Standards (IFRS 15 *Revenue from Contracts with Customers* and other IFRS Standards and IFRS Interpretations such as IFRIC 12 *Service Concession Arrangements*) and then apply the proposed accounting model.
- 8 It is understood that many companies operating in the utility sector would meet the ED scope criteria (although it is possible that some might not). However, some companies outside the utility sector (for example transport) might also meet the scope criteria.
- 9 An entity would fall within the scope of the proposed Standard if it meets all of the following criteria:

- (a) the entity is a party to a regulatory agreement;
  - (b) the regulatory agreement determines the regulated rate an 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 (past or future).
- 10 In early June, the EFRAG Secretariat published a [Briefing Practical Implications on the Project Scope](#).

### Key discussion points for the session

- 11 The key discussion points of the session are:
- (a) To respond to the questions asked by the IASB staff in the relevant ASAF agenda paper (**paper 12-03**), we ask EFRAG CFSS members to share feedback from their jurisdictions on the ED. Specifically, based on the IASB proposals summarised in **paper 12-03** and EFRAG DCL positions summarised in **paragraphs 6 to 35 of paper 12-01**, EFRAG CFSS members are being asked for views on the following:
    - (i) scope of the proposals;
    - (ii) proposals on total allowed compensation for goods or services supplied in a period;
    - (iii) proposed measurement requirements; and
    - (iv) interaction between the proposals and IFRIC 12.
  - (b) To ask EFRAG CFSS members to share feedback on the three areas highlighted in the [EFRAG Draft Comment Letter](#) ('the DCL') on the ED, where EFRAG presented two views and did not come to a conclusive position as there was a need to gather stakeholders on these topics. These three areas are included in the summary of EFRAG DCL positions in **paragraphs 6 to 53 of Paper 12-02**.
  - (c) To present to EFRAG CFSS the feedback from the outreaches conducted by the EFRAG Secretariat so far and discuss next steps. (**Paragraphs to 38 of paper 12-02**).
- 12 The questions to EFRAG TEG-CFSS members are twofold:
- (a) The questions included in the ASAF agenda paper – *Regulatory Assets and Regulatory Liabilities*.
  - (b) The questions included in the EFRAG DCL on the three topics where no conclusive EFRAG tentative position was presented (i.e., total allowed compensation, discounting and IFRS 3 *Business Combinations* exemption).

**Questions for EFRAG TEG-CFSS – ASAF questions**

**Scope**

- 13 Do you agree with the proposed scope?
- 14 Are the scope proposals clear enough to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities?
- 15 Do you foresee assessing whether rights and obligations are enforceable would be challenging? If so, what are the circumstances that make such assessment challenging?

**Total allowed compensation**

- 16 Do you agree with the focus of the proposals on total allowed compensation for goods or services supplied in a period?
- 17 Do you agree with the proposals on how an entity would determine total allowed compensation for goods or services supplied in a period?
- 18 Is there a need for further guidance on how to apply the concept of total allowed compensation for goods or services?

**EFRAG DCL questions (EFRAG two views on total allowed compensation explained in Paragraphs 13 to 18 of paper 12-02)**

- 19 In your jurisdiction do you have cases where you earn a regulatory return on an asset base containing a balance relating to assets not yet in use?
- 20 Which of the two views (view 1 or view 2) on the treatment of regulatory returns on CWIP (capital work-in-progress) do you support and why?
- 21 Do you expect any implementation issues relating to the proposals in the ED to defer and recognise revenue from construction work in progress only in the operating phase?

**Measurement**

- 22 Do you agree with the proposed cash-flow-based measurement technique?
- 23 Do you agree with the proposals that an entity should estimate uncertain future cash flows using whichever of the two methods ('most likely amount' or 'expected value') the entity expects to better predict the cash flows?
- 24 Do you agree with the proposals for discounting the estimated future cash flows using the regulatory interest rate, except in specified circumstances?
- 25 Do you agree with the proposals for cases when the regulatory interest rate provided for a regulatory asset is insufficient?

**EFRAG DCL Question- Discounting (EFRAG two views on total allowed compensation explained in Paragraphs 23 to 28 of paper 12-02)**

- 26 Which of the two views (view 1 or view 2) on discounting do you support and why?

**Interaction with Other Standards - IFRIC 12**

- 27 Do you think some service concession arrangements in your jurisdiction may create regulatory assets and regulatory liabilities?

**EFRAG DCL- IFRS 3 Exemption (Paragraph 32 to 33 of paper 12-02)**

- 28 What are your views about an approach in which acquired regulatory assets (or liabilities) are not exempt from IFRS 3 (recognition and measurement requirements) and are measured at fair value and further discounted at an adjusted regulatory interest rate, in a manner similar to the provisions of IFRS 9?

**Next steps**

- 29 Outreach efforts to obtain further feedback on the proposals in the ED and questions to constituents included in EFRAG's DCL will continue until the end of July 2021.
- 30 EFRAG TEG and EFRAG RRAWG will have a joint meeting on 21 June 2021 to discuss the three topics that EFRAG did not have a conclusive position on in the DCL.
- 31 EFRAG will discuss and ask for approval of the EFRAG final comment letter on the ED at the joint EFRAG Board and EFRAG TEG meeting to be held on 7 September 2021.

**Agenda Papers**

- 32 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 12-02 – Issues Paper RRA - covering the main discussion points; and
  - (b) Agenda paper 12-03 – ASAF Agenda Paper 04 – Rate Regulated Activities – for background only - with details of the IASB proposals and the ASAF session questions.