

RATE-REGULATED ACTIVITIES



EFRAG

European Financial Reporting Advisory Group

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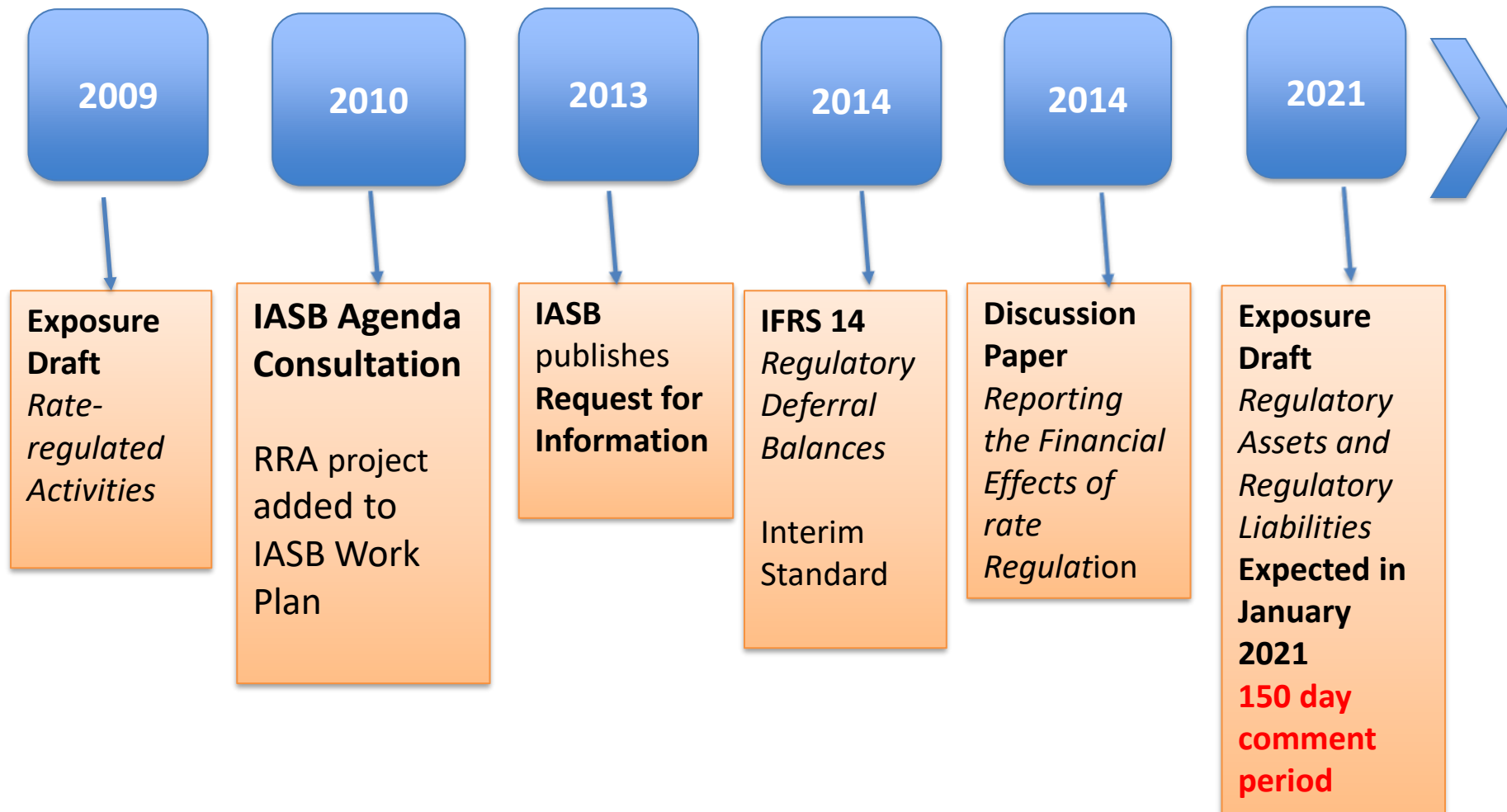


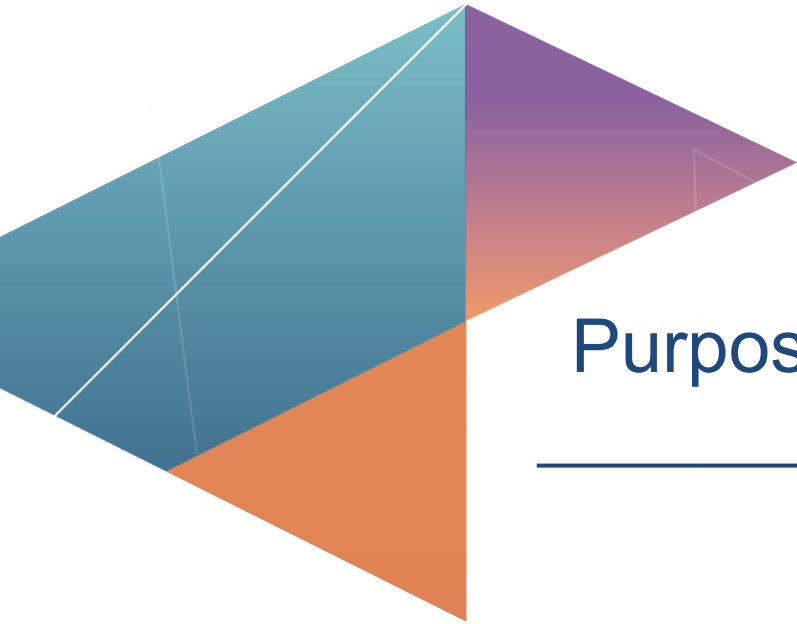
OVERVIEW

- Project timeline
- Purpose of the model
- Scope
- Regulatory assets and liabilities
- Recognition and Measurement
- Transition
- Presentation and Disclosure



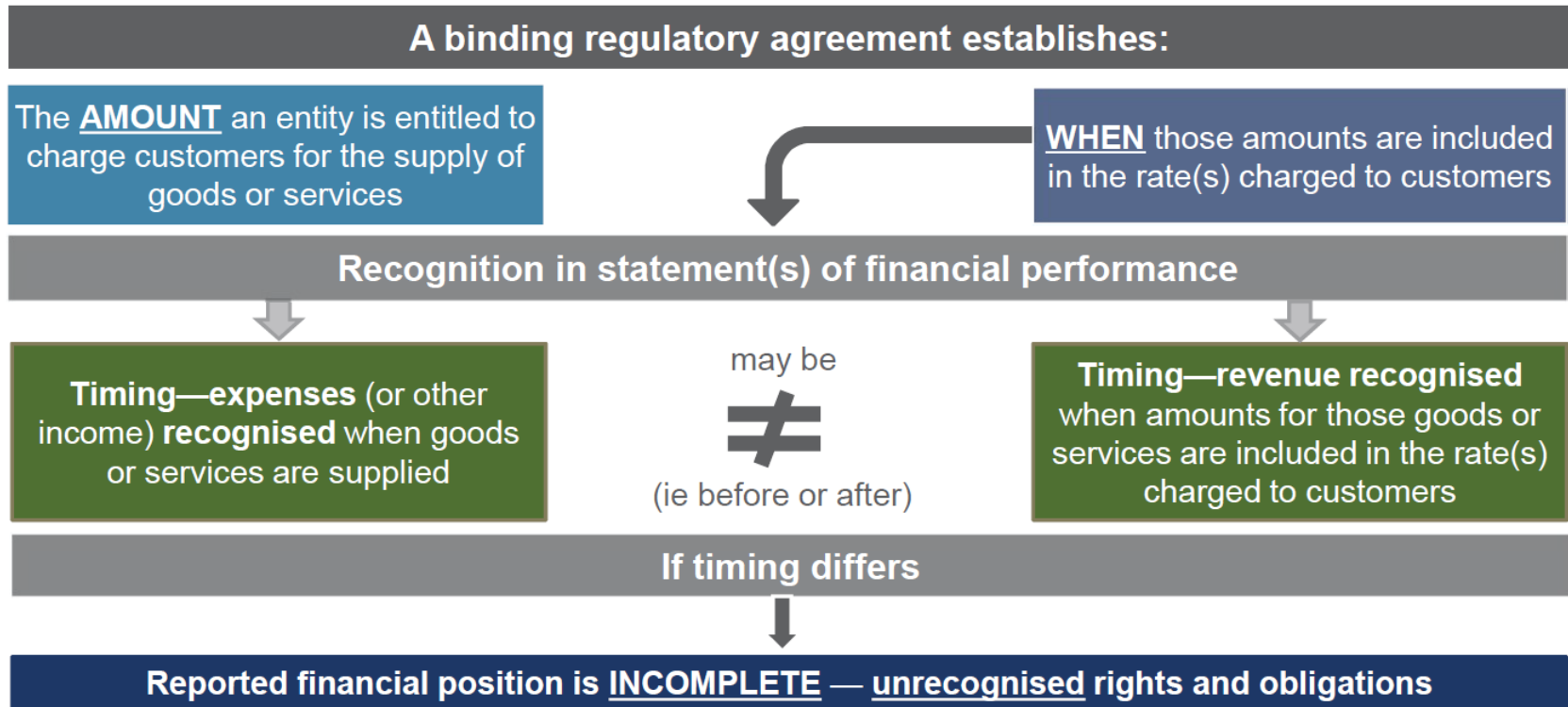
Project timeline





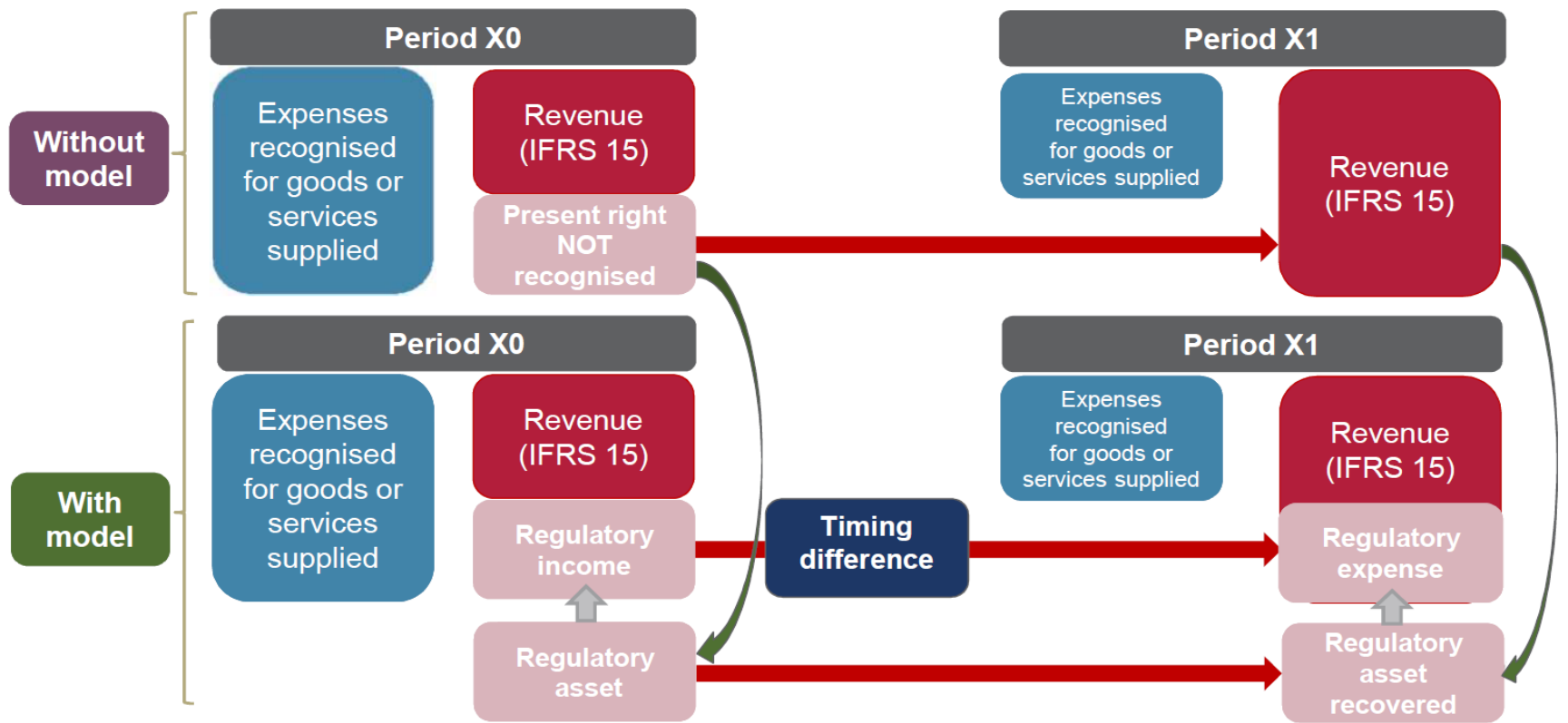
Purpose of the model

What is the RRA problem?



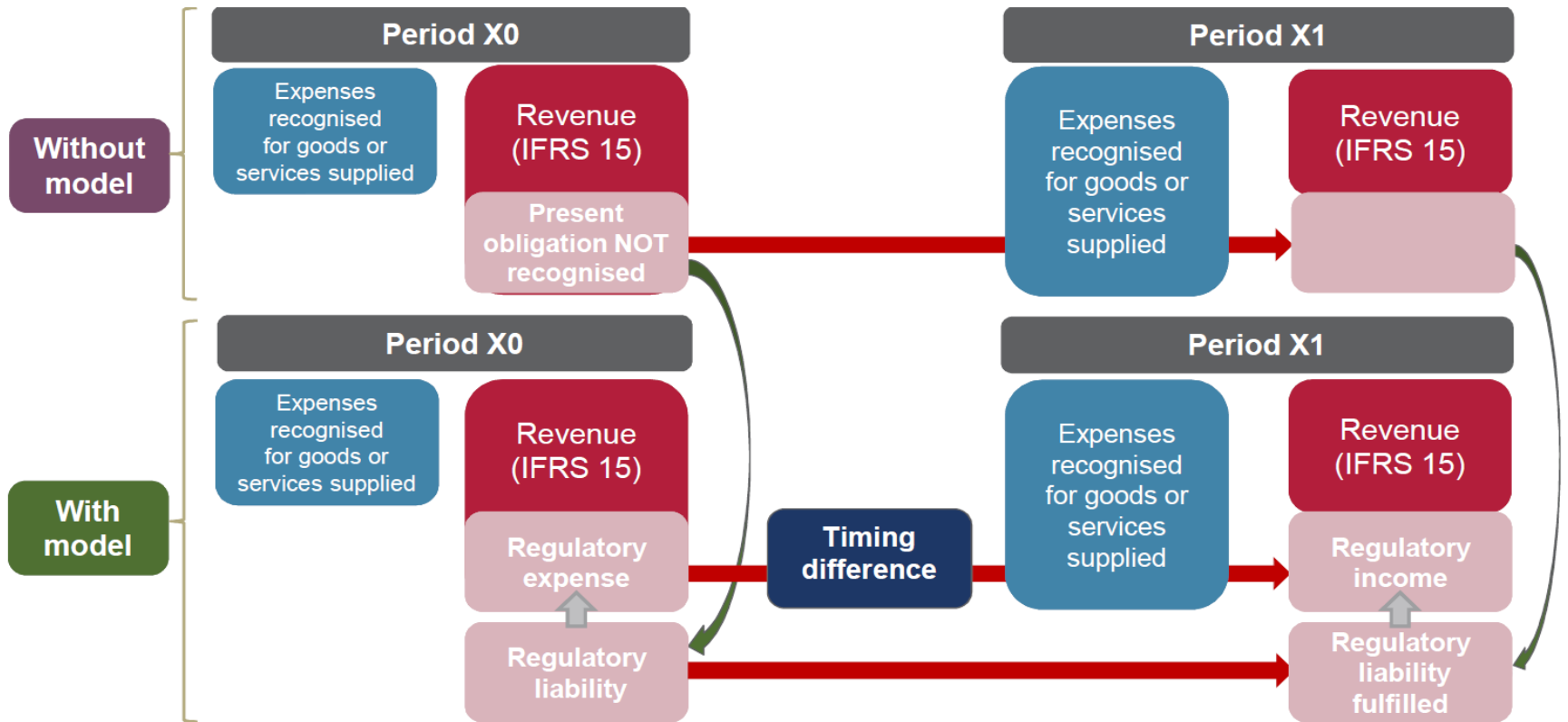
Source:
IASB

Purpose of the model – regulatory asset



Source:
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Purpose of the model – regulatory obligation



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Scope

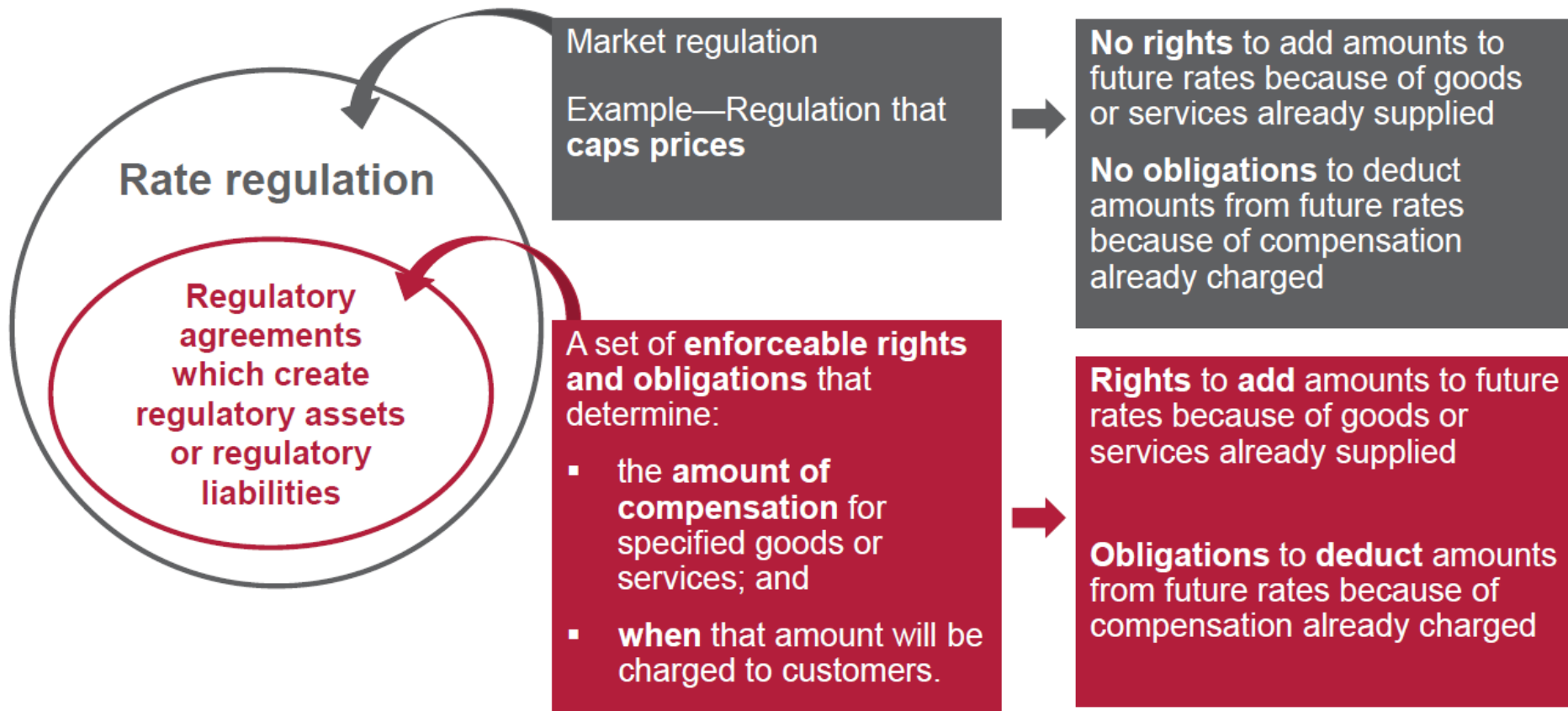
When should the model be applied?

The proposals apply to all regulatory assets and regulatory liabilities

- **Regulatory assets and regulatory liabilities can only exist if:**
 - Enforceable regulatory agreement
 - Regulatory agreement determines the regulatory rate and when it will be charged to customers
 - Part of the compensation for goods or services supplied in one period is charged to customers in a different period (part or future) period
- **Total allowed compensation:**

The amount that an entity is entitled to charge customers, in the same or a different period, in exchange for the goods or services supplied in a specified period, in accordance with the regulatory agreement

Scope (continued)

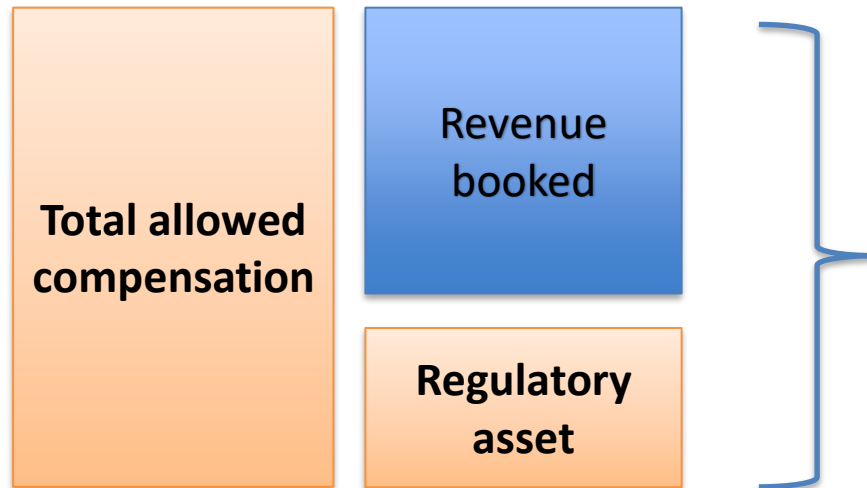


Source:
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Regulatory assets and regulatory liabilities

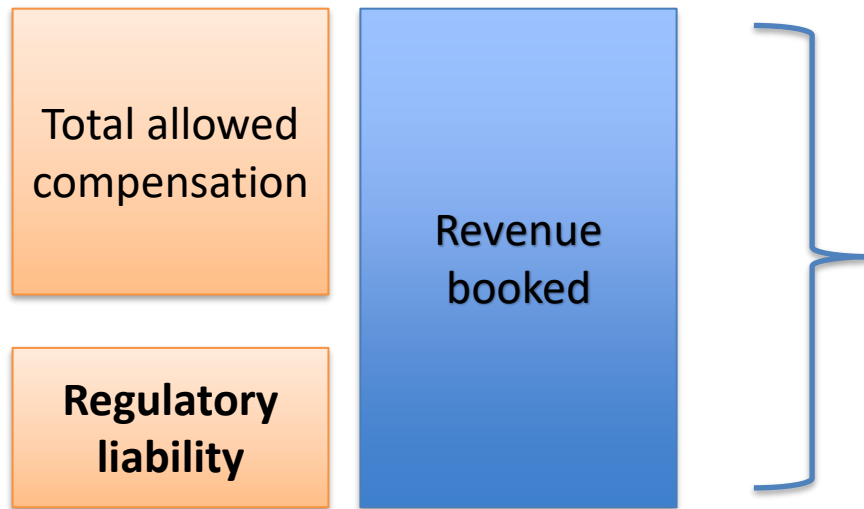
Regulatory asset



- The regulatory asset booked in the current year will form part of regulatory expense in future periods
- **Regulatory asset (Dr)**
- **Regulatory income (Cr)**

- A **regulatory asset** is 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

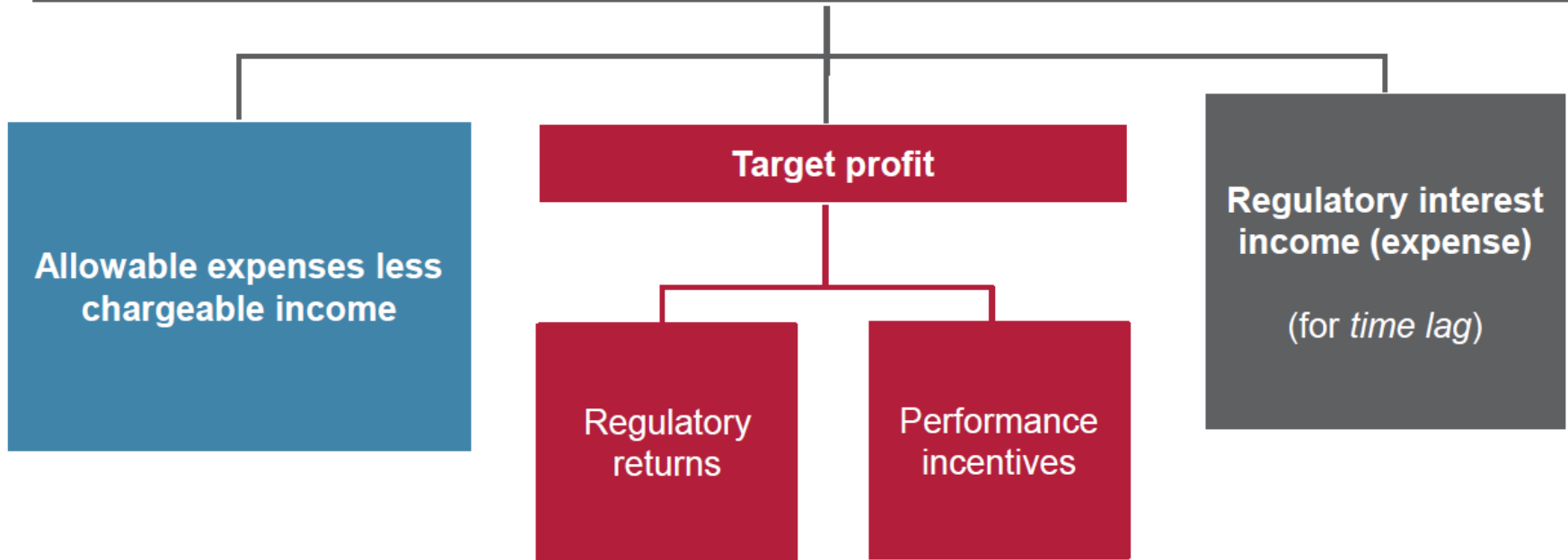


- The regulatory liability booked in the current year will form part of regulatory income in future periods
- **Regulatory expense (Dr)**
- **Regulatory liability (Cr)**

- A **regulatory liability** is 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 periods because the revenue already recognized includes an amount that will provide part of the **total allowed compensation** for goods or services to be supplied in the future.

Total allowed compensation

Components of total allowed compensation



The proposed model specifies when these components affect profit

Source:
IASB

Total allowed compensation (continued)

When components of total allowed compensation affect profit

Allowable expenses less chargeable income	Target profit		Regulatory interest income (expense)
	Regulatory returns*	Performance incentives	
When a company incurs the expense or income and thus recognises it applying IFRS Standards	When the regulatory agreement entitles a company to add these in determining a regulated rate	In the period in which a company's performance occurs	As the discount unwinds until recovery of the regulatory asset or fulfilment of the regulatory liability

* Regulatory returns on an asset not available for use affect profit only once the asset is available for use and then over the remaining periods in which the asset is recovered through the regulated rates

Source:
IASB



Recognition and Measurement

Recognition

- **Recognise all regulatory assets and all regulatory liabilities** that meet the definition of a regulatory asset or regulatory liability and the corresponding regulatory income and regulatory expense
- If uncertain of whether a regulatory asset or a regulatory liability exists, an entity shall recognise the regulatory asset or regulatory liability if it **is more likely than not** that it exists
- Low probability of an inflow/outflow or high measurement uncertainty, uncertainty is considered in the measurement – examples of such uncertainties are demand risk and credit risk

Measurement

Cash-flow-based measurement technique

- Includes estimating future cash flows arising from the regulatory assets or regulatory liabilities together with cash flows relating to the regulatory interest on return;
- Estimated using the 'most likely' or 'expected value' method;
- Update estimates if changes occur and as the regulatory asset is recovered/regulatory liability fulfilled;
- Discounted using the regulatory interest rate or return rate unless there is any indication that it is not adequate/insufficient (initial rate remain unchanged unless the regulatory agreement changes the regulatory interest rate)

Regulatory interest rate is the interest rate provided by a regulatory agreement

Discounting

- A regulatory interest rate is used to discount estimated future cash flows and recognise regulatory interest income or expense through the unwinding of discount;
- **However**, a minimum interest rate is estimated for regulatory assets if there is an indication that the **rate is insufficient** to compensate the entity for the:
 - Time value of money; and
 - Uncertainty inherent in the cash flows.
- If regulatory interest rate is **less** than the minimum interest rate discount the estimated future cash flows at the minimum rate and **recognise loss immediately**



Presentation and Disclosure

Presentation

- Regulatory assets and regulatory liabilities are presented in the **statement of financial position** as:
 - A separate and single line-item (subject to offsetting and the normal current and non-current classification requirements)
- Regulatory income and regulatory expense are presented **in profit or loss**:
 - As a separate and single line-item; and
 - include regulatory interest income and regulatory interest expense; unless
 - they relate to items of other comprehensive income (OCI), in which case they will be presented in OCI

Disclosure

- A disclosure objective to disclose information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities to provide users with a basis for understanding:
 - The relationship between an entities' revenue and expenses to provide insights into the entities' prospects for future cash flows; and
 - The entities' regulatory assets and regulatory liabilities to provide insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entities' future cash flows



Transition



Transition

- The transition requirements in the model for regulatory assets and regulatory liabilities:
 - require an entity that currently applies IFRS Standards to apply the model retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
 - require a first-time adopter of IFRS Standards to apply the model at the date of transition to IFRS Standards; and
 - retain the deemed cost exemption in paragraph D8B of IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- Entities that already apply IFRS can elect not to apply the model retrospectively to business combinations
- Goodwill-related regulatory assets in the total allowed compensation are derecognised and reclassified to goodwill



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