

Regulated Assets and Regulated Liabilities

Feedback to respondents EFRAG Final Comment Letter

October 2021

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its Draft Comment Letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG.

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the IASB Exposure Draft *Regulatory Assets and Regulatory Liabilities* (the ED) on 10 September 2021. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter. The feedback was received through outreach, surveys on effects analysis and comment letters received.

Background to the ED

The IASB published the ED in January 2021 with comments requested by 30 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.

Further details are available on the IASB [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 28 July 2021 (DCL).

In the DCL, EFRAG broadly supported 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.

EFRAG also agreed 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.

However, EFRAG in its DCL sought views on the following three topics for which EFRAG did not conclude on a preferred view:

- a component of the total allowed compensation, namely, regulatory returns on construction work in progress (CWIP);
- use of discount rate; and
- the proposed exception from IFRS 3 *Business Combinations* recognition and measurements requirements for acquired regulatory assets and assumed regulatory liabilities (IFRS 3 exception).

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.

Finally, EFRAG recommended the formation of a transition resource group to help preparers with the implementation of the proposed Standard.

Outreach activities

After the publication of its DCL, EFRAG organised a series of outreach events and stakeholder meetings in partnership with other organisations, including the IASB. Of these events only one was a

public event for which EFRAG published a feedback report. The other events were “closed” events and for these EFRAG needs to respect the confidentiality of feedback provided and thus does not publish a feedback report. Overall, EFRAG organised and participated in the following 11 outreach events that involved preparers including a multiple-utilities preparer forum, standard setters, a utilities regulator and a jointly hosted “closed” EFRAG, EFFAS and IASB user webinar involving specialist users:

Events and organisations	Country	Date
Open outreach event with OIC and IASB	Italy	6 May 2021
Closed outreach event with ASCG	Germany	2 June 2021
Closed meetings with IEAF and IASB	France	8 and 23 June 2021
Closed outreach event with DASB	The Netherlands	24 June 2021
Closed meeting with NASB	Norway	1 July 2021
Closed user outreach with EFFAS ABAF/BVFA and IASB	Europe	12 July 2021

EFRAG also organised the following events that focused on the scope definition in the ED:

Events and organisations	Country	Date
Amsterdam Airport Schiphol - Airport	The Netherlands	30 June 2021
Closed consultation with EFRAG Financial Instruments Working Group	Europe	1 July 2021

Closed consultation with EFRAG Insurance Accounting Working Group	Europe	8 July 2021
National Railways NS	The Netherlands	20 July 2021
KNP – Telecommunications	The Netherlands	21 July 2021

Early-stage effects analysis

EFRAG also published surveys for preparers and users of financial statements to conduct an early-stage effects analysis of the IASB proposals. EFRAG published pre-ED surveys and also post-ED surveys. The numbers of respondents to the two surveys were as follows:

	Users	Preparers
Pre-ED survey	8	15
Post-ED survey	7	8

The pre-ED and post-ED preparer and user surveys conducted for the effects analysis focused on the following aspects:

- Clarity on the scope of the proposed Standard for preparers;
- Effects of CWIP (construction work in progress) regulatory returns as part of the total allowed compensation from a preparer and user perspective;
- Effects of the discounting proposals for preparers and users;
- Clarity on interaction with IFRIC 12 Service Concession Arrangements for preparers;
- Effects of disclosure and presentation for users;

- Transition requirements for preparers; and
- Implementation costs for preparers and cost-benefit analysis from a preparer perspective.

EFRAG issued a summary report on the findings of the effects analysis that is accessible under the following [link](#).

Comments received from respondents

In addition to outreach activities and surveys, EFRAG received and considered 12 comment letters from respondents. These comment letters are available on the EFRAG [website](#). A list of respondents is provided in Appendix 1.

The comment letters received came from national standard setters, business associations, professional organisations, users’ representatives and listed companies.

EFRAG’s final comment letter

EFRAG issued its [final comment letter](#) (‘the FCL’) on 9 September 2021.

Compared to the DCL, EFRAG developed or modified some of its views. Furthermore, to order to address the concerns on several key aspects of the ED, EFRAG recommends the **formation of a transition resource group** to help with the implementation of the proposed Standard.

The main changes to EFRAG’s preliminary views (in its DCL) are summarised below.

- **Objective** – EFRAG continued to support the overall objective to develop an accounting model for regulatory assets and regulatory liabilities. However, based on the feedback received from stakeholders, EFRAG noted several additional concerns with the

proposals which EFRAG recommended the IASB consider before finalising the proposed Standard.

- **Scope** – At the time when EFRAG published its DCL, EFRAG was in the process of better understanding the scope implications and the type of entities and regulatory regimes covered by the scope. Based on feedback received, EFRAG noted that there are several aspects where there is a need for further clarification on entities’ scope eligibility, including:
 - types of regulation where regulated rates are based on sector averages instead of an entity’s own costs;
 - specific scope exclusions (e.g., for self-regulation);
 - definition of ‘customers’ as the notion of customers (i.e., groups of customers); and
 - whether the existence of a regulator is required and better defining the characteristics of a regulator.
- **Definitions of regulatory assets and regulatory liabilities** – Similar to EFRAG’s preliminary view in its DCL, EFRAG generally supported the proposed definitions of regulatory assets and regulatory liabilities. However, EFRAG noted there are circumstances where the recognised regulatory assets and regulatory liabilities would not meet the definitions provided in the ED and instances when applying the definitions do not reflect the economic substance of the regulatory agreement.
- **Total allowed compensation** - In its FCL, based on feedback received EFRAG disagreed with the requirement for the deferral of regulatory returns on CWIP charged to customers during construction (paragraph B15 of the ED). In its preliminary views, EFRAG had not reached a conclusive view on the treatment of regulatory returns on CWIP.

Furthermore, several stakeholders informed EFRAG of situations where the proposed requirements on total allowed compensation under paragraphs B3-B9 related to allowable expenses will not reflect the economic substance of the regulatory agreement (e.g., recoverable costs are based on regulatory accounting and not IFRS expenses). EFRAG therefore recommends that the IASB further analyses whether the requirements of paragraphs B3-B9 can be applied across diverse regulatory regimes.

- **Recognition and measurement** – In line with its preliminary views, EFRAG agreed that an entity should recognise all its regulatory assets and regulatory liabilities and generally supported the proposed recognition criteria. However, in its FCL EFRAG explained that some of EFRAG’s stakeholders have noted concerns with high levels of uncertainty and recommended that the IASB considers a higher recognition threshold for cases of high existence uncertainty, similar to that in IFRS 15 (constraining estimates of variable consideration). Regarding measurement, similar to its preliminary views, EFRAG supported the proposed cash-flow measurement technique. However, based on feedback received, EFRAG disagrees with:
 - The proposed new concept of a minimum adequate rate as the discount rate for regulatory assets, when the regulatory interest rate provided is insufficient. Should the IASB decide to maintain this concept, EFRAG recommends that the IASB develop a rebuttable presumption. In its preliminary views, EFRAG had not reached a conclusive view on discounting.
 - Having different discounting approaches for regulatory assets and regulatory liabilities.
- **Presentation and Disclosure** – Like in its preliminary views, EFRAG agrees an entity should present all regulatory income minus all regulatory expense as a separate line item immediately

below revenue and to include regulatory interest income and regulatory interest expense within this line item.

EFRAG also generally agrees with the proposed overall disclosure objectives. However, several preparer stakeholders of possible operational difficulties to implement the detailed disclosure requirements and questioned whether users need such level of information. EFRAG therefore recommends the IASB to focus more on the usefulness of information provided and adopt a more balanced disclosure approach by considering a prioritisation based on cost-benefit considerations and undertaking further outreach to users.

- **Transition and effective date** – Based on feedback received, noting several operational difficulties, EFRAG no longer supported a retrospective approach. Instead, EFRAG recommends a modified retrospective application with exemptions or practical expedients for assets with long useful lives and where backdated CWIP regulatory returns will need to be deferred (should the IASB decide to retain this proposal).

EFRAG also recommends that the effective date should be 24-36 months after the publication of the final standard to allow effective implementation.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 1 —Objective and scope

Proposals in the ED

The overall objective of the ED is for an entity to provide relevant information that faithfully represents how regulatory income and regulatory expense affect the entity’s financial performance, and how regulatory assets and regulatory liabilities affect its financial position. The proposed model would supplement the information an entity already provides by applying IFRS Standards, including IFRS 15.

The ED proposes that an entity apply the proposed requirements to all its regulatory assets and all its regulatory liabilities which are created by a regulatory agreement that determines the regulated rate in such a way that the part (some or all) of total allowed compensation for goods or services supplied in one period is charged to customers in a different period.

EFRAG’s tentative position

EFRAG supported the IASB’s overall objective to develop an accounting model for regulatory assets and regulatory liabilities. EFRAG agreed that the information provided by the proposed accounting model, together with information required by other IFRS Standards, would enable users of financial statements to understand how the financial performance and the financial position of a reporting entity was affected by its rate-regulated activities.

While understanding the merits of a principles-based definition of the scope of the proposed Standard that did not define the regulator, and acknowledging there was clarity on the scope of the model within the utilities sector, EFRAG was still assessing possible unintended consequences including on the possible impact of the scope outside the

EFRAG’s response to respondents’ comments

EFRAG final position

Based on the feedback received, EFRAG decided to retain its initial position and to add the suggestions made by constituents in order to enhance clarity on scope definition and ensure appropriateness of ED’s proposals.

Summary of how EFRAG considered the views of constituents in arriving at this final position

EFRAG agreed with the objective of the proposed Standard to provide relevant information to users of financial statements that faithfully represents how an entity’s financial performance and financial position are affected by rate regulation.

EFRAG recommended that the IASB explicitly state that regulatory assets and regulatory liabilities reflect future adjustments to the revenue amounts reported under IFRS 15. This requirement would help resolve any interaction concerns between the model and existing IFRS Standards.

EFRAG considers that it will be helpful to set specific scope exclusions (e.g., for self-regulation) and to provide a definition of ‘customers’ as the concept of ‘customers’ in the ED is different from the definition of a customer in IFRS 15.

EFRAG considered that more specific guidance and examples on what constitutes a regulatory agreement would be helpful to appropriately identify activities within the scope of the proposed Standard.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

utilities sector. EFRAG considered that more specific guidance and examples on what constitutes a regulatory agreement and a description of the characteristics of a regulator would be helpful to appropriately identify activities within the scope of the proposed model.

Respondents’ comments

In general, most constituents were supportive of the objective and scope of the proposed Standard. However, the following suggestions were made to ensure appropriateness of scope and enhance clarity on its definition:

- to consider alignment between the total allowed compensation model in the ED and regulatory regimes;
- to further clarify the definition of a regulatory agreement giving rise to regulatory assets and regulatory liabilities;
- to clarify activities that were not in scope (set specific scope exclusions for example insurance contracts);
- to introduce a definition of a ‘regulator’ to prevent self-regulation from falling within scope;
- to provide guidance on the use of the term ‘customers’ in the ED because the concept of ‘customers’ with a focus on a group in the ED was different from the definition of a customer in IFRS 15;
- not to consider scoping criteria in addition to the features listed in paragraph 6 of the ED;
- to clarify whether compensation from a third party was in the scope of the proposed Standard;
- to clarify that self-regulation was not in scope of the ED;

EFRAG’s response to respondents’ comments

EFRAG encouraged the IASB to be explicit about whether the existence of a regulator was required to assess whether rights and obligations created by the regulatory agreement met the definitions of regulatory assets and regulatory liabilities. Furthermore, EFRAG suggested that consideration could be given to the following characteristics of a regulator: an independent third-party that was empowered by statute or contract, in presence of a legal framework that empowered the counterparty that regulated the rates.

EFRAG suggested the IASB to clarify that allowable income under the regulatory agreement based on sector/industry average costs rather than on an entity’s individual costs was in the scope of the proposed Standard. This would alleviate concerns expressed by some European utility entities whether they were in scope of the ED.

EFRAG also suggested the IASB to specify that there were two types of uncertainties in the proposed model for regulatory assets and regulatory liabilities:

- uncertainty related to enforceability which should be addressed in scoping the project – in order to resolve this uncertainty EFRAG recommended the IASB to develop additional application guidance on assessing the enforceability of rights and obligations created by the regulatory agreement; and
- uncertainty related to measurement of regulatory assets and regulatory liabilities – which should be addressed in the measurement section of the proposed Standard.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

- to develop additional application guidance on assessing the enforceability of rights and obligations created by the regulatory agreement;
- to explicitly state that regulatory assets and regulatory liabilities existed only if they reflected future adjustments to the revenue amounts reported by applying the IFRS 15 requirements; and
- to clarify whether the existence of a regulator was required to assess whether regulatory assets and obligations exist.

EFRAG’s response to respondents’ comments

EFRAG observed that clarifying that compensation from a third party was in the scope of the proposed Standard (as long as it was compensated through the regulated rate charged to customers) would clarify what types of activities would be in scope and/or whether regulatory assets and regulatory liabilities would need to be recognised.

Finally, EFRAG noted that providing structured examples that reflected the complexities of regulatory regimes existing in practice would help entities apply the proposed requirements.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 2 — Regulatory assets and regulatory liabilities

Proposals in the ED

The ED defines a regulatory asset as:

‘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.’

The ED defines a regulatory liability as:

‘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 recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future.’

The ED provides several examples that illustrate circumstances where different types of regulatory assets and regulatory liabilities might arise.

EFRAG’s tentative position

EFRAG supported the proposed definitions of regulatory assets and regulatory liabilities and agreed that they meet the definitions of assets and liabilities under the *Conceptual Framework*.

EFRAG agreed that the accounting model should focus on total allowed compensation.

EFRAG also agreed with the IASB’s reasoning that an entity should account for regulatory assets and regulatory liabilities separately from the rest of rights and obligations arising from the regulatory agreement. Other

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback received, EFRAG maintained its initial position to support the proposed definitions of regulatory assets and regulatory liabilities.

Summary of how EFRAG considered the views of respondents in arriving at this final position

Based on the feedback received, EFRAG encourages the IASB to further examine rate-regulation in jurisdictions where the regulated rates are not determined based on the entity’s individual cost base, but on the average cost base of the sector and entities have limited insight regarding the amounts they will be entitled to recover (obliged to settled) in future periods.

EFRAG noted that it was not clear whether this sector-average type of rate-regulation gives rise to enforceable rights and enforceable obligations that meet the definitions of regulatory assets and regulatory liabilities. EFRAG noted that this type of rate-regulation is present in a few European countries and aims at creating greater efficiency among utility service providers.

Furthermore, EFRAG added the following additional issues to its FCL:

- There are circumstances where the recognised regulatory assets and regulatory liabilities would not meet the definitions provided in the ED. For example, when regulatory liabilities

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

assets and liabilities, if any, that arise from the regulatory agreement would be recognised under existing IFRS Standards.

Respondents’ comments

Input received through outreach

The feedback from outreach events showed that most respondents generally agreed with EFRAG’s tentative position.

However, feedback from some jurisdictions observed that the enforceability of the rights and obligations created by the regulatory agreement was questioned because of **measurement uncertainty**.

In the jurisdictions where the tariffs are based on benchmark/sector averages rather than on an entity’s costs, there was significant uncertainty about the amounts to be recovered (settled) by the respective entity. The tariffs were based on the performance of the sector as a whole and determined after the publication of the financial statements of the entity.

Furthermore, some constituents noted that the level of certainty when estimating the future cash flows depended on the strength and maturity of the prevailing regulatory framework.

Input received through effects analysis

The surveys for both preparers and users did not address this topic.

Input received through comment letters

Most respondents, generally agreed with the proposed definitions and that the definitions refer to total allowed compensation. Most respondents also agreed that regulatory assets and regulatory liabilities should be accounted for separately from the rest of the regulatory agreement.

However, some respondents noted the following:

- Disagreed with the definitions of regulatory assets and regulatory liabilities because in their jurisdiction, for certain regulated entities, the total allowable compensation is determined based on the average cost

EFRAG’s response to respondents’ comments

are recognised during the construction of an asset that is not yet in use (see response to Question 3(b)).

- There are instances when the proposed requirements do not reflect the economic substance of the regulatory agreement. For example, when the assets useful life differs from the recovery period under the regulatory agreement.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

base of the sector (not on the entity’s own cost base), creating a high level of uncertainty of the amounts involved. For this reason, these respondents considered that the recognition of regulatory assets and regulatory liabilities would not provide useful information to users of financial statements.

- It was unclear whether such cases would fall within the proposed definition of total allowed compensation and what part of the average cost should be cost compensation (allowable expenses) versus performance incentive.
- Disagreed that a regulatory liability for regulatory returns on assets not yet in use meets the definition of a regulatory liability and the definition of a liability under the *Conceptual Framework*.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 3 —Total allowed compensation

Proposals in the ED

Total allowed compensation (TAC) is 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. TAC consists of the following components as described in paragraphs B3-B27:

Allowable expenses less income - Such amounts are recognised when expenses/ income are incurred/ recognised under IFRS requirements.

Profit margins as part to target profit - Profit margin affects the profit or loss in the period when the entity recognises the underlying allowable expense as an expense by applying IFRS Standards.

Performance incentives as part of target profit - Performance incentives are recognised in profit or loss during the period in which the entities’ performance occurs.

Regulatory returns on a regulatory asset base as part of target profit - Regulatory returns are recognised in profit or loss when the regulatory agreement entitles the entity to add it in determining the regulatory rate. But regulatory returns for CWIP are only included in profit or loss when the asset is in use.

Regulatory interest income/(expense) - As the discount unwinds until recovery of the regulated asset or the fulfilment of the regulatory liability.

EFRAG’s tentative position

EFRAG supported the proposed inclusion of the three components of target profit in the TAC, in the period when the regulatory agreement

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback received, EFRAG disagreed with the proposed requirement for the deferral of CWIP regulatory returns charged to customers during construction (Paragraph B15 of ED). EFRAG highlighted concerns - that were not in the DCL - on the applicability of paragraph B3-B9 requirements (allowable expense requirements) and recommended that the IASB further reviews the B3-B9 requirements.

Summary of how EFRAG considered the views of respondents in arriving at this final position

In its FCL, EFRAG broadly supports the elements of the TAC and suggested the definition of target profit in Appendix A (Defined Terms) should be consistent with paragraph 11 of the ED.

Based on overall feedback received, EFRAG disagreed with the proposed requirement for the deferral of CWIP regulatory returns charged to customers during construction (paragraph B15 of ED). EFRAG’s disagreement was based on conceptual reasons, information usefulness, and operational and cost-benefit considerations. EFRAG considered there are situations where recognising regulatory returns for CWIP during construction would be the most faithful representation of the economics of the transaction (e.g. when the return is an investment subsidy or compensation for developing infrastructure). The proposal to defer recognition of regulatory returns were not appropriate for the diverse regulatory regimes across jurisdictions. EFRAG recommended that the accounting for CWIP regulatory returns

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

entitles an entity to add these components in determining a regulated rate for goods or services supplied in that period. However, EFRAG did not have a conclusive position and expressed two views (in favour and against) on the IASB proposal that the regulatory returns for CWIP, where the regulatory agreement allows regulatory returns to be charged to customers during construction, are only included in profit or loss when the asset is in use (paragraph B15 of the ED).

EFRAG supported the ED’s proposal that performance incentives form part of TAC for goods or services supplied in the period(s) over which the performance criteria are monitored and evaluated and suggested only improvements on the wording of the definition. EFRAG supported the overall proposed guidance in paragraphs B3–B27 of the ED, outlining the components of TAC (recovery of allowable expenses, three components of target profit, and regulatory interest rate/expense for the unwind of the time lag effect).

Respondents’ comments

Input received through outreach

Constituents welcomed the approach taken and the components included in TAC. Nevertheless, it was also stated that the definition of TAC might create uncertainties and differences in timing might be subject to interpretations. Moreover, the proposed approach for deferral of regulatory returns on CWIP was questioned by various constituents for widespread reasons (see below).

Conceptual considerations

Constituents argued that the construction may provide compensation for other performance obligations that may not be directly related to supplying goods and services to customers. Constituents also argued that a regulatory liability due to the proposed requirements for regulatory returns

EFRAG’s response to respondents’ comments

should depend on the economic substance of the regulatory agreement.

EFRAG supported the proposal that performance incentives form part of the TAC for goods or services supplied in the period(s) over which the performance criteria are monitored and evaluated. However, EFRAG suggested an improvement in the wording related to defining the performance incentives period for construction-related performance incentives as ‘the period to evaluate the performance of construction’.

EFRAG was also concerned about situations where recognised regulatory assets and regulatory liabilities would be inconsistent with the IASB definitions of these terms (e.g., where regulatory recovery period differs from the economic useful life of an asset or where CWIP regulatory returns result in a regulatory liability). Therefore, EFRAG highlighted concerns on the applicability of paragraph B3-B9 requirements for allowable expense across diverse regulatory regimes. EFRAG recommended that the IASB further reviews the B3-B9 requirements and clarifies the applicability of these requirements for the jurisdictions where recoverable costs are based on sector averages or on the regulatory agreement costs (and not on IFRS expenses).

EFRAG raised also other points of clarification on the TAC components (e.g., whether inflation-adjusted assets are part of regulatory returns, whether average costs should be considered as part of the performance incentives component of the total allowed compensation).

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

on CWIP would not fulfil the definition provided in the ED, as in some jurisdictions, there is no legal or economic obligation to reduce future tariffs charged to customers if the CWIP is not completed.

Usefulness of information

Constituents stated that the proposed guidance would lead to a deferral of a significant portion of regulatory return into the future and negatively impact financial statement user analysis, which could prevent companies from obtaining financing. Other constituents stated from a user perspective that the objective of comparability should not take precedence over the relevance of information.

Operational considerations

Some constituents addressed operational concerns that the proposed guidance would be accompanied by high implementation and operational costs as regulatory returns would have to be allocated to single assets (under construction) whereas in practice the allocation would be based on the group of assets (portfolio level) as a whole. A few constituents noted that in the light of retrospective application the proposed guidance would be even more burdensome.

Input received through effects analysis

Some preparers indicated that they are not obliged to refund the regulatory returns granted and charged to customers during construction indicating that the CWIP regulatory returns are compensation for a fulfilled performance obligation. Many respondents indicated they foresee implementation challenges as a result of the ED’s CWIP proposals. Many users indicated that they would need to make analytical adjustments if the ED’s CWIP proposals were adopted. They considered that the ED’s CWIP

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

proposals would lead to an understatement of profitability during the construction phase.

Input received through comment letters

Similar to the outreach feedback, and for similar reasons, many respondents opposed the IASB’s proposed approach to defer regulatory returns on CWIP to when the asset is in use. Some respondents questioned how to treat certain components from the regulatory agreement under TAC (like sector average cost or inflation adjustments). Some respondents opposed the IASB’s proposals in paragraph B3-B9 of the ED especially with emphasis that costs were included in TAC in the period when entities would incur expense under IFRS, which would not be aligned with their local regulatory agreements.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 4 — Recognition

Proposals in the ED

The ED proposes an entity recognises all its regulatory assets and regulatory liabilities.

If it is uncertain whether a regulatory asset or regulatory liability exists, an entity should recognise that regulatory asset or regulatory liability if it is “more likely than not” that it exists (recognition threshold). It could be certain that a regulatory asset or regulatory liability exists even if it is uncertain whether that asset or liability will ultimately generate any inflows or outflows of cash. Uncertainty of outcome would be addressed in measurement (Question 5).

Paragraph 26 of the ED lists a number of factors that could help to determine existence including – confirmation from the regulator, explicit requirements or guidelines in the regulatory agreement, evidence from regulatory decisions and court rulings, and other relevant experiences and decisions that could provide evidence that regulatory assets and regulatory exist.

The ED does not include specific derecognition criteria.

EFRAG’s tentative position

EFRAG agreed with the proposal that an entity should recognise all its regulatory assets and regulatory liabilities and with the proposed “more likely than not” recognition threshold.

However, EFRAG considered that it necessary for paragraph 25 of the ED to explain at which point an entity would initially recognise a regulatory asset and a regulatory liability. Furthermore, EFRAG considered it would be useful for the IASB to provide application guidance on how to

EFRAG’s response to respondents’ comments

EFRAG final position

EFRAG continued to generally agree that an entity should recognise all its regulatory assets and regulatory liabilities. However, as explained below EFRAG highlighted the concerns expressed by some stakeholders that recognition of regulatory assets and regulatory liabilities in situations of high uncertainty would not provide useful information to users of financial statements.

EFRAG also maintained its preliminary views on further guidance regarding the application of paragraphs 25 and 27 of the ED and on how an entity would account for derecognition of regulatory assets and regulatory liabilities.

EFRAG continued to generally agree with the proposed “more likely than not” recognition threshold. However, EFRAG observed that some of its stakeholders did not agree and suggested a higher recognition threshold for cases of high existence and measurement uncertainty, similar to that in IFRS 15 (constraining estimates of variable consideration).

Summary of how EFRAG considered the views of respondents in arriving at its final position

General recognition principles

Like EFRAG’s preliminary view, the feedback received showed that most respondents agreed with the IASB conclusion that all regulatory assets and regulatory liabilities should be recognised.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

implement the various circumstances outlined in paragraph 27 of the ED about how an entity would determine whether a regulatory asset and a regulatory liability exists.

Finally, EFRAG recommended that the IASB provide further guidance in the body of the future Standard regarding derecognition of regulatory assets and regulatory liabilities when regulatory assets and regulatory liabilities no longer qualify for recognition under the proposed Standard including guidance for when items transition from recognition under the proposed Standard to recognition under other IFRS Standards.

Respondents’ comments

Input received through outreach

Some outreach participants expressed concerns around the enforceability of the rights and obligations in the regulatory agreement applicable to their jurisdiction, noting that further guidance was needed on the interaction between the enforceability of a regulatory agreement and the factors to assess the existence of regulatory assets and regulatory liabilities listed in paragraph 27 of the ED.

These participants considered that in cases when the regulated rate is determined based on industry average costs, and approved and communicated by the regulator to the entity at a later stage, regulatory assets and regulatory liabilities may not qualify for recognition (this concern was also explained in the feedback received to Question 2). These respondents suggested that a ‘reliability’ criterion be introduced in the recognition requirements.

Input received through effects analysis

The surveys for both preparers and users did not address this topic.

EFRAG’s response to respondents’ comments

However, based on feedback received, EFRAG highlighted in its FCL some of EFRAG’s constituents have reported that recognising regulatory assets and regulatory liabilities in some situations would not provide useful information to users of financial statements. These situations can arise when:

- an entity recognises a regulatory liability in order to defer regulatory returns on assets not yet in use; and
- as noted in response to Questions 1, 2 and 3, in jurisdictions where the regulated rates and recoverable expenses under the regulatory agreement are based on sectoral average costs, rather than an entity’s own costs, resulting in high levels of uncertainty regarding the amounts the entity was entitled to recover (settle).

Recognition threshold

Most respondents supported the “more likely than not” recognition threshold. On this basis, EFRAG’s final position supported the IASB’s proposals.

However, based on feedback received, EFRAG acknowledged that some stakeholders considered the level of uncertainty affecting recognition (and measurement) to be significant in some cases. In its FCL, EFRAG noted that these stakeholders:

- Did not agree that the proposed recognition threshold is appropriate in all cases, given that the levels of existence and measurement uncertainty depend on the type of rate-regulation in place, which differs across jurisdictions in Europe and outside of Europe.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Input received through comment letters

Similar to feedback from the outreach, some respondents noted situations where there is uncertainty arising from the type of rate regulation/regulatory agreement applicable to their jurisdiction. This was mainly because of legal requirements are not sufficiently clear; regulatory environments where entities do not have sufficient insight into the regulated rates as these are calculated based on sector averages/sector benchmarking rather than on the entities own costs (see Question 2) and in rare cases where high demand risk affects cash flows and the level of existence uncertainty.

These respondents did not agree that a ‘more likely than not’ recognition threshold is appropriate in cases of high uncertainty and recommended a higher recognition threshold for regulatory assets:

- Consider the “highly probable” threshold in IFRS 15 that constrains the estimates (amounts recognised) for variable consideration. Under IFRS 15 (paragraph 56), variable consideration should only be included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- Consider incorporating a measurement uncertainty threshold in the recognition criteria of regulatory assets and regulatory liabilities i.e. they would not be recognised to the extent they would not be reliably measured.

EFRAG’s response to respondents’ comments

- Recommended that the IASB consider a higher recognition threshold for regulatory assets in cases of high existence and measurement uncertainty, similar to that in IFRS 15 (constraining estimates of variable consideration) or a threshold that incorporates a measurement uncertainty threshold in the recognition criteria of regulatory assets and regulatory liabilities, i.e., they would not be recognised to the extent they would not be reliably measured.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 5 — Measurement

Proposals in the ED

The ED proposes that entities should measure regulatory assets and regulatory liabilities at historical cost, modified for subsequent measurement by using updated estimates of the amount and timing of future cash flows. As discussed in Question 6 on discounting, estimated cash flows should be discounted to their present value.

The ED informs that the boundary of a regulatory agreement determines which estimated future cash flows an entity includes in measuring a regulatory asset or regulatory liability. The boundary of a regulatory agreement is the latest future date at which an entity has:

- an enforceable present right to recover a regulatory asset by increasing the regulated rate to be charged to customers; or
- an enforceable present obligation to fulfil a regulatory liability by decreasing the regulated rate to be charged to customers.

EFRAG’s tentative position

EFRAG supported the proposed cash-flow measurement technique.

EFRAG also agreed that an entity needs to consider all sources of uncertainty affecting the cash flow, including the credit risk that it bears when estimating the future cash flows arising from a regulatory asset. However, EFRAG recommended the IASB to provide guidance on how estimates of credit risk should be allocated to its individual regulatory assets.

EFRAG considered the requirements and guidance in the ED on the boundary of the regulatory agreement to be confusing and could be mixing

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback received, EFRAG mainly maintained its DCL position and decided to add in the FCL, the recommendation that the IASB considers consistency in the respective treatment of credit risk in the estimated cash flows and the regulatory discount rate.

Summary of how EFRAG TEG considered the views of respondents in arriving at this final position

The feedback received was consistent with EFRAG’s DCL response on most issues.

EFRAG observed that the concern about reliable measurement in cases when rates are based on sector averages is already described in EFRAG’s answer to Questions 2 and 3. Therefore EFRAG decided not to repeat this concern in the response to this question.

EFRAG discussed the question of some respondents about whether credit risk could be included in both the regulatory interest rate and the estimated cash-flows and result in double-counting the credit risk. EFRAG acknowledged that this situation already exists in other IFRS Standards, such as IAS 36 and IAS 37. Hence, EFRAG decided to add to its initial response, the recommendation that the IASB considers consistency in the respective treatment of credit risk in the estimated cash flows and the regulatory discount rate.

EFRAG acknowledged the concern reported by one respondent that regulatory assets and liabilities and their related cash flows should be included in the IAS 36 impairment test on CGU-level. In the view of this respondent, this would help to address the

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

up the entity’s licence to operate with the enforceable rights and enforceable obligations arising from the regulatory agreement. In EFRAG’s view, the boundary of the regulatory agreement should be determined based on an entity’s enforceable rights and enforceable obligations under the regulatory agreement rather than being an accounting judgement. EFRAG also recommended that the guidance on the regulatory boundary should be included in the recognition part of the ED, and not in measurement.

EFRAG supported the proposal to require an entity to estimate future cash flows arising from each regulatory asset and regulatory liability recognised, using either the most likely amount or the expected value method, depending on which approach provides more relevant information.

Respondents’ comments

Input received through outreach

Participants generally agreed with EFRAG’s preliminary views expressed in its DCL.

Some participants highlighted the concerns with determining the regulatory boundary in practice. In some situations, the regulation was based on overarching legislation, without any guidance about renewal or cancellation. The rate was set by the regulator for a long-term period and revised regularly within shorter timeframes. More guidance on the concept of the boundary of the regulatory agreement was needed in situations where there was no ‘formal’ limit for the regulation to be applicable. The question was whether the regulatory boundary was the longer period or the shorter timeframe which was used mainly to revise the rates.

One participant observed that it may sometimes be challenging to reliably estimate the future cashflows of a regulatory asset or regulatory liability,

EFRAG’s response to respondents’ comments

concern around uncertainty in the measurement of regulatory assets as it would serve as a double-check of the amounts recognised for regulatory assets. EFRAG therefore decided, in its response to Question 11 on the interaction with other IFRS Standards, to recommend the IASB to consider the interaction with IAS 36 when a CGU included regulatory assets.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

either using “the expected value method” or “the most likely amount method”. For example, in the railway sector, the entity that manages the railway infrastructure does not know, at initial recognition, which companies will use a railway in the future.

Input received through effects analysis

The surveys for both preparers and users did not address this topic.

Input received through comment letters

Most participants agreed with EFRAG’s preliminary position in its DCL. However, some respondents expressed concerns with the proposed measurement basis when regulated rates are based on sector averages instead of an entity’s own costs. This concern was previously expressed by the same respondents in their comments to Questions 2 and 4.

Some respondents recommended the IASB to consider consistency in the respective treatment of credit risk in the estimated cash flows and the regulatory discount rate.

One respondent considered that regulatory assets and liabilities and their related cash flows should be included in the IAS 36 impairment tests on CGU-level. This respondent considered that this is the most practical way to perform a robust IAS 36 impairment test. Additionally, this provides additional safeguards that the IAS 36 impairment test is performed consistently and that on an overall CGU-level the total net amount of assets (including regulatory assets and liabilities) is recoverable.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 6 — Discount rate

Proposals in the ED

The ED proposes that an entity discount the estimated future cash flows to their present value in measuring regulatory assets and regulatory liabilities. Except in specified circumstances (see paragraph below), the discount rate would be the regulatory interest rate that the regulatory agreement provides.

The IASB concluded that a practical expedient exempting entities from discounting if the discounting effects are not significant could introduce unnecessary complexity that may outweigh any incremental benefit. This is because in effect, an entity would be required to still assess whether the time value of money and uncertainty inherent in the cash flows are significant.

The ED proposes that when the regulatory interest rate provided for a regulatory asset is insufficient, an entity would be required to estimate the minimum interest rate and use this rate to discount the estimated future cash flows. The ED does not propose a similar requirement for regulatory liabilities. Regulatory liabilities are discounted using the regulatory interest rate in all circumstances.

The ED proposes an entity to translate uneven regulatory interest rates into a single rate, at initial recognition, and use that rate throughout the life of the regulatory asset or regulatory liability. Paragraph 54 adds that in determining that single rate, an entity shall not consider possible future changes in the regulatory interest rate.)

EFRAG’s response to respondents’ comments

EFRAG final position

EFRAG maintained its preliminary position recommending to the IASB to consider introducing a practical expedient, like in IFRS 15, to exempt entities from discounting if the effects of discounting are not significant.

EFRAG also maintained its preliminary position to recommend to the IASB to amend the definition of interest rate so that it reflects what is commonly applied in regulatory regimes (which can include also business risks and not only time value as suggested in the proposed definition).

Based on the feedback received, EFRAG decided to **support applying the regulatory interest rate to regulatory assets and regulatory liabilities in all cases**. EFRAG therefore decided not to support the IASB proposal to determine a minimum interest rate for regulatory assets (when the regulatory interest rate is insufficient).

Summary of how EFRAG TEG considered the views of respondents in arriving at this final position.

In its DCL, EFRAG had not expressed a view on how an entity should discount the estimated future cash flows to their present value in measuring regulatory assets and regulatory liabilities.

In its final position, and in line with the majority view of respondents, EFRAG agreed with applying the regulatory interest rate to discount regulatory assets and regulatory liabilities. Also in line with the majority view, EFRAG disagreed with the proposal for different discounting approaches for regulatory assets (i.e.,

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s tentative position

EFRAG supported the proposal to require an entity to discount the estimated future cash flows to their present value in measuring regulatory assets and regulatory liabilities.

However, like in IFRS 15, EFRAG recommended that the IASB consider introducing a practical expedient to exempt entities from discounting if the effects of discounting are not significant.

EFRAG did not reach a conclusive view on the use of a minimum interest rate for regulatory assets. EFRAG considered that the IASB should better clarify the purpose of discounting sought constituents’ feedback on how regulatory assets and regulatory liabilities should be discounted before concluding on its position in the final comment letter to the IASB. EFRAG considered two possible views:

- View 1: Use the regulatory interest rate for regulatory assets and regulatory liabilities, as this rate is negotiated with the regulator and considered objective by users.
- View 2: Use the general discounting principles in IFRS Standards for discounting regulatory assets and regulatory liabilities because the objective of discounting is to appropriately reflect the effects of the time value of money. The regulatory interest rate might have a different objective. EFRAG considered that when the regulatory interest rate differs from the market rate, an entity could apply the requirements in IFRS 15 and use the prevailing interest rates in the relevant market.

EFRAG agreed with the proposal that an entity should translate those rates into a single discount rate for use throughout the life of the regulatory asset or regulatory liability, in cases where the discount rates are uneven.

EFRAG’s response to respondents’ comments

higher of minimum rate or regulatory interest rate) and regulatory liabilities (i.e., regulatory interest rate).

EFRAG acknowledged that most respondents did not identify situations in which it would be appropriate to use a discount rate that is not the regulatory interest rate.

Based on feedback received, EFRAG agreed to include in its FCL the recommendation that should the IASB decide to retain the concept of a minimum interest rate (which might arise in rare cases), the IASB should redraft the requirements **as a rebuttable presumption**. In this case, an entity would apply the regulatory interest rate for both regulatory assets and regulatory liabilities unless there is evidence that the regulatory interest rate does meet the objective described in paragraph 1 of the ED.

EFRAG maintained its position from the draft comment letter and agreed with the proposal that an entity should translate uneven regulatory rates into a single discount rate for use throughout the life of the regulatory asset or regulatory liability.

However, based on feedback received, EFRAG recommended the IASB to clarify that Example 5 illustrates only one of the possible ways to comply with the requirements when determining an even rate.

Furthermore, EFRAG recommended that the IASB provide additional illustrative examples, or application guidance, to cover more complex scenarios of determining a single interest rate when rates are uneven.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Finally, EFRAG recommended the IASB to amend the definition of interest rate so that it reflects what is commonly applied in regulatory regimes (which can also include business risks and not only time value as suggested in the proposed definition).

Respondents’ comments

Input received through outreach

Most participants, including users, supported applying the regulatory interest rate (View 1 in EFRAG’s DCL).

Some participants expressed concerns with discounting of regulatory assets and regulatory liabilities especially when the effects of discounting were insignificant. Like EFRAG in its DCL, they recommended that the IASB consider introducing a practical expedient to exempt entities from discounting if the effects of discounting are not significant.

Input received through effects analysis

The majority of preparers that answered this question said that the regulatory interest rate compensates for the time value of money and other factors such as business risks.

Most preparers noted that they expected implementation issues with the proposals for discounting and specifically with estimating the minimum interest rate when insufficient.

In line with EFRAG’s preliminary views, most preparers considered that the IASB should introduce a practical expedient not to discount, if the effects of time and risks were not significant

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s response to respondents’ comments

Input received through comment letters

Most respondents supported applying the regulatory interest rate for regulatory assets and regulatory liabilities (View 1 in EFRAG’s DCL) and did not support applying the minimum rate for regulatory assets if the regulatory rate is insufficient.

Most respondents did not identify situations in which it would be appropriate to use a discount rate that is not the regulatory interest rate. These respondents generally believe that the regulatory discount rate is sufficient to compensate the entity for the time value of money and risks associated with the regulatory assets, and noted:

- The use of the minimum interest rate would not provide useful information to users and would be difficult and costly for preparers to try to assess the minimum rate for regulatory assets.
- Questioned why the IASB was only proposing using a minimum interest rate for regulatory assets and not regulatory liabilities.
- Should the IASB decide to keep the concept of minimum interest rate, EFRAG recommended that the IASB simplifies the application of the minimum interest rate concept in a way that benefits both preparers and users without any material compromise on the usefulness of the information provided in the financial statements. For example, a **rebuttable presumption** that the regulatory interest rate is an appropriate discount rate for both regulatory assets and regulatory liabilities would reduce the burden on preparers of assessing the sufficiency of the discount rate at each reporting period except in rare cases where specific circumstances indicate that this is not appropriate.
- Recommended to the IASB to apply the same criteria for discounting regulatory assets and regulatory liabilities, including the application of

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

a minimum interest rate when applicable. Having symmetrical requirements will add to the usefulness of financial information for users of financial statements.

Only a few respondents gave feedback on uneven interest rates. Of these respondents:

- One respondent disagreed with the proposal on the basis that in some cases it will be challenging to apply and result in significant operational difficulties.
- One respondent agreed with the proposal but noted that the ED’s Illustrative Example 5 could imply that in such cases, an entity shall always use an effective interest rate. The respondent, therefore, recommends clarifying that Example 5 illustrates only one of the possible ways to comply with the proposal in paragraph 54 of ED.
- Another respondent noted cases where the proposals are not clear (when a regulatory liability is fulfilled over a term that is longer than a regulatory capital base considered by a regulatory agreement). To achieve consistent application of the proposals, the respondent recommends the IASB provides an illustrative example, or application guidance, to cover this fact pattern.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 7 — Items affecting regulated rates only when related cash is paid or received

Proposals in the ED

The ED proposes an exception to the general measurement principle when the regulatory assets and liabilities relate to expenses or income that will be included or deducted from future rates when cash is paid or received. The ED proposes to use the same measurement basis that is applied to the related liability or asset. Moreover, the ED proposes that an entity should adjust the measurement of these regulatory assets and liabilities to reflect uncertainties present in them but not present in the related liability or asset.

The ED proposes to present regulatory income and expense in OCI resulting from the remeasurement of regulatory assets or liabilities whenever these arise from the remeasurement of the related asset or liability.

EFRAG’s tentative position

EFRAG agreed with the measurement exception proposals related to items of expense and income that affect regulated rates only when related cash is paid or received, or soon thereafter, instead of when the entity recognises that item as expense or income in its financial statements. EFRAG agreed with the ED’s proposals that when an entity remeasures the regulatory asset or liability, the resulting regulatory income or expense should be presented in OCI when these arise from remeasuring the related liability or asset through OCI. However, EFRAG highlighted that some items presented in OCI will not be recycled to profit or loss.

Respondents’ comments

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback received, EFRAG agreed with the measurement exception and the presentation of regulatory income and expense in OCI, when the related remeasurement of assets and liabilities is presented in OCI.

Summary of how EFRAG considered the views of respondents in arriving at this final position

EFRAG agreed with the proposed measurement exception. EFRAG agreed with the proposals for measuring any resulting regulatory asset or regulatory liability (i.e., using the measurement basis as the related liability or related asset, and adjusting for uncertainty present in it but not for the related liability or related asset).

EFRAG also agreed with the proposals in the ED that when an entity remeasures the regulatory asset or regulatory liability, the resulting regulatory income or regulatory expense should be presented in OCI when these arise from remeasuring the related liability or related asset through OCI.

However, EFRAG highlighted the fact that some items presented in OCI (such as actuarial gains and losses) will not be recycled to profit or loss. As such, their impact on the performance reported in profit or loss would never be depicted. EFRAG recommended that the IASB provides clarifying guidance and a comprehensive example on the presentation in OCI of certain items that affect

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Input received through outreach and effects analysis

The outreach events and effects analysis did not address this topic.

Input received through comment letters

Many respondents agreed with the measurement principles stated in paragraphs 59-66 of the ED that relate to the measurement exception. Nevertheless, some respondents stated that more guidance on the treatment of actuarial remeasurements would be required and few respondents requested clarifications on the wording “soon after” or on the interaction of the proposed guidance with the proposed boundary concept.

EFRAG’s response to respondents’ comments

regulated only when related cash is paid or received (e.g. actuarial gains or losses from pension benefits remeasurements).

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 8 — Presentation in the statement(s) of financial performance

Proposals in the ED

The ED proposes that an entity presents all regulatory income minus regulatory expense as a separate line item immediately below revenue, except when it is included in the other comprehensive income.

The ED also proposes that regulatory income includes regulatory interest income and regulatory expense includes regulatory interest expense. The regulatory interest income and expense should be disclosed in the notes separately from all other components of regulatory income or regulatory expense.

On the statement of financial position the IASB proposes to present:

- line items for regulatory assets and regulatory liabilities; and
- current and non-current regulatory assets, and current and noncurrent regulatory liabilities, as separate classifications, except when the entity presents all assets and liabilities in order of liquidity.

An entity is permitted to offset regulatory assets and regulatory liabilities when it has:

- a legally enforceable right to offset them by including in the same regulated rate; and
- expects to include the amounts from their recovery or fulfilment in the regulated rate in the same future period.

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback received, EFRAG decided to retain the position of its draft comment letter and to include the concern about the significant judgement required to present separately current and non-current regulatory assets and liabilities as required by paragraph 70(b).

Summary of how EFRAG TEG considered the views of respondents in arriving at this final position

Given the feedback received, EFRAG considered that presenting regulatory income and regulatory expenses net as a separate line item below revenue would provide users with sufficient information to distinguish the performance of the current period from the future or prior periods’ impacts due to the specific provisions of the regulatory agreement.

EFRAG also agreed with the IASB proposal to include regulatory interest income and expense in the same line item as regulatory revenue and expense as they will be included in determining future regulated rates charged to the customers. EFRAG considered that it would provide relevant information about the effects on revenue of regulatory assets and regulatory liabilities and changes in them. EFRAG noted that these amounts of regulatory interest income and expense should, nevertheless, be disclosed separately in the notes to financial statements in accordance with paragraph 78(e) of the ED.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s tentative position

In its DCL, EFRAG tentatively agreed with the IASB proposal to present all regulatory income minus all regulatory expense as a separate line item immediately below revenue and to include regulatory interest income and regulatory interest expense within this line item. The proposed presentation is consistent with the objective of reflecting in the statement(s) of financial performance the compensation that the entity is entitled to for a given period regardless of when the related amounts are reflected in the regulated rate(s) charged to customers in that period.

EFRAG also tentatively supported the offsetting of the regulatory assets and liabilities on the statement of financial position and expressed concern that the requirements of paragraph 71(b) of the ED could make offsetting balance sheet positions more complicated.

Respondents’ comments

Input received through outreach, effects analysis and comment letters

Respondents generally agreed with the IASB proposals on the presentation of all regulatory income minus all regulatory expense as a separate line item immediately below revenue. User respondents also supported the presentation of regulatory income/expenses in a separate line and a clear distinction between regulatory assets and regulatory liabilities.

One respondent highlighted that the label of this line item could be confusing as one can consider that all of the income generated through the regulated activities is presented in this line item, while it should only reflect the net effect of the overlay approach in addition to the revenue already reported applying IFRS 15 and recommended the IASB to use an appropriate description to avoid such confusion.

EFRAG’s response to respondents’ comments

EFRAG also noted that regulatory interest income and expenses should meet the definition of the income/expenses from the ‘main business activities’ as defined in the IASB ED ED/2019/7 *General Presentation and Disclosures* and, therefore, reported within the operating category of a profit or loss and not in financing category.

EFRAG considered that the ED defines in paragraphs 16(a) and 16(b) what is meant by regulatory income and regulatory expense and, therefore, did not recommend adding the comment about changing the labelling of the line item ‘regulatory income minus regulatory expense’.

In addition, EFRAG considered that the disclosures required in paragraph 78 of the ED ought to depict the components of this line item. EFRAG noted the strong support from users for the separate presentation (i.e., from effects analysis, user comment letter and user outreach event) and considered that the proposal for an optional separate presentation (with only a separate presentation for entities with high demand risk) would lessen the comparability of information across entities.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

One respondent had mixed views and suggested making the presentation in a separate line item optional, depending on to which extent the entity was subject to a demand risk (risk of customer turnover or churn). The entities with high customer turnover could present regulatory income (expense) as a separate line item; the others – with a stable customer base where the regulatory income is very similar to the revenue recognised under IFRS 15, could present the regulatory income (expense) in the same line item as revenue and to provide additional disclosures in the notes.

Many respondents supported the IASB proposal on the grounds of simplicity and because the pricing of goods and services normally reflects costs of funding and forms an integral part of revenue and, therefore, should not be reported separately as financial income.

One respondent, however, considered that regulatory interest income (expense) should be presented in the financing section of the statement of financial performance, in line with the IASB proposals on general presentation and disclosures.

One respondent disagreed with the IASB proposals in respect of offsetting regulatory assets and liabilities and considered them as being too strict due to the requirement to assess that the amounts offset are expected to be settled in the same period. The respondent suggested the removal of this requirement (paragraph 71(b) of the ED).

Another respondent highlighted the significant judgement required to present separately current and non-current regulatory assets and liabilities as required by paragraph 70(b). The respondent also suggested that the IASB includes in the BC some reasoning for permitting instead of requiring the offsetting of regulatory assets and liabilities (paragraph 71 of the ED).

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 9 — Disclosure

Proposals in the ED

Paragraph 72 of the ED sets out the overall disclosure objective for regulatory income, regulatory expense, regulatory assets and regulatory liabilities to enable users of financial statements to understand:

- the relationship between an entity’s revenue and expenses which provides insights into the entity’s prospects for future cash flows over many periods; and
- the entity’s regulatory assets and regulatory liabilities at the end of the reporting period which provides insights into how regulatory assets and regulatory liabilities affect the amount, timing and uncertainty of the entity’s future cash flows.

Furthermore, paragraphs 77, 80 and 82 of the ED list the specific disclosure objectives to provide a basis for an entity to decide what information should be disclosed to satisfy the overall disclosure objective. In particular, an entity shall provide specific disclosures to enables users of financial statements to understand how regulatory assets and regulatory liabilities affect its:

- financial performance – by providing a breakdown of regulatory income and regulatory expense;
- financial position – by providing a reconciliation between the opening and the closing carrying amounts of regulatory assets and regulatory liabilities; and
- future cash flows – by providing a maturity analysis, analysis of risks and discount rates.

EFRAG’s response to respondents’ comments

EFRAG final position

Based on the feedback received, EFRAG retained its support for the proposed overall and specific disclosure objectives as laid out in the model for regulatory assets and regulatory liabilities. However, EFRAG recommended that the IASB refine the wording within these objectives in a manner that further emphasises a focus on the usefulness of information.

EFRAG also recommended a more balanced disclosure approach by considering a prioritisation based on a cost-benefit consideration and undertaking further outreach with users of financial statements to establish an appropriate level of detail required to fulfil the disclosure objectives.

Furthermore, EFRAG suggested that, in finalising the proposed disclosures, the IASB considered insights obtained from the development of the *Disclosure Initiative* project.

Finally, EFRAG recommended the IASB to clarify the unit of account for disclosure purposes.

Summary of how EFRAG considered the views of constituents in arriving at this final position

Based on the feedback obtained, EFRAG agreed with the IASB’s proposed overall and specific disclosure objectives. EFRAG noted that the focus of the disclosure requirements in the ED was to help entities use judgement to decide what information would be relevant for users of financial statements to understand the economic implication for an entity subject to rate regulation.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s tentative position

EFRAG agreed with the proposed overall disclosure objective and the specific disclosure objectives in the ED. EFRAG was of the view that these disclosure requirements would provide relevant information to users of financial statements.

However, EFRAG considered that the level of detail required to meet the specific disclosure objectives might impose a significant burden on reporting entities to generate the information. Therefore, EFRAG recommended that there would be a need to identify and prioritise from the proposed disclosures, only those that would be ascertained to be beneficial to users of financial statements and would not impose an undue burden for preparers.

Respondents’ comments

Input received through outreach and effects analysis

Users of financial statements supported the proposed disclosure requirements and considered that providing a breakdown of regulatory income and regulatory expense was very important, in particular:

- a breakdown of regulatory interest income on regulatory assets and regulatory liabilities;
- a maturity breakdown of relevant balances;
- reconciliation of regulatory assets and regulatory liabilities in the balance sheet; and
- information about rewards and penalties giving rise to regulatory assets and regulatory liabilities.

Users also considered that some disclosures were more important than others i.e., the reconciliation of regulatory assets/liabilities (paragraph 78

EFRAG’s response to respondents’ comments

EFRAG recommended that the IASB refine the wording within these objectives in a manner that further emphasised a focus on the usefulness of information.

EFRAG acknowledged there was support for the proposed disclosures from users but that there were also a range of concerns from preparers about the burdens of the proposed disclosures with respect to unavailability of underlying quantitative information, lack of IT systems to generate the disclosures, need for reporting of alternative performance measures for CWIP disclosures and concerns associated with interim reporting.

EFRAG considered the suggestion to word the specific disclosure requirements in paragraphs 78, 80, 81 and 83 of the ED as examples of possible disclosures rather than as mandatory provisions. However, this was seen as providing leeway for entities to choose what disclosures they would like to provide as well as result in a lot of consequent discussions with auditors.

EFRAG recommended prioritisation of the proposed disclosure requirements to ensure an undue burden was not imposed on preparers without necessarily providing the intended benefits for users.

EFRAG suggested that the proposed disclosures were more balanced by considering a prioritisation based on a cost-benefit consideration and undertaking further outreach with users of financial statements to establish an appropriate level of detail required to fulfil the disclosure objectives. To allow the prioritisation of disclosures, EFRAG recommended to:

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

of the ED) and the breakdown of regulatory income (paragraph 83 of the ED) was seen as more important than disclosure of discount rates (paragraphs 80-b and c of the ED) and maturity analysis breakdown (paragraphs 80-a and 81 of the ED).

Preparers, however, expressed some concerns with regards to the level of detail required to meet the overall disclosure objective in the ED including:

- CWIP disclosures would result in unnecessarily complex disclosures that could also lead to generating alternative performance measures to explain the effect of regulatory returns;
- the quantitative information required to meet the specific disclosure objectives was partly available and IT systems needed to be tailored to enable tracking of different components;
- interim financial reporting – there were no material changes within a six-month period that would justify the high operational burden of preparing disclosures for the interim financial reporting;
- the required disclosures were not always meaningful on a stand-alone basis.

A suggestion was made that it might be useful to consider the approach identified in the ED *Disclosure Requirements in IFRS Standards – A Pilot Approach* moving from a ‘checklist’ approach to identifying information that is relevant for each specific disclosure objective.

Input received through comment letters

Most respondents agreed with the overall disclosure objective and considered that the specific disclosure objectives of the ED were useful.

EFRAG’s response to respondents’ comments

- aggregate some of the information required under paragraph 78 of the ED or provide a combination of ‘high-level’ qualitative and quantitative information that helps users to understand how a regulatory agreement may have affected an entity’s performance;
- consider the disclosures related to maturity analysis (paragraphs 80-a and 81 of the ED) and those related to discounting (paragraphs 80-b and c of the ED) to be of relatively lower importance to the users that provided feedback than the rest of the disclosures.

EFRAG noted the suggestion to consider the approach identified in the ED *Disclosure Requirements in IFRS Standards – A Pilot Approach* to identifying information that was relevant for each specific disclosure objective. However, this project was still being developed by the IASB and it was not appropriate to make any reference to it when EFRAG did not comment on it yet. However, EFRAG recommended the IASB to consider insights obtained from the development of the Disclosure Initiative project instead.

Finally, EFRAG noted that it might be difficult for entities having several regulatory agreements to determine which agreement was more prominent to meet the proposed disclosure requirements. EFRAG recommended that the IASB clarified the unit of account for disclosure purposes.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Some respondents raised the following concerns and observations on the proposed disclosure requirements:

- the unit of account for disclosure purposes was not clear;
- the disclosures requirements in paragraphs 77-83 of the ED were considered to be too granular;
- a sophisticated IT system was required to achieve the disclosure objectives in the ED; and
- the misalignment between the notion of TAC in the ED and the requirements of local regulatory regimes might require alternative performance measures.

Many respondents made suggestions for prioritising the disclosure requirements and these include the following:

- to word the specific disclosure requirements proposed in paragraphs 78, 80, 81 and 83 of the ED as examples of possible disclosures rather than as mandatory provisions;
- to include a provision in paragraph 74 of the ED which would allow certain specific disclosures to be waived by an entity;
- the focus of disclosure should be on the recognised assets and liabilities at year-end;
- a full reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities was not necessary;
- to weigh the expected user benefits against the preparers’ concerns; and
- to aggregate some of the information required under paragraph 78 of the ED or provide a combination of ‘high-level’ qualitative and quantitative information that helped users understand how a regulatory agreement affected an entity’s performance.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 10 — Effective date and transition

Proposals in the ED

The IASB proposes to require entities to apply the proposed Standard for annual reporting periods beginning on or after a date 18–24 months from the date of its publication and proposes its retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* except for the past business combinations as described below.

An entity may elect not to apply this proposed Standard retrospectively to a past business combination. If an entity makes this election, it shall at the date of transition:

- Apply the election to all of its past business combinations.
- Apply the requirements in subparagraphs (c)–(g) separately to each past business combination.
- Recognise and measure, applying this [draft] Standard, all regulatory assets acquired, and all regulatory liabilities assumed, in a past business combination, which still exist at the date of transition.
- Derecognise all items (such as some regulatory balances) that were recognised as assets or liabilities in that past business combination but would not have been recognised if the [draft] Standard had always been applied.
- Recognise any deferred tax effects of the adjustments described in subparagraphs (c)–(d).
- Adjust the carrying amount of non-controlling interests from that past business combination remaining at the date of transition for their

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback received regarding the significant efforts required to apply the proposed Standard, EFRAG recommended an effective date of at least 24-36 months after the publication of the final Standard with an early application permitted.

Given the feedback about the complexities of the full retrospective approach, EFRAG proposed to consider, depending on the final decisions made for the accounting for CWIP regulatory returns, the use of a modified retrospective application with exemptions or practical expedients for assets with long useful lives and CWIP regulatory returns to better address practical difficulties identified by constituents.

EFRAG agreed with the simplification option for the past business combinations proposed by the IASB, but questioned how it interacts with paragraph 50 of IFRS 3 *Business Combinations* which states that ‘*after the measurement period [of a business combination] ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with IAS 8*’ and to clarify the meaning of regulatory assets and liabilities ‘*which still exist at the date of transition*’ referred to in paragraph C4(c).

EFRAG also questioned the IASB decision to charge to goodwill and not to retain earnings all the adjustments to regulatory assets and liabilities resulting from the simplified treatment of the past business combinations.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

proportionate share of the net amount of the adjustments described in subparagraphs (c)–(e), if the entity measured those non-controlling interests at their proportionate share in the recognised amounts of the acquiree’s identifiable net assets, rather than at fair value.

- Adjust the carrying amount of goodwill still remaining from that past business combination for the net amount of the adjustments described in subparagraphs (c)–(f). If that adjustment reduces the carrying amount of goodwill to nil, the entity shall recognise any remaining amount of adjustment in retained earnings or, if appropriate, another category of equity.

The IASB considered proposing a modified retrospective approach applying from the beginning of the annual reporting period in which an entity first applies the proposed Standard (date of initial application) without restating comparative information. However, the IASB concluded that the resulting costs for users of financial statements in understanding incomparable information would outweigh the cost savings for preparers. Therefore, the IASB did not propose the modified form of retrospective application.

EFRAG’s tentative position

EFRAG generally supported the proposed transition requirements and suggested the effective date should be 24 months after the publication of the final Standard to allow the entities to adjust their accounting systems and gather necessary information.

EFRAG also supported the proposed retrospective application of the proposals and the simplification option for the past business combinations proposed by the IASB but questioned the IASB decision to charge to goodwill and not to retain earnings all the adjustments to regulatory assets

EFRAG’s response to respondents’ comments

Summary of how EFRAG TEG considered the views of respondents in arriving at this final position

EFRAG agreed with the operational challenges of transition mentioned by respondents and recommendation for an effective date of 24-36 months catering for these challenges.

EFRAG also acknowledged the complexities of the full retrospective approach and suggested a modified retrospective application for assets with useful lives and CWIP. EFRAG decided not to propose the prospective application as the retrospective approach provides better information for the users of financial statements.

Given the feedback received, EFRAG decided to seek clarification of the relief provided in respect of its interaction with paragraph 50 of IFRS 3 and of the meaning of regulatory assets and liabilities “which still exist at the date of transition” referred to in paragraph C4(c).

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

and liabilities resulting from the simplified treatment of the past business combinations.

Respondents’ comments

Input received through outreach and effects analysis

Many respondents highlighted significant implementation efforts required to apply the future standard (tailoring or changing IT systems, training staff, etc). Therefore, they suggested an effective date of at least 24-36 months after the publication of the final standard with an early application permitted.

The respondents noted that the transition requirements would be influenced by the IASB decisions on CWIP regulatory returns, and suggested some practical expedients, such as applying this requirement prospectively, or to require a modified retrospective approach with exemptions (for example for assets with a long useful life) or to require retrospective application only to assets that are made available for use on or after the beginning of the earliest period presented.

One respondent agreed with the relief proposed for the past business combinations. Another - suggested aligning it with the IFRS 1 *First-time Adoption of International Financial Reporting Standards* exemptions in respect of past business combinations. One respondent questioned the necessity of this relief as in practice entities applied paragraph 50 of IFRS 3, which specifies that ‘*after the measurement period [of a business combination] ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with IAS 8*’. Hence, no adjustments to the past business combination would be required.

Another respondent asked to clarify what was meant by regulatory assets and liabilities “which still exist at the date of transition” referred to in paragraph C4(c). Does it refer to:

- (a) The residual amounts of the regulatory assets existing at the date of the past business combination that have not been fully

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

derecognised at the date of transition (or to the residual amounts of the regulatory liabilities existing at the date of the past business combination that have not been fulfilled at the date of transition)? or

- (b) A point in time, the recognition of regulatory assets and regulatory liabilities (whatever the amounts at stake)?

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s response to respondents’ comments

Question 11 — Other IFRS Standards

Proposals in the ED

The ED estimates that the following existing IFRS Standards will be impacted by the introduction of this proposed Standard.

IAS 12 Income Taxes

In some cases, the regulated rate for a specified period does not include all of the current and deferred tax effects of transactions occurring during that period. For example, a regulatory agreement may determine regulated rates on a basis that:

- (a) includes an estimate of the current tax expense (income), with any variance between estimated and actual amounts being added or deducted when determining regulated rates in future periods; or
- (b) does not include deferred tax expense (income).

Applying the ED proposals in such cases, an entity shall recognise a regulatory asset or a regulatory liability if some or all of the current and deferred tax effects of transactions in the current period will affect the regulated rates in future periods or affected the regulated rates in earlier periods.

IFRIC 12 Service Concession Arrangements

The IASB considers that some arrangements within IFRIC 12 may create regulatory assets and liabilities. Such regulatory assets and regulatory liabilities should be accounted for separately from the assets and liabilities within the scope of IFRIC 12.

EFRAG final position

Based on the feedback received, EFRAG generally agrees with the IASB proposals addressing the interaction with other IFRS Standards. However, EFRAG asks for further clarification on the interaction with the Standards noted below.

IAS 12 Income Taxes

EFRAG suggests the IASB specifies that these tax cash flows should form part of regulatory income and regulatory expense and should be presented in the ‘regulatory income minus regulatory expense’ line item. A separate illustrative example on this topic can be helpful to avoid confusion around the tax treatment.

IFRIC 12 Service Concession Arrangements

EFRAG suggests the IASB provides more guidance, (including illustrative examples) on the model’s interaction with IFRIC 12 requirements given the supplementary nature of the IASB model.

IFRS 1 First-time Adoption of International Financial Reporting Standards

EFRAG questions whether the reclassification of goodwill-related regulatory balances to goodwill suggested in the proposed amendments to IFRS 1 would result in the correct depiction of the entity financial performance when the goodwill-related revenues will be charged to customers, but the related goodwill balances remain on the balance sheet.

IAS 36 Impairment of Assets

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

IFRS 1 First-time Adoption of International Financial Reporting Standards

The IASB proposals do not allow the recognition of goodwill-related regulatory balances from the past business combinations by the first-time adopter, because this transaction is the business combination itself and not any supply of goods or services before the business combination.

Therefore, the IASB proposes to amend paragraphs C4(c)(i) and C4(g)(i) of IFRS 1. The amendment would apply to a first-time adopter electing not to apply IFRS 3 retrospectively to a past business combination. These amendments would require reclassifying such balances directly to goodwill.

The IASB also proposes to retain an exemption in paragraph D8B of IFRS 1 permitting first-time adopters at the date of transition to IFRSs to use as deemed cost the previous GAAP carrying amount of an item that is used, or was previously used, in operations subject to rate regulation.

IFRS 3 Business Combinations

The IASB proposes that, as an exception to the recognition and measurement principles in IFRS 3, an entity should recognise and measure regulatory assets acquired and regulatory liabilities assumed in a business combination applying the recognition and measurement principles proposed in the ED (modified historical cost), rather than recognise and measure them at fair value.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The IASB proposes to exclude regulatory assets from the scope of the measurement requirements in IFRS 5 because it would be difficult to

EFRAG’s response to respondents’ comments

EFRAG suggests the IASB provides further guidance on how the interaction with a CGU that included regulatory assets would work in practice, in respect of separating the cash flows from regulatory assets from the total cash flows generated by a CGU for impairment test purposes.

IAS 16 Property, Plant and Equipment - IFRS 3 revaluation model

EFRAG recommends the IASB provides additional guidance on how the differences between regulatory asset values and IFRS values should be accounted for (for example if the amount of PPE for regulatory purposes differs from IFRS amounts) and to provide examples illustrating these situations.

How EFRAG TEG considered the views of respondents in arriving at this final position.

IAS 12 Income Taxes

Given the feedback received, the EFRAG recommends the IASB clarifies the application guidance in paragraphs B45, B46 in respect of presentation of regulatory assets and liabilities net or gross of tax and to consider adding an illustrative example on this topic.

IFRIC 12 Service Concession Arrangements

Given the feedback received, EFRAG decided not to make any changes to its initial response.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Given no feedback and the absence of concern on this topic, EFRAG agrees with the IASB proposed amendments to IFRS 1.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

determine the fair value of regulatory assets because of difficulties in determining the discount rate.

IAS 1 Presentation of Financial Statements

The IASB proposes to amend paragraphs 54 and 82 of IAS 1 to require entities to present separate line items for regulatory assets and regulatory liabilities in the statement of financial position, and for regulatory income or regulatory expense in the statement(s) of financial performance.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The IASB proposes to delete paragraph 54G of IAS 8 because it provides a temporary exception that would no longer be needed when applying the proposals in the ED.

IAS 36 Impairment of Assets

The IASB proposes to specify that regulatory assets are outside the scope of IAS 36 because their measurement is based on updated estimates of future cash flows, including any estimated changes caused by, for example, demand risk or credit risk. Thus, there would be no need for a separate impairment test for regulatory assets. In addition, cash flows arising from regulatory assets are largely independent of cash flows generated by any other assets, regulatory assets are not part of any cash-generating unit for the impairment test required by IAS 36.

EFRAG’s tentative position

EFRAG generally agreed with the IASB proposals addressing the interaction with other IFRS Standards. However, EFRAG asked for further clarification on the interaction with the below standards.

EFRAG’s response to respondents’ comments

IFRS 3 Business Combinations

Given the overall feedback received and taking account of cost-benefit and practical implementation considerations, the need for a recognition exception, and extending the reasoning applied to exceptions of other IFRS Standards from the IFRS 3 requirements, EFRAG agrees with the IASB proposal.

IAS 36 Impairment of Assets

Given the feedback received, EFRAG decided not to make any changes to its initial response.

IAS 16 - IFRS 3 revaluation model

The ED stipulates (paragraph 12 (a)) that “differences in timing arise because the regulatory agreement includes part of that total allowed compensation in determining the regulated rates for goods or services supplied in a different period (past or future)”.

Therefore, the fact that the regulatory asset base equals the revalued amount of Property, Plant and Equipment (PPE) and hence its depreciation does not have any impact on origination or on the timing difference. Even if the value of PPE in the example equals its regulatory asset base, the timing difference could still arise if the period when the entity is allowed to charge it to customers through the rates differs from the period when the respective depreciation expense is recognised.

EFRAG recommends that the IASB provides additional guidance on how the differences between the regulatory asset base and IFRS asset values should be treated (for example, if the amount of PPE for regulatory purposes differs from IFRS amounts) and to provide examples illustrating these situations.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s response to respondents’ comments

IAS 12 Income Taxes

EFRAG suggested the IASB specifies that these tax cash flows should form part of regulatory income and regulatory expense and should be presented in the ‘regulatory income minus regulatory expense’ line item.

IFRIC 12 Service Concession Arrangements

EFRAG suggested the IASB provides more guidance, (including illustrative examples) on the model’s interaction with IFRIC 12 requirements given the supplementary nature of the IASB model.

IFRS 1 First-time Adoption of International Financial Reporting Standards

EFRAG questioned whether the reclassification of goodwill-related regulatory balances to goodwill suggested in the proposed amendments to IFRS 1 would result in the correct depiction of the entity financial performance when the goodwill-related revenues will be charged to customers but the related goodwill balances remain on the balance sheet.

IFRS 3 Business Combinations

EFRAG was seeking stakeholder views on the proposed exception of acquired regulatory assets (or liabilities) from the recognition and measurement requirements of IFRS 3. As part of its assessment, EFRAG was seeking stakeholders’ views on the recognition and fair value measurement at acquisition as required by IFRS 3 and by the application of an adjusted discount interest rate for discounting during subsequent measurement.

IAS 36 Impairment of Assets

EFRAG suggested that the IASB provides further guidance on how the interaction with a CGU that included regulatory assets would work in practice, in respect of separating the cash flows from regulatory assets

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

from the total cash flows generated by a CGU for impairment test purposes.

Respondents’ comments

Input received through outreach

IFRIC 12 Service Concession Arrangements

One respondent noted a general fear of double counting and that they also were still looking for a real-life example of interaction with IFRIC 12.

IFRS 3 Business Combinations

One respondent supported the IFRS 3 exception but commented that the day 2 gains or losses should not be considered in isolation and that from a conceptual perspective it was almost impossible to determine the fair value on acquisition in a monopoly situation.

IAS 36 Impairment of Assets

One respondent asked to clarify whether CGUs should include regulatory assets and regulatory liabilities, given that the cash flows from regulatory assets and liabilities were ultimately arising from contracts with customers and therefore were also used to estimate the recoverable amount of other assets in a CGU.

IAS 16 revaluation model and IFRS 3 purchase price allocation (PPA)

One respondent raised an issue of how a measurement of property plant and equipment at fair value (either under IAS 16 – revaluation model or as a result of a PPA under IFRS 3) would interact, if any, with the recognition of regulatory assets and liabilities.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Input received through effects analysis

IFRIC 12 Service Concession Arrangements

Half of the preparer respondents did not find any aspects of the interaction of the proposed model with IFRIC 12 problematic for practical application purposes.

Another half noted the need for additional guidance and illustrative examples to determine what are enforceable rights and obligations in concession arrangements.

Input received through comment letters

IAS 12 Income Taxes

The application guidance was considered confusing and paragraphs B45, B46 contradictory in respect of the presentation of regulatory assets and liabilities net or gross of tax.

IFRIC 12 Service Concession Arrangements

Some respondents acknowledged the lack of practical examples on the interaction of the proposed model with IFRIC 12 and considered that paragraph B47 of the ED should be supplemented by additional guidance and illustrative examples to better help preparers distinguish which arrangements within the scope of IFRIC 12 could also create regulatory assets and regulatory liabilities.

One respondent suggested that the interaction with financial and intangible assets models of IFRIC 12 should also be clarified.

IFRS 3 Business Combinations exception

EFRAG did not receive many comments on this question. Few respondents agreed with the proposed IFRS 3 exception and one disagreed with the IASB proposal as it could increase the amount of goodwill recognised in the financial statements of the acquirer and further complicate the impairment test.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s response to respondents’ comments

IAS 36 Impairment of Assets

Few responses were received with the mixed views expressed.

One respondent considered that both for practical and conceptual reasons regulatory assets and liabilities and their related cash flows should be included in the IAS 36 impairment tests on CGU-level.

Another respondent supported the IASB proposal to exclude the cash flows from regulatory assets and regulatory liabilities from the impairment test.

One respondent asked for further clarification on how the regulatory assets, regulatory liabilities and the related CGU would interact in practice when the impairment test is made, given the proposed amendments to paragraphs 43 and 79 of IAS 36 in Appendix D of the ED.

IAS 16 revaluation model and IFRS 3 purchase price allocation (PPA)

One respondent asked for clarification on how the measurement of property, plant and equipment (PPE) at fair value (either under IAS 16 – revaluation model or as a result of a PPA under IFRS 3) would interact, if any, with the recognition of regulatory assets and liabilities. In this respondent’s view, it was unclear whether the value of timing difference will be affected by the eventual revaluation of the PPE from amortised cost to fair value and whether any double counting would arise.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 12 — Likely effects of the proposals

Proposals in the ED

Paragraphs BC230-BC232 of the ED note that the recognition of regulatory income or regulatory expense and the disclosures would produce a clearer and more complete picture of the performance of rate-regulated entities that currently do not recognise regulatory balances and enable users of financial statements to understand the entity’s performance better.

Paragraphs BC234-BC244 of the ED provides the effects for rate-regulated entities that currently recognise regulatory balances (like simpler conceptual basis, better comparability, focus on future cash flows, more complete information about the effects of regulatory assets and regulatory liabilities). The ED points out that in the long run, the benefits would exceed the costs as users would have advantages after adopting their analysis. Moreover, the IASB does not expect the initial and ongoing cost of applying the proposals to be significant as the entities would use data that is already available (e.g., for determining regulated rates). However, as stated in paragraph 248 of the ED the IASB expects preparers to incur some incremental costs when applying the requirements.

EFRAG’s tentative position

EFRAG agreed with the IASB’s analysis of the likely effects of the proposals on the quality of financial reporting. EFRAG also agreed to some extent with the analysis of the likely costs of implementing the proposals not being significant. EFRAG also noted that there are concerns on the implementation of the proposals (e.g., for disclosures, measurement and discounting, and complexities arising from the concept of regulatory boundary or the requirements for CWIP regulatory returns)

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback, EFRAG retained its position from the draft comment letter that expressed a positive cost-benefit relationship and agreement to the IASB’s analysis about the likely effects of the proposals on the quality of financial reporting.

Summary of how EFRAG considered the views of respondents in arriving at this final position

EFRAG agreed with the IASB’s analysis of the likely effects of the proposals on the quality of financial reporting. EFRAG only agreed to some extent with the IASB analysis of the likely costs of implementing the proposals not being significant. Based on a two-stage effects analysis that EFRAG conducted, EFRAG noted that some preparer respondents expect significant implementation costs (e.g., due to tracking regulatory returns related to individual assets under construction in applying the CWIP proposals; disclosure requirements; and the retrospective transition requirements).

Furthermore, although most users expected benefits, a few users were concerned about increased complexity and potential for confusion in the IFRS financial statements as a result of the proposals. Overall, EFRAG expected a positive cost-benefit relationship from implementing the proposed Standard. The benefits arise from the reduced volatility and more faithful presentation of performance, and more consistent reporting of regulatory assets and regulatory liabilities. However, as highlighted by some of the preparer respondents to the effects-analysis survey, there could be significant costs for some entities

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

raised by preparers. Based on the constituent's overall assessment, EFRAG expected a positive cost-benefit relationship from implementing the proposals.

Respondents’ comments

Input received through outreach

Some constituents observed that the impact of the new standard on the market should be positive as it will improve comparability, which should help users of financial statements.

Input received through effects analysis

Some respondents agreed with the IASB’s analysis of likely costs. Some did not agree with the analysis or had reservations/agreed only partly. Few respondents expressed the view that the adoption of the ED may be quite costly for entities. In summary, some preparer respondents assessed a positive cost-benefit relationship although there were some implementation concerns. Few expected a negative cost-benefit relationship. Many respondents expected minimal to moderate implementation costs and positive benefits from applying the model.

Input received through comment letters

Some respondents agreed with the IASB’s analysis on the quality of financial reporting whereas other respondents had reservations. Some respondents agreed to the IASB’s analysis on the costs of implementation, but others disagreed indicating that implementing the proposals may be quite costly as it would require maintaining additional regulatory accounts and setting up new closing processes. Few also stated that data gathering throughout the year would be costly as interim year accounting would not be supported by regulatory accounting

EFRAG’s response to respondents’ comments

that will lessen the overall expected positive cost-benefit relationship

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

processes. The respondent also pointed out the significant workload required to implement the proposals.

EFRAG’s response to respondents’ comments

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Question 13 — Other comments

Proposals in the ED

The IASB asked for any other comments on the proposals in the ED and on Illustrative Examples.

EFRAG’s tentative position

EFRAG suggested that the IASB consider establishing a transition resource group (TRG) to support the rate-regulated activities project similar to TRGs set up for the implementation of IFRS 15 and IFRS 17.

EFRAG also suggested that the IASB provides a detailed Illustrative Example of the disclosure requirements, especially for total allowed compensation.

EFRAG has been made aware that there are cases when a utility entity acquires another entity for synergy purposes where the goodwill balances are separately identifiable, have separate cash flows and defined useful life (the regulatory recovery period). A question has been raised on whether this fact pattern ought to be recognised as a special type of regulatory-related asset - similar to that arising from goodwill-related regulatory balances on the application of IFRS 1 as described in paragraphs 285 to 287.

Respondents’ comments

Input received through outreach

Some participants noted that the proposals in the ED overlaid the treatment required under existing regulatory regimes. A suggestion was made to show regulatory numbers in line with regulatory guidance instead of calculating IFRS figures which would not fit with the actual compensation from the regulator. The accounting model proposed in the

EFRAG’s response to respondents’ comments

EFRAG final position

Considering the feedback from constituents, EFRAG suggests that the IASB establishes a transition resource group (TRG) to support the rate-regulated activities project similar to TRGs set up for the implementation of IFRS 15 and IFRS 17.

EFRAG also suggests that the IASB provides a detailed Illustrative Example of the disclosure requirements, especially one that reflects all the components of the total allowed compensation.

EFRAG suggests that the future Standard would benefit from the inclusion of real world-based Illustrative Examples on the different aspects of the proposals.

EFRAG recommends the IASB explains in the BC how it concluded that regulatory assets and regulatory liabilities were monetary items when applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Summary of how EFRAG considered the views of respondents in arriving at this final position

Considering the feedback received, EFRAG recommends the following points be added to those raised in the EFRAG draft response:

- to include more real-world-based illustrative examples; and
- to explain in the BC how the IASB concluded that regulatory assets and regulatory liabilities were monetary items when applying IAS 21.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

ED would create significant regulatory assets which would not be covered by the regulator.

Input received through effects analysis

The effects analysis did not address this topic.

Input received through comment letters

Few suggestions were received from the respondents:

- (a) To re-expose the ED after taking into account the comments received;
- (b) To provide real-world-based illustrative examples;
- (c) To illustrate and clarify in the BC why general price regulations are not in the scope of this ED;
- (d) Reservations about the principle to identify the right or obligation arising from an **individual** difference in timing as the unit of account and suggestions to consider **net of all** differences in timing arising from a regulatory agreement as a unit of account;
- (e) Questions whether the exception to the principle on the unit of account, stated by paragraph 24, would apply when the various items encompassing the regulatory account are not subject to similar risks;
- (f) To explain in the BC how the IASB concluded that regulatory assets and regulatory liabilities were monetary items when applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and
- (g) To create a TRG or to use the Consultative Group for Rate Regulation to help with transition issues.

EFRAG’s response to respondents’ comments

Appendix 1: List of respondents

Table 1: List of respondents		
Name of respondent¹	Country	Type / Category
Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
European Securities and Markets Authority (ESMA)	Europe	Regulator
Accounting Standards Committee of Germany (ASCG/DRSC)	Germany	National Standard Setter
Dutch Accounting Standard Board (DASB)	Netherlands	National Standard Setter
Alliander NV, Enexis Holding NV and Stedin Holding NV	Netherlands	Preparer
L'Autorité des normes comptables (ANC)	France	National Standard Setter
El Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
International Energy Accounting Forum (IEAF)	Europe	Preparer organisation
Terna	Italy	Preparer
European Federation of Financial Analysts Societies (EFFAS)	Europe	User organisation
European Association of Co-operative Banks (EACB)	Europe	Preparer organisation
Comment letters received after the due date and not considered in the analysis		
EDF	France	Preparer
United Utilities Group	United Kingdom	Preparer

¹ Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.