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## IASB project - Regulatory Assets and Regulatory Liabilities Cover Note

### Introduction

- 1 On 28 January 2021, the IASB published Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* (the ED) with a comment period of 180 days and a comment deadline of 30 July 2021.
- 2 EFRAG published its [final comment letter](#) on the ED on 10 September 2021 and a [Feedback Statement](#) in October 2021.

### Objective

- 3 The objective of this session is to:
  - (a) Receive an IASB staff presentation on the main features of different regulatory regimes - namely cost-based and incentive-based regimes. This information will help EFRAG FR TEG members to better understand the rationale supporting the IASB tentative decisions about total allowed compensation and potentially other aspects of the accounting model for regulatory assets and regulatory liabilities.
  - (b) Discuss IASB tentative decisions made during its redeliberations in October 2022 following the feedback to the ED on:
    - (i) Allowable expense and benchmark expenses (Agenda paper 06-03)
    - (ii) Regulatory assets and regulatory liabilities arising from differences in regulatory recovery pace and assets' useful lives (Agenda paper 06-04).

### Agenda Papers

- 4 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 06-02 – IASB staff presentation on features of different regulatory regimes
  - (b) Agenda paper 06-03 – Allowable expense and benchmark expenses
  - (c) Agenda paper 06-04 – Regulatory assets and regulatory liabilities arising from differences in regulatory recovery pace and assets' useful lives.

### Background

#### *IASB discussions and tentative decisions so far*

- 5 The IASB started to discuss respondents' feedback on the ED at its October and November 2021 meetings.

- 6 The IASB discussed and [approved a plan for redeliberating the proposals](#) at its meeting in December 2021. Based on the feedback received, the IASB will redeliberate the proposals based on the following workstreams (in order of priority):
  - (a) Topics that raised significant concerns (proposed scope, total allowed compensation and the discount rate)
  - (b) Topics that were well received (recognition, measurement, presentation and disclosure); and
  - (c) Other topics. These include transition and effective date, effects analysis and due process steps.
- 7 So far, the IASB has made tentative decisions in relation to scope and different aspects of total allowed compensation. The **appendix provides a summary of the IASB's tentative decisions** to date.
- 8 During 2022, the IASB staff has conducted targeted outreach to stakeholders in a selection of jurisdictions (e.g., the UK and Australia) where concerns were raised on the applicability of the proposals due to the type and diversity of their prevailing regulatory regimes.
- 9 The IASB has met with its Consultative Group for Rate Regulation (Consultative Group) on three occasions in 2022:
  - (a) 4 March 2022 – discussed discuss the ED's proposals on the accounting for regulatory returns on capital work in progress (CWIP), which is a component of the total allowed compensation
  - (b) 28 March 2022 - discussed possible courses of action related to when regulatory assets and regulatory liabilities arise due to differences between the regulatory pace of recovery and assets' useful lives
  - (c) 4 October 2022 – discussed the interaction between the IASB's tentative decision on regulatory returns on an asset not yet available for use and an entity's capitalisation of its borrowing costs and proposed accounting for inflation when a regulatory agreement adjusts the regulatory capital base for inflation
- 10 The IASB has consulted with ASAF members on its redeliberation plans and tentative decisions at the following meetings:
  - (a) 31 March 2022 ASAF meeting – Scope of the final Standard
  - (b) 28 September ASAF meeting – Scope of the final Standard, and aspects of total allowed compensation (namely, components of total allowed compensation and regulatory returns on an asset not yet available for use).

*EFRAG discussions*

- 11 Between December 2021 and March 2022, EFRAG FR TEG and EFRAG CFSS received an update on the IASB discussions to date.
- 12 In April 2022, the EFRAG FR Board received an update on the IASB's plans for redeliberating the proposals in the ED and the IASB's tentative decisions on the scope of the final Standard.
- 13 In July 2022, EFRAG FR TEG received an update on the IASB tentative decisions on scope and total allowed compensation. At that meeting, EFRAG FR TEG members briefly discussed the 'differences between regulatory recovery pace and assets' useful lives', and it was then agreed that an education session would be useful as a prerequisite to today's follow-up and detailed discussion. The education session will be done by the IASB staff at today's session (presentation in Agenda paper 06-02).

- 14 In September 2022, EFRAG FR TEG and EFRAG CFSS discussed the IASB's tentative decisions taken in May, July, and September 2022 on scope and total allowed compensation (components of total allowed compensation and regulatory returns on assets not yet in use).
- 15 On 8 November 2022, EFRAG met with its Rate-regulated Activities Working Group to discuss the IASB tentative decisions on scope and several aspects of total allowed compensation (including the topics that will be presented at the meeting today). A summary of this meeting is presented in agenda paper 03-01 (Report of the Chairman EFRAG RRAWG webcast meeting 8 November 2022).

### **Next steps**

#### *IASB*

- 16 At its meeting in November 2022, the IASB will discuss the interaction between the IASB's tentative decision on regulatory returns on an asset not yet available for use and an entity's capitalisation of borrowing costs incurred to construct that asset.
- 17 We expect that the IASB will discuss the effects of inflation at its meeting in December 2022.
- 18 The IASB will redeliberate the remaining proposals in 2023.

#### *EFRAG*

- 19 The EFRAG FR Board will receive an update of the IASB tentative decisions since March 2022 at its meeting on 21 December 2022.
- 20 In Q1 2023, we expect to meet again with the EFRAG Rate-regulated Activities Working Group to discuss the IASB tentative decisions made since November 2022.

#### **Questions for EFRAG FR TEG members**

- 21 Do EFRAG FR TEG members have any comments on the IASB discussions so far and the next steps by the IASB and EFRAG?

## Appendix - Summary of the IASB tentative decisions

- 1 The table below provides an overview of IASB discussions and tentative decisions so far. This table was prepared based on the information published in the IASB Updates.

Topic	Decisions reached	Meeting Date
<b>Feedback received on DP</b>	At its meetings in October and November 2021, the IASB discussed the feedback received in comment letters and outreach events on its proposals in the ED.	<b>October and November 2021</b>
<b>Project plan</b>	The IASB discussed and agreed on a plan for redeliberating the proposals in its Exposure Draft Regulatory Assets and Regulatory Liabilities.	<b>December 2021</b>
<b>Scope Including interaction with other IFRS Standards</b>	<p><b>Determining whether a regulatory agreement is within the scope of the proposals</b></p> <p>The IASB tentatively decided to:</p> <ul style="list-style-type: none"> <li>• reconfirm the proposals in the Exposure Draft on: <ul style="list-style-type: none"> <li>○ requiring an entity to apply the Standard to all its regulatory assets and regulatory liabilities.</li> <li>○ requiring the Standard to apply to all regulatory agreements and not only to those that have a particular legal form.</li> <li>○ the conditions necessary for a regulatory asset or a regulatory liability to exist.</li> </ul> </li> </ul> <p>Eleven of 12 IASB members agreed with these decisions</p> <ul style="list-style-type: none"> <li>• not explicitly to specify in the Standard which regulatory schemes would be within or outside its scope. All 12 IASB members agreed with this decision.</li> <li>• to clarify in the Standard that: <ul style="list-style-type: none"> <li>○ a regulatory agreement may include enforceable rights and enforceable obligations to adjust the regulated rate beyond the current regulatory period.</li> <li>○ regulatory agreements that create either regulatory assets or regulatory liabilities, but not both, are within its scope.</li> <li>○ a regulatory agreement that causes differences in timing when a specified regulatory threshold is met creates regulatory assets or regulatory liabilities.</li> <li>○ a regulatory agreement is not required to determine a regulated rate using an entity's specific costs for the regulatory agreement to create regulatory assets or regulatory liabilities.</li> </ul> </li> </ul> <p>All 12 IASB members agreed with these decisions</p> <p><b>Scope—Definition of a regulator</b></p> <p>The IASB tentatively decided that the Standard will:</p> <ul style="list-style-type: none"> <li>○ self-regulation is outside the scope of the Standard.</li> </ul>	<b>February 2022</b>



*Regulatory assets and regulatory liabilities – Cover Note*

<p><b>Total allowed compensation</b></p>	<p><b>Regulatory returns on an asset not yet available for use</b></p> <p>The IASB tentatively decided that the Standard specify that when an entity has an enforceable present right to regulatory returns on an asset not yet available for use, those returns would form part of the total allowed compensation for goods or services supplied during the construction period of that asset. The Standard will provide guidance for entities to assess whether their rights to these regulatory returns are enforceable.</p> <p>Eight of nine IASB members agreed with this decision. One IASB member was absent.</p>	<p><b>July 2022</b></p>
<p><b>Total allowed compensation</b></p>	<p><b>Proposed definition of allowable expense and treatment of allowable expenses based on benchmarks</b></p> <p>The IASB tentatively decided that the Standard:</p> <ul style="list-style-type: none"> <li>• retain the proposed definition of allowable expense;</li> <li>• clarify that a regulatory agreement may determine the amount that compensates an entity for an allowable expense using a basis different from the basis the entity uses to measure the expense in accordance with IFRS Accounting Standards; and</li> <li>• clarify the treatment of allowable expenses based on benchmarks and include examples to help entities identify differences in timing in those cases.</li> </ul> <p>All 11 IASB members agreed with these decisions.</p>	<p><b>October 2022</b></p>
<p><b>Total allowed compensation</b></p>	<p><b>Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives</b></p> <p>The IASB tentatively decided that the Standard:</p> <ul style="list-style-type: none"> <li>• provide guidance to help an entity determine whether its regulatory capital base and its property, plant and equipment have a direct relationship;</li> <li>• retain the proposals for an entity to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives if the entity has concluded that its regulatory capital base and its property, plant and equipment have a direct relationship; and</li> <li>• require an entity that has concluded that its regulatory capital base and its property, plant and equipment have no direct relationship to provide disclosures to enable users of financial statements to understand the reasons for its conclusion.</li> </ul> <p>All 11 IASB members agreed with these decisions.</p>	<p><b>October 2022</b></p>
<p><b>Total allowed compensation</b></p>	<p><b>Interaction between regulatory returns on an asset not yet available for use and an entity's capitalisation of borrowing costs incurred to construct that asset.</b></p> <p>In November 2022 the IASB will discuss the interaction between the IASB's tentative decision on regulatory returns on an asset not yet available for use and an entity's capitalisation of borrowing costs incurred to construct that asset.</p>	<p><b>November 2022</b></p>