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Regulatory assets and regulatory liabilities

Issues Paper

Objective

- 1 The purpose of this session is to seek EFRAG FR TEG/CFSS members' views on the IASB tentative decisions in Q1 and Q2 2024 on the feedback to the 2021 Exposure Draft *Regulatory Assets and Regulatory Liabilities* (the ED). This input is sought in preparation for the ASAF meeting later in September 2024. This paper relates to IASB tentative decisions related to the following topics:
 - (a) **Topic 1: Boundary of a regulatory agreement**
 - (b) **Topic 2: Disclosures**
 - (c) **Topic 3: Discounting of future cash flows**
 - (d) **Topic 4: Interaction with IFRS 17 and IAS 12**
 - (e) **Topic 5: Amendments to IAS 36, IFRS 3, IFRS 5, IAS 8 and suggested amendments to other IFRS Standards**
 - (f) **Next steps**
 - (g) **Appendix 1 - Proposals in the IASB Exposure Draft**
- 2 The ED proposals on the aforementioned topics and the feedback received by the IASB on them are included in Appendix 1 of this paper.
- 3 Also included are the **Next Steps** and **Questions to EFRAG FR TEG-CFSS members** (paragraphs 60 and 63) which are in line with the questions in the related ASAF paper (background paper – IASB Agenda paper 03).

TOPIC 1: BOUNDARY OF A REGULATORY AGREEMENT

IASB tentative decision (October 2023 and February 2024)

4 The IASB tentatively decided that the prospective Accounting Standard would:

Determining the boundary of a regulatory agreement

- (a) retain the proposed guidance in the ED on compensation for cancellation of a regulatory agreement. The IASB would clarify in the prospective Accounting Standard that the guidance also applies to other circumstances in which termination occurs.
- (b) include the principles in paragraph 35(c) of IFRS 15 that relate to an entity's right to payment for performance completed to date. An entity would use those principles to help it assess whether there exists an enforceable present right to receive, or an enforceable present obligation to pay, compensation on termination of a regulatory agreement for an amount comprising unrecovered regulatory assets and unfulfilled regulatory liabilities.

Right to renew or cancel a regulatory agreement

- (c) retain the proposed guidance in the ED on rights to renew or cancel a regulatory agreement. The IASB would clarify in the prospective Accounting Standard that those rights might be explicit or implicit.
- (d) not to add more guidance on how an entity assesses its practical ability to renew, and other parties' practical ability to cancel, a regulatory agreement.

Reassessment and changes to the boundary

- (e) retain the proposed requirements in the ED on the reassessment of, and changes to the boundary of a regulatory agreement.

Other aspects of the guidance

- (f) acknowledge that a right to supply goods or services might exist for an undefined period; and
- (g) include a requirement that an entity that has an enforceable right to supply goods or services include unrecovered or unfulfilled cash flows in the measurement of a regulatory asset or regulatory liability for which the entity has either:
 - (i) an enforceable right to recover or enforceable obligation to fulfil by adding amounts to or deducting amounts from future regulated rates charged; or
 - (ii) an enforceable right to receive or an enforceable obligation to pay compensation on termination of the agreement.

- 5 All present IASB members agreed with the above decisions except for the decision included in paragraph 4(d) above which was agreed to by 11 of 13 IASB members.

EFRAG RRAWG feedback on IASB tentative decisions

Determining the boundary of a regulatory agreement

- 6 RRAWG members agreed with the IASB's tentative decisions. Regarding the decision to include the principles in paragraph 35(c) of IFRS 15 one member suggested including the related discussions at the TRG of IFRS 15 and at the IFRS IC in the Basis for Conclusions of the Prospective Standard.

Right to renew or cancel a regulatory agreement

- 7 Most RRAWG members did not disagree with the IASB's tentative decision. However, one member disagreed, and she was supportive of including guidance on the 'practical ability to renew'.

Reassessment and changes to the boundary

- 8 RRAWG members agreed with the IASB's tentative decisions.

Other aspects of the guidance

- 9 RRAWG Members did not disagree with the IASB's tentative decisions.

TOPIC 2: DISCLOSURES

- 10 In February and March 2024, the IASB considered the proposed disclosures for rate-regulated entities on the following:

- (a) disclosure requirements initially included in the IASB Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* ('the ED');
- (b) new disclosure requirements arising from the IASB's redeliberations on the ED; and
- (c) reduced disclosures for rate-regulated entities [*IFRS 19 Subsidiaries without Public Accountability: Disclosure*]

IASB tentative decisions on disclosures proposed in the ED (paragraph 6(a))

- 11 In February 2024, the IASB considered the feedback received on the proposed disclosures for rate-regulated entities and took the following tentative decisions:

- (a) to retain the overall disclosure objective proposed in paragraph 72 of the ED;
- (b) to retain the proposals on aggregation and disaggregation of disclosures in paragraphs 75 - 76 of the ED;

- (c) to include examples of the characteristics an entity could use to aggregate or disaggregate disclosures in accordance with the principles in recently published IFRS 18 *Presentation and Disclosure in Financial Statements*;
- (d) to retain the specific disclosure objective relating to financial performance proposed in paragraph 77 of the ED;
- (e) to retain the proposals in paragraph 78(a)–(e) of the ED requiring that an entity disclose components of regulatory income or regulatory expense relating to the creation of regulatory assets and regulatory liabilities, recovery of regulatory assets, fulfilment of regulatory liabilities, and to regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities;
- (f) to require that an entity apply the aggregation and disaggregation principles in IFRS 18 when disclosing other components of regulatory income or regulatory expense, such as those arising from changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement, and those arising from remeasurements of regulatory assets and regulatory liabilities;
- (g) to retain the specific disclosure objective relating to an entity's financial position proposed in paragraph 79 of the ED;
- (h) to retain the proposals in paragraphs 80(a) and 81 of the ED requiring that an entity disclose quantitative information, using time bands, about when it expects to recover regulatory assets and fulfil regulatory liabilities;
- (i) to retain the proposal in paragraph 80(b) of the ED requiring that an entity disclose the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period;
- (j) to retain the proposal in paragraph 80(c) of the ED requiring that an entity disclose the regulatory interest rate provided by the regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate for that regulatory asset;
- (k) to retain the proposal in paragraph 80(d) of the ED requiring that an entity disclose an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities;
- (l) to provide no additional guidance on risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities;

- (m) to combine the proposed specific disclosure objective relating to changes in regulatory assets and regulatory liabilities in paragraph 82 of the ED with the specific disclosure objective in paragraph 79 of the ED;
- (n) to retain the proposals in paragraph 83 of the ED requiring that an entity disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities;
- (o) to include examples of significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense;
- (p) to include a requirement that an entity disclose a qualitative explanation of any significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense;
- (q) to retain the proposal in paragraph 84 of the ED relating to the disclosure of regulatory assets and regulatory liabilities measured applying paragraph 61 of the ED; and
- (r) to extend the proposals in paragraph 78 of the ED to include a requirement that an entity disclose separately the components of regulatory income or regulatory expense included in other comprehensive income.

12 The majority of the IASB members present agreed with these decisions.

IASB tentative decisions on the new disclosures (paragraph 10(b))

Background of the new disclosures

13 When redeliberating the ED's proposals, the IASB tentatively decided to base some accounting requirements on whether there is a direct (no direct) relationship between an entity's regulatory capital base and its property, plant and equipment (PPE) (hereafter referred to as the 'direct (no direct) relationship' concept), which was introduced by the IASB to address concerns raised by respondents to the ED about recognising regulatory assets and regulatory liabilities in certain situations. Correspondingly, there were no disclosure requirements related to the direct (no direct) relationship concept originally included in the ED.

14 In February 2024, the IASB tentatively decided to add the following new disclosure requirements in the prospective rate-regulated activities standard:

- (a) to include a specific disclosure objective that an entity be required to disclose information that enables users of financial statements to understand whether the

entity's regulatory capital base has a direct or no direct relationship with its property, plant and equipment ('PPE');

- (b) to include - in order to achieve the specific disclosure objective in paragraph (a) - a requirement that an entity disclose:
 - (i) whether its regulatory capital base has a direct or no direct relationship with its PPE; and
 - (ii) the reasons the entity has concluded its regulatory capital base has a direct or no direct relationship with its PPE;
- (c) not to include a requirement that an entity disclose the amount of its regulatory capital base;
- (d) to include a requirement that an entity disclose the nature of unrecognised regulatory assets and unrecognised regulatory liabilities;
- (e) to include a requirement that an entity disclose the regulatory approach (nominal or real) used by the regulator to compensate the entity for inflation;
- (f) not to include a requirement that an entity disclose assumptions used in estimating uncertain future cash flows for the measurement of regulatory assets or regulatory liabilities related to long-term performance incentives beyond those disclosures required by IAS 8;
- (g) to include, for an entity whose regulatory capital base has a direct relationship with its PPE and capitalises its borrowing costs, a requirement to disclose whether it receives regulatory returns on an asset not yet available for use; and
- (h) not to include - for an entity whose regulatory capital base has a direct relationship with its PPE and capitalises its borrowing costs - a requirement to disclose:
 - (i) the composition of the regulatory returns between debt and equity returns, and when these regulatory returns are included in regulated rates charged; and
 - (ii) the effects of those regulatory returns on changes in the related regulatory assets or regulatory liabilities.

15 The majority of the IASB members present agreed with these decisions.

IASB tentative decisions on reduced disclosures for IFRS 19 (paragraph 10(c))

16 In March 2024, the IASB whether to develop reduced disclosures requirements for entities applying the Standard that could be included in IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. The IASB tentatively decided to:

- (a) not to develop reduced disclosures for the prospective RRA Standard now; and
- (b) to include a question seeking stakeholders' views on the decision not to develop reduced disclosures in the 'catch-up' exposure draft the IASB published in July 2024.

EFRAG RRAWG feedback on IASB tentative decisions

EFRAG RRAWG feedback on disclosures proposed in the ED

17 Several EFRAG RRAWG members were supportive of the proposed disclosures in the ED and the main changes made to these requirements as a result of the IASB redeliberation process. The overall disclosure objectives were deemed reasonable and the newly added disclosures were considered useful. However, some members considered the proposed disclosures were too detailed/prescriptive and it would be an issue to explain them at consolidation level in situations when the reporting entity had several regulatory agreements in different jurisdictions. Below are other points of note:

- (a) One member agreed that disclosures should be a matter of judgement with respect to changes in regulatory assets (RA) and regulatory liabilities (RL);
- (b) It was commented that it was not that obvious how to distinguish between current and non-current RA and RL and more guidance was needed in this respect;
- (c) It was suggested to eliminate disclosure that required significant efforts to prepare;
- (d) On aggregation and disaggregation of information, one member explained that a regulator might have 10 different tariffs in which case the aggregation/disaggregation between different tariffs could be difficult to make; and
- (e) One member considered that it should be mandatory to disclose the name of the regulator.

EFRAG RRAWG feedback on the new disclosures

18 EFRAG RRAWG members were supportive of the proposed new disclosure requirements relating to the direct (no direct) relationship concept. Members also made the following comments/observations:

- (a) One member noted that it was complicated to provide all the required new disclosures in the notes. The member observed that some entities already provide information in the notes that goes beyond what the IASB is asking with the proposed

new disclosures (e.g. providing information about the RCB and assumptions used in estimating uncertain future cash flows). It was noted that, if the information was material, it would be necessary to provide it in addition to IAS 1 and IFRS 18 requirements.

- (b) Another member observed that in the IASB's articulation of the concept of direct (no direct) relationship reference was only made to PPE whereas the same concept could be applied to intangible assets. The member suggested using the expression 'asset under depreciation and amortisation'. The IASB representative confirmed the intangible assets are considered in the model as part of the asset base and they would consider the suggestion made during the drafting of the final Standard.
- (c) Members considered it useful to have mock-up examples related to the proposed new disclosures especially when these disclosures are not quantitative.

EFRAG RRAWG feedback on reduced disclosures

- 19 EFRAG RRAWG members considered the IASB's approach to develop reduced disclosures for regulatory assets and regulatory liabilities under IFRS 19.
- 20 During the RRAWG meeting, the IASB representative explained that the principles for reducing disclosures were applied to the disclosures that the IASB had tentatively decided to include in the prospective RRA Standard. The main reductions would be the removal of disclosure objectives and guidance on how to apply the requirements. However, no substantial reductions were identified in the requirements to disclose information.
- 21 The IASB representative also explained that the Catch-up ED will include a question to stakeholders on the IASB's tentative decision not to reduce disclosure for RRA at this stage of the project and in addition include an appendix to the ED indicating what disclosures could be reduced from the proposed RRA disclosure requirements.

TOPIC 3: DISCOUNTING OF FUTURE CASH FLOWS

IASB tentative decisions (March and April 2024)

- 22 The IASB tentatively decided:

Discounting future cash flows using the regulatory interest rate

- (a) to retain the proposal that an entity be required to discount estimates of future cash flows that arise from a regulatory asset or regulatory liability;
- (b) to retain the proposal that an entity be required to use the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability;

- (c) to retain the definition of a regulatory interest rate proposed in the ED;

Exemption from discounting in certain cases

- (d) to exempt an entity from applying the proposed requirement described in (a) to discount estimates of future cash flows from a regulatory asset or regulatory liability, if the entity expects the period between recognition of that regulatory asset or regulatory liability and its recovery or fulfilment to be 12 months or less;
- (e) to require an entity that elects to apply the exemption described in (d) to disclose that fact and disclose the carrying amount of regulatory assets and regulatory liabilities at the end of the reporting period to which the entity has applied that exemption;
- (f) not to exempt an entity from applying the proposed requirement described in (a) to discount estimates of future cash flows from a regulatory asset or regulatory liability for which the regulatory agreement does not specify a time frame for recovery or fulfilment;

Computing a single discount rate

- (g) to retain the proposal that an entity be required to compute a single discount rate when a regulatory agreement specifies, at initial recognition, different regulatory interest rates over the life of a regulatory asset or regulatory liability;
- (h) not to provide guidance on the computation of the single discount rate described in (g);
- (i) to exempt an entity that measures regulatory assets or regulatory liabilities described in (g) from applying the proposed requirement described in (a) to discount estimates of future cash flows for the period between recognition and the date from which regulatory interest starts to accrue, if the entity expects that period to be 12 months or less;
- (j) to require an entity that elects to apply the exemption described in (i) to disclose that fact and disclose the carrying amount of regulatory assets and regulatory liabilities at the end of the reporting period to which the entity has applied that exemption; and
- (k) to clarify that the proposed requirement described in (g) does not apply to a regulatory asset or regulatory liability that attracts regulatory interest rates that depend on an interest rate benchmark, and not provide further guidance on measuring such a regulatory asset or regulatory liability.

Minimum interest rate

- (l) to retain the proposals in paragraphs 50-52 of the ED that would require an entity to assess whether there is any indication that the regulatory interest rate for a regulatory asset might be insufficient to compensate the entity for the time value of money and for uncertainty in the future cash flows arising from the regulatory asset, and to use the minimum interest rate as the discount rate if it is higher than the regulatory interest rate;
 - (m) to clarify in the application guidance when an entity performs the assessment on the minimum interest rate, it would not be required to calculate the minimum interest rate for the regulatory asset or carry out an exhaustive search for indications that the regulatory interest rate for the regulatory asset might be insufficient as described in (l);
 - (n) to retain the proposal in paragraph 53 of the ED that would require an entity to use the regulatory interest rate as the discount rate for a regulatory liability in all circumstances;
 - (o) to provide guidance on the estimation of the minimum interest rate, and to include in that guidance principles used in other IFRS Accounting Standards to help entities carry out that estimation;
 - (p) to exempt an entity from applying the proposals on the minimum interest rate to a regulatory asset that arises from variances between estimated and actual costs or volume, and to require an entity to apply the requirements once the regulator determines the final balance to be included in future regulated rates; and
 - (q) to require an entity that chooses to apply the exemption to disclose that fact and the carrying amount of regulatory assets at the end of the reporting period to which the entity has applied that exemption.
- 23 Seven of 14 IASB members agreed with decisions 22(l) - 22(n). The IASB Chair used his additional casting vote, making the vote in favour of these decisions. All 14 IASB members agreed with decisions 22(o) - 22(q).

EFRAG RRAWG feedback on IASB tentative decisions

Discounting future cash flows using the regulatory interest rate

- 24 EFRAG RRAWG members generally agreed with the IASB's tentative decisions on discounting future cash flows using the regulatory interest rate or the rate referred to in the regulatory agreement (such as reference to the WACC).

Exemption from discounting in certain cases

- 25 Members agreed with having an exemption when an entity expects the period between recognition of that regulatory asset or regulatory liability and its recovery or fulfilment to be 12 months or less. This is in line with recommendations made to the ED proposals.

Computing a single discount rate

- 26 EFRAG RRAWG members continued to prefer using the regulatory interest rate (rather than determining a single discount rate). This is because the proposal would add complexity and would create an additional difference between the IFRS numbers and the regulatory balances.
- 27 One member asked for clarification on the circumstances which would require an entity to determine a single interest rate. This member explained that there could be different situations when the regulatory interest rates could be different - in some cases for different regulatory assets and regulatory liabilities and other cases for the same regulatory assets (regulatory liability) - the latter seemed to apply to the IASB tentative decision,
- 28 The IASB representative explained that the proposal on determining a single rate would only apply when there was a time lag between the initial recognition of a regulatory asset or regulatory liability and when the regulatory asset or regulatory liability starts to accrue interest. This is illustrated in example 5 of the Illustrative examples accompanying the ED.
- 29 The IASB representative explained that the circumstances for uneven interest rates were common in North America. Based on the previous discussions with the EFRAG RRAWG in December 2023, it was understood that these cases were not common in European regulations.

Minimum interest rate

- 30 One RRAWG member commented that whether the reporting entity was provided with WACC or any other interest rate, would be the rate to be assessed. The member supported the IASB tentative decision on a conceptual basis. He added that it would be helpful if the IASB would provide guidance on how to estimate the minimum interest rate. It has been clarified in the IASB tentative decisions that such guidance would be provided.
- 31 The IASB staff representative clarified that there is a distinction between regulatory returns on RCB (generally a weighted average cost of capital, that factors more than just the time value of money and uncertainty in the future cash flows) and regulatory interest that a regulatory agreement provides (charges) for a regulatory asset (regulatory liability). The IASB representative noted that entities would have to refer to their regulatory agreements to identify the regulatory interest rate that is relevant to a regulatory asset when applying

the minimum interest rate requirement. In general, there were two possibilities with regards to the information in the regulatory agreement:

- (a) the regulator gives regulatory returns on RCB (i.e., WACC) and gives no interest rate for regulatory assets and regulatory liabilities. In this case, the regulatory interest rate is zero and an entity would need to assess whether that rate provides sufficient compensation for the time value of money and uncertainty in the future cash flows arising from the regulatory asset (paragraph 11);
- (b) the regulator gives regulatory returns on RCB (WACC) and for some or all regulatory assets and regulatory liabilities provides (charges) a regulatory interest rate. In this case, the explicit regulatory interest rate should be the discount rate to be used.

32 The IASB staff representative noted that the minimum interest rate assessment is expected to be applied when the regulatory agreement provides zero interest rate for regulatory assets. She provided a few examples of such situations:

- (a) Entities from developing countries might have material regulatory assets, however, they might not be receiving interest on those assets; and
- (b) Regulatory assets might be connected to abandoned projects for which the regulator might allow the entity to recover those assets, however, the regulator does not provide an interest on them.

33 The IASB staff representative noted that an entity's weighted average cost of capital (WACC) is expected to provide compensation beyond the time value of money and uncertainties in cash flows on any regulatory assets. Therefore, minimum interest rate proposals were not developed to assess the sufficiency of regulatory return on assets based on WACC.

34 The IASB staff representative provided examples of instances where the entity would use WACC as the discount rate:

- (a) The WACC is not a rate that is expected to be used for discounting regulatory assets and regulatory liabilities which are not related to the RCB. This is either because these regulatory assets or regulatory liabilities may be attracting a regulatory interest rate that is different from WACC or may not be attracting any regulatory interest rate.
- (b) WACC would be used as the discount rate when the entity has a direct relationship between its RCB and PPE if there are differences between the regulatory recovery period and useful lives of assets;

- 35 One RRAWG member pointed out that the minimum interest rate proposals would apply at the initial recognition of regulatory assets as well as at every change of the regulatory interest rate. He questioned how frequently an entity would have to apply these proposals in practice. It was suggested and agreed that this matter would be considered during the EFRAG's preparatory work for endorsement advice - outreach to preparers.

TOPIC 4: INTERACTION WITH IFRS 17 AND IAS 12

INTERACTION WITH IFRS 17

IASB tentative decisions on interaction with IFRS 17

- 36 In April 2024, the IASB tentatively decided to exclude from the scope of the prospective RRA Standard regulatory assets and regulatory liabilities that might arise when premiums charged in insurance contracts that fall within the scope of IFRS 17 are regulated.
- 37 All 14 IASB members agreed with this decision.

INTERACTION WITH IAS 12

IASB tentative decisions on interaction with IAS 12

- 38 In May 2024, the IASB tentatively decided to clarify that:
- (a) the income tax consequences of a regulatory asset or regulatory liability might give rise to a separate regulatory asset or regulatory liability; and
 - (b) an entity would determine the tax base of a regulatory asset or regulatory liability by applying the requirements in IAS 12.
- 39 All 14 IASB members agreed with these decisions.

TOPIC 5: AMENDMENTS TO IAS 36, IFRS 3, IFRS 5, IAS 8 and suggested amendments to other IFRS Standards

Amendments to IAS 36

IASB tentative decisions (February 2024)

- 40 The IASB tentatively decided that the prospective Standard would:
- (a) retain the ED proposal in paragraph 2 of IAS 36 to exclude regulatory assets from the scope of IAS 36;
 - (b) omit the amendments to paragraphs 43 and 79 of IAS 36 proposed in the ED; and
 - (c) not provide any further guidance on the application of IAS 36.
- 41 All 14 IASB members voted in favour of these tentative decisions.

EFRAG RRAWG feedback on IASB tentative decisions

- 42 RRAWG members generally agreed with the IASB's tentative decisions.

Amendments to IFRS 3

IASB tentative decisions on IFRS 3

- 43 In April 2024, the IASB tentatively decided to **retain** the proposals in the ED to create an exception to the recognition and measurement principles in IFRS 3 for regulatory assets acquired and regulatory liabilities assumed in a business combination.
- 44 All 14 IASB members agreed with this decision.

EFRAG RRAWG feedback on IASB tentative decisions

- 45 EFRAG RRAWG members generally agreed with the IASB's tentative decision to create an exception to the recognition and measurement principles in IFRS 3 for regulatory assets acquired and regulatory liabilities in a business combination. They considered that the exception to IFRS 3 for regulatory assets and regulatory liabilities acquired in a business combination was a pragmatic way to address the concerns noted by the IASB (i.e., distortions in performance depiction from fair value true-ups at initial recognition and recognition criteria mismatch).
- 46 However, some members noted the tentative decision was counterintuitive as it created the possibility for double counting of regulatory assets in the goodwill determination (). In their view, the exception would make it difficult to capture losses on impairment of goodwill related to the acquiree's regulatory assets. At the same time, they acknowledged that past RRAWG and EFRAG FR TEG and FRB discussions and EFRAG final comment letter had supported the IASB tentative decision and thus they were comfortable with the IASB tentative decision.
- 47 The EFRAG Secretariat sought member views on the possible lack of comparability due to differences in the recognition and measurement of regulatory assets and regulatory liabilities across direct versus no-direct relationship acquirees. Notably, the no-direct-relationship acquirees would not recognise some RAs and RLs that the direct-relationship acquirees would. In reaction, the IASB staff representative indicated that entities whose RCB has a direct relationship with its PPE would not be expected to have significant regulatory assets or regulatory liabilities related to compensation on the RCB—this is because regulatory recovery periods and assets' useful lives are generally aligned and because the regulator does not adjust the RCB with items that are significant and unrelated to PPE as in some cases of no direct relationship. The IASB staff representative cautioned against an overemphasis on the comparability attribute (i.e., expecting comparability for dissimilar situations).

Amendments to IFRS 5

IASB tentative decisions

48 The IASB tentatively decided to **retain** the proposals in the ED to exclude regulatory assets from the scope of IFRS 5.

49 All 14 IASB members agreed with this decision.

EFRAG RRAWG feedback on IASB tentative decisions

50 EFRAG RRAWG members agreed with the IASB's tentative decision on the proposed amendment to IFRS 5.

Amendments to IAS 8

IASB tentative decisions

51 The IASB tentatively decided to retain the proposal in the ED to delete the temporary exception in paragraph 54G of IAS 8. This exception requires an entity developing an accounting policy for regulatory account balances to refer to the *Framework for the Preparation and Presentation of Financial Statements* instead of the *Conceptual Framework* for Financial Reporting issued in 2018.

52 All 14 IASB members agreed with this decision.

EFRAG RRAWG feedback on IASB tentative decisions

53 EFRAG RRAWG members agreed with the IASB's tentative decision on the proposed amendment to IAS 8.

Amendments to other IFRS Accounting Standards

54 During its consultation on the 2021 ED, the IASB received additional comments about other IFRS Accounting Standards for which the ED does not propose any amendments. These include amendments to:

- (a) IAS 7 *Statement of Cash Flows* – for the IASB to include guidance in IAS 7 on how an entity should consider its regulatory assets, regulatory liabilities, regulatory income and regulatory expense in its statement of cash flows;
- (b) IAS 34 *Interim Financial Reporting* – for the IASB to provide guidance on how an entity should account for its regulatory assets and regulatory liabilities in the interim financial statements;
- (c) IFRS 8 *Operating Segments* – for the IASB to require an entity to report rate-regulated activities separately from other activities;

55 The IASB considered the proposed amendments suggested by respondents during the consultation on the ED. However, it reached the conclusion that the proposed amendments

were not justified and were against the principles of developing and maintaining IFRS Accounting Standards.

56 All 14 IASB members agreed with this decision.

NEXT STEPS

57 At its July 2024 meeting, the IASB finalised its redeliberation proposals. The proposals discussed in this meeting were:

- (a) Extending the measurement/presentation proposals dealing with items affecting regulated rates on a cash basis;
- (b) Transition requirements; and
- (c) Effective date (1 January 2029, with earlier application permitted).

58 The IASB also decided that re-exposure of the proposals in the Exposure Draft with the changes made by its tentative decisions is not required. All members were satisfied that the IASB had followed the applicable due process requirements, but 3 members indicated an intention to dissent from issuing the prospective RRA Standard.

59 The IASB expects to issue the prospective RRA Standard in the second half of 2025.

QUESTIONS FOR EFRAG FR TEG-CFSS MEMBERS

60 Do the IASB's tentative decisions on the following topics help address feedback from stakeholders in your jurisdiction:

- (a) boundary of a regulatory agreement (paragraphs 4 to 5)
- (b) disclosures, including reduced disclosures (paragraphs 10 to 16)
- (c) discount rate, including minimum interest rate (paragraphs 22 to 23)
- (d) interaction with other IFRS Accounting Standards (paragraphs 36 to 39)
- (e) amendments to other IFRS Accounting Standards (paragraphs 40 to 56)?

61 Considering the EFRAG RRAWG input received on the IASB tentative decisions related to computing a single discount rate (paragraphs 26 to 29), are uneven interest rates common in your regulatory environment? If so, please elaborate.

62 Considering the EFRAG RRAWG input received on the IASB tentative decisions related to minimum interest rate (paragraphs 30 to 35), how frequent do you think the minimum interest rate proposal would be applied in your regulatory environment? Please elaborate.

63 Do you have any further comments?

Appendix 1 – Proposals in the IASB Exposure Draft ED/2021/1 Regulatory Assets and Regulatory Liabilities

Boundary of a regulatory agreement

ED proposals

- 64 Paragraph 33 of the ED proposed that when measuring a regulatory asset or a regulatory liability an entity includes all future estimated cash flows arising from the regulatory asset or regulatory liability that are within the boundary of a regulatory agreement.
- 65 The boundary is the point beyond which a regulatory agreement grants no enforceable present rights, and imposes no enforceable present obligations, on an entity (paragraph BC142 of the ED's Basis for Conclusions).
- 66 The ED included guidance to help entities determine the boundary of a regulatory agreement (paragraphs B28-B34 of the ED).
- 67 Paragraph B31 of the ED explained how rights of renewal can extend the period over which an entity has an enforceable present right to add an amount to future regulated rates. Paragraph B33 of the ED pointed out that an entity should disregard a right held by any party if there are no circumstances in which that party has the practical ability to exercise that right.
- 68 Paragraphs B35-B38 of the ED explain that, if a regulatory agreement provides for compensation for unrecovered regulatory assets or unfulfilled regulatory liabilities on cancellation of a regulatory agreement, such compensation is within the boundary of the regulatory agreement if it depends 'solely on the monetary amount of unrecovered regulatory assets or unfulfilled regulatory liabilities.

Feedback to ED

- 69 The feedback received and IASB staff analysis and recommendations were discussed with the IASB in its October 2023 meeting ([Agenda paper 9B](#)) and in its February 2024 meeting ([Agenda paper 9A](#))

Determining the boundary of a regulatory agreement

- 70 A few respondents asked the IASB to clarify the interaction between the proposals on compensation for cancellation of a regulatory agreement and the determination of the boundary of a regulatory agreement. In addition, a few respondents queried whether rights to compensation had to be explicit rights in a licence agreement to be enforceable.

Rights to renew or cancel a regulatory agreement

- 71 A few respondents requested clarification of how the boundary proposals would be applied to agreements with no explicit renewal terms. A few respondents also requested guidance on boundary assessments during the time that a regulatory agreement is being renewed.

Reassessment and changes to the boundary

- 72 Respondents did not raise concerns

Other aspects of the guidance

- 73 A few respondents to the IASB consultation, including EFRAG, sought confirmation that the boundary of a regulatory agreement would not be limited to the licence period. A few respondents wanted to know whether an entity should consider valid expectations that a licence will be renewed or the possibility that a licence will be cancelled. EFRAG considered that a regulator generally does not have a practical ability to exercise their right to cancel an entity's regulatory agreements, since there would likely be major disruptions to an essential public service.

Disclosure requirements proposed in the IASB 2021 ED

ED proposals

Proposals in the 2021 RRA Exposure Draft
Overall disclosure objective
<i>Paragraph 72 of the ED</i> The overall objective of the requirements in paragraphs 74–85 is for an entity to disclose in the notes information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities. This information, together with all other information provided in the financial statements, shall enable users of financial statements to understand: (a) the relationship between an entity's revenue and expenses as completely as would have been possible if the total allowed compensation for the goods or services supplied had been fully reflected in revenue in the period in which the entity supplied those goods or services. That understanding will provide insights into the entity's prospects for future cash flows. (b) the entity's regulatory assets and regulatory liabilities at the end of the reporting period. That understanding will provide insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entity's future cash flows.
<i>Paragraph 73 of the ED</i> The information described in paragraph 72(a) contributes to a better understanding of the relationship between an entity's revenue and expenses. That understanding contributes to providing insights into

the entity's prospects for future cash flows over many periods. In contrast, the information described in paragraph 72(b) provides insights into a narrower set of future cash flows—those that will arise from the regulatory assets and regulatory liabilities that exist at the end of the reporting period.

Level of aggregation and disaggregation

Paragraph 74 of the ED

An entity shall determine the level of detail necessary to satisfy the overall disclosure objective and the specific disclosure objectives in paragraphs 77, 79 and 82. If the information disclosed applying paragraphs 75–83 is insufficient to meet the disclosure objectives, an entity shall disclose additional information to satisfy those objectives.

Paragraph 75 of the ED

An entity shall aggregate or disaggregate disclosures in a manner that does not obscure useful information either by including a large amount of insignificant detail or by aggregating items that have substantially different characteristics. Items whose characteristics may differ substantially include:

- items subject to substantially different risks or uncertainties; and
- items relating to the different revenue categories an entity discloses by applying paragraph 114 of IFRS 15.

Paragraph 76 of the ED

The appropriate level of aggregation or disaggregation may differ for different pieces of information, and may depend on the nature of the information and on the disclosure objective that information would contribute to meeting.

Disclosures about financial performance

Paragraph 77 of the ED

An entity shall disclose information that enables users of financial statements to understand how the entity's financial performance was affected because part of the total allowed compensation for the goods or services supplied in one period was (or will be) included in determining the regulated rates, and hence included in revenue, for goods or services supplied in a different period.

Paragraph 78 of the ED

To achieve the objective in paragraph 77, an entity shall disclose in the notes the following components of regulatory income or regulatory expense included in profit or loss:

(a) the part of the total allowed compensation for goods or services supplied in the current period that will be included in revenue in future periods (creating regulatory assets during the current period).

(b) the amount included in revenue in the current period that will provide part of the total allowed compensation for goods or services to be supplied in future periods (creating regulatory liabilities during the current period).

(c) the amount included in revenue in the current period that provides part of the total allowed compensation for goods or services supplied in past periods (recovering regulatory assets during the current period).

(d) the part of the total allowed compensation for goods or services supplied in the current period that was included in revenue in past periods (fulfilling regulatory liabilities during the current period).

(e) regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities.

(f) changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement, and the reasons for that change in the boundary.

(g) remeasurements of regulatory assets and regulatory liabilities, and the reasons for the remeasurements.

Disclosures about financial position - Maturity analysis, risk, uncertainty and discount rate

Paragraph 79 of the ED

An entity shall disclose information that enables users of financial statements to understand the entity's regulatory assets and regulatory liabilities at the end of the reporting period. That understanding will provide insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entity's future cash flows.

Paragraph 80 of the ED

To achieve the objective in paragraph 79, an entity shall disclose in the notes:

(a) quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities.

(b) the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period.

(c) the regulatory interest rate provided by the regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate for that regulatory asset as a result of applying paragraphs 50–53.

(d) an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

Paragraph 81 of the ED

In disclosing the information required by paragraph 80(a), an entity shall:

- (a) specify whether the amounts disclosed in the notes are undiscounted or discounted
- (b) use judgement to determine an appropriate number of time bands. For example, an entity might determine appropriate time bands to be:
- (i) not later than one year;
 - (ii) later than one year and not later than three years;
 - (iii) later than three years and not later than five years; and
 - (iv) later than five years.

Reconciliation

Paragraph 82 of the ED

An entity shall disclose information that enables users of financial statements to understand any changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense.

Paragraph 83 of the ED

To achieve the objective in paragraph 82, an entity shall disclose in the notes a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.

Regulatory assets and regulatory liabilities measured applying paragraph 61 of the ED

Paragraph 61 of the ED proposes that an entity should measure a regulatory asset or regulatory liability arising from items that affect regulated rates only when the related cash is paid or received using the measurement basis used in measuring the related liability or related asset.

Paragraph 84 of the ED

In considering what information to disclose about regulatory assets and regulatory liabilities measured applying paragraph 61, and how to disclose that information, an entity shall also consider what information to disclose about the related liabilities and related assets and how to disclose the information. Considering these matters together can help an entity explain clearly that the cash flows arising from such regulatory assets and regulatory liabilities are largely a replica of the cash flows arising from the related liabilities and related assets and that the discount rates, risks and remeasurements are largely the same.

Paragraph 85 of the ED

For example, if a regulatory asset arises from pension costs and is measured applying paragraph 61, an entity will need to consider how to disclose the information required by this [draft] Standard and the information required by IAS 19 in a manner that shows: how regulatory income or regulatory expense includes amounts that counterbalance the effects of the pension costs recognised; how the regulatory

asset counterbalances the risks in the pension liability; and, if applicable, that the discount rate is the same for the regulatory asset as for the pension liability.

Feedback to ED

- 74 Most respondents (including EFRAG) agreed with the proposed overall disclosure objective the specific disclosure objectives. Furthermore, EFRAG recommended that the IASB refine the wording within these objectives in a manner that further emphasises a focus on the usefulness of information (e.g., by describing the type of assessment of information that is expected within the specific objectives).
- 75 However, some respondents across jurisdictions and across stakeholder types suggested the IASB develop a broader overall disclosure objective such as an entity provides information about the regulatory agreement, including the basis for determining the regulated rates charged to customers, the identity of the rate regulator, the length, exit provisions and the risks associated with the agreement and its effects on the entity's financial performance, financial position and cash flows.
- 76 EFRAG 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 which was considered burdensome by preparers. Furthermore, EFRAG suggested that, in finalising the proposed disclosures, the IASB consider insights obtained from the development of the Disclosure Initiative project.

Discounting of future cash flows

ED proposals

Discounting future cash flows using the regulatory interest rate

- 77 The ED proposes that an entity measures a regulatory asset or regulatory liability using a cash-flow-based measurement technique that:
- (a) includes an estimate of all future cash flows - including future cash flows arising from regulatory interest and updates those estimates at the end of each reporting period to reflect conditions existing at that date; and
 - (b) discounts those estimated future cash flows to their present value.
- 78 The ED defines regulatory interest rate as the interest rate provided by a regulatory agreement to compensate an entity for the time lag until the recovery of a regulatory asset or to charge the entity for the time lag until the fulfilment of a regulatory liability.

Computing a single discount rate

- 79 Paragraph 54 of the ED states that a regulatory agreement may specify at initial recognition of a regulatory asset or regulatory liability a series of different regulatory interest rates for successive periods over the life of that regulatory asset or regulatory liability. In such cases, the ED proposed that an entity:
- (a) translates those uneven regulatory interest rates into a single discount rate at initial recognition and uses that rate throughout the life of the regulatory asset or regulatory liability.
 - (b) continues to use the discount rate determined at initial recognition, unless the regulatory agreement changes the regulatory interest rate

Minimum interest rate

- 80 The ED (paragraphs 50-51) proposed that on the initial recognition of a regulatory asset and then subsequently if the regulatory agreement changes the regulatory interest rate:
- (a) an entity assesses whether there is any indication that the regulatory interest rate for a regulatory asset may be insufficient to compensate the entity for the time value of money and for uncertainty in the amount and timing of the future cash flows arising from the regulatory asset; and
 - (b) if such an indication exists, the entity estimates the minimum interest rate that is sufficient to provide that compensation. In such cases, the entity would use, as the discount rate, the higher of the regulatory interest rate and the minimum interest rate.
- 81 The ED (paragraph 53) proposed that for a regulatory liability, an entity uses the regulatory interest rate as the discount rate in all circumstances.

Feedback to ED

Discounting future cash flows using the regulatory interest rate

- 82 Most respondents, including EFRAG, to the IASB who commented on the proposed cash-flow-based measurement technique agreed with the proposal and agreed with the proposed requirement to use the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability.
- 83 EFRAG's understanding was that under some regulatory regimes, the regulatory interest rate compensates an entity for time lag (i.e., time value of money) as well as for business risk. However, the definition of regulatory interest rate in Appendix A (Defined Terms) of the ED stated that it compensates only for the time lag. Therefore, EFRAG recommended

that the IASB amend the definition to reflect what is commonly applied in regulatory regimes (i.e., compensation for both business risks and time value of money).

Exemption from discounting in certain cases

- 84 Many respondents to the IASB, including EFRAG, said that the final Standard should provide an exemption from discounting the estimates of future cash flows arising from a regulatory asset or regulatory liability in specific circumstances:
- (a) if the effect of discounting is not significant, similar to the practical expedient in IFRS 15; or
 - (b) if the regulatory asset or regulatory liability is expected to be recovered or fulfilled within a specified period, for example, one year.

Computing a single discount rate

- 85 Many respondents, including EFRAG, that commented agreed with the proposal and noted that it reflects the effect of uneven regulatory interest rates in a way similar to the effective interest method in IFRS 9 *Financial Instruments* and simplifies the proposed measurement requirements.
- 86 EFRAG also agreed with including Example 5 which illustrates how an entity would compute a single interest rate when multiple rates apply throughout the regulatory period. However, EFRAG asked for some clarifications regarding the possible ways to comply with the proposals and additional illustrative examples, or application guidance, to cover more complex scenarios of determining a single interest rate when rates are uneven.
- 87 However, some disagreed with the proposal on the basis that they add complexity to the proposed measurement requirements with no obvious benefits. For example:
- (a) the regulatory agreement may provide or charge a regulatory interest rate only when an entity starts recovering a regulatory asset or fulfilling a regulatory liability through the regulated rates charged or once the regulator approves the related item of expense or income. This situation is common in North America. A respondent said the time lag could range from six months to two years. A few respondents asked whether the proposal should be applied only once the regulatory agreement starts providing or charging regulatory interest. However, a few respondents had not considered the proposals would apply to this situation.
 - (b) the proposal would create an additional difference between the regulatory assets and regulatory liabilities reported in financial statements and the regulatory balances determined in accordance with the regulatory agreement.

Minimum interest rate

- 88 Some respondents agreed with the proposals in the ED for cases when the regulatory interest rate provided for a regulatory asset is insufficient. However, most respondents including EFRAG, did not support the proposals. Their concerns were mainly:
- (a) the complexity and costs of applying the proposals would outweigh any benefits; and
 - (b) the asymmetric treatment of regulatory assets and regulatory liabilities.
- 89 Many respondents, including EFRAG, said that the asymmetric treatment of regulatory assets and regulatory liabilities produces outcomes that can undermine the understandability and neutrality of the resulting information. It also makes the requirements more complex to apply. Many of these respondents suggested using the regulatory interest rate as the discount rate for all regulatory assets and regulatory liabilities.
- 90 EFRAG recommended that if the IASB retained the concept of a minimum interest rate, it should be as a rebuttable presumption whereby an entity applies the regulatory interest rate for discounting unless there is evidence that the latter rate does meet the objective of the ED to provide relevant information to users.
- 91 Most of the users of financial statements that provided feedback said that the proposals would reduce comparability among entities and would be confusing for users.

Interaction with IFRS 17 and IAS 12

Interaction with IFRS 17

ED proposals

- 92 The ED proposes that an entity applies the prospective RARL Standard to all its regulatory assets and all its regulatory liabilities. The ED does not provide any scope exclusion.
- 93 A regulatory asset or a regulatory liability can exist only if:
- (a) an entity is party to a regulatory agreement – the ED defines regulatory agreement as *‘a set of enforceable rights and obligations that determine a regulated rate to be applied in contracts with customers.’*
 - (b) the regulatory agreement determines the regulated rate the entity charges for the goods or services it supplies to customers; and
 - (c) part of the total allowed compensation for goods or services supplied in one period is charged to customers through the regulated rates for goods or services supplied in a different period – there needs to be existence of differences in timing.

Feedback to ED

- 94 Many respondents expressed concerns that the proposed scope may be broader than intended and the scope proposals are not sufficiently clear to help determine whether a regulatory agreement is in the scope of the ED in specific circumstances.
- 95 A few respondents commented that there was a lack of clarity about whether the proposed model was intended to provide information that supplements only the information provided by applying IFRS 15 *Revenue from Contracts with Customers* or whether it is also intended to supplement the requirements of other IFRS Accounting Standards such as IFRS 17 *Insurance Contracts*.
- 96 A few respondents highlighted there are some situations in which the premiums charged in insurance contracts are regulated and it was not clear whether the ED should apply to such insurance contracts. It was, therefore, recommended a scope exclusion for insurance contracts that have premiums that are regulated rather than requiring entities to analyse the existence of any regulatory assets or regulatory liabilities that would need to be recognised.

Interaction with IAS 12

ED proposals

- 97 The ED provide details about:
- (a) regulatory assets or regulatory liabilities that arise when the regulated rates do not fully reflect compensation (charge) for current tax expense (income) or for deferred tax liability (deferred tax asset) - (paragraphs B42–B43);
 - (b) tax effects arising from the recognition of a regulatory asset or regulatory liability - (paragraph B44); and
 - (c) accounting for the tax effects in (b) when a regulator provides compensation (charge) for those effects in future regulated rates charged - (paragraphs B45 - B46).

Feedback to ED

- 98 Most respondents who commented on paragraphs B42–B46 of the ED supported the proposed guidance.
- 99 A few respondents, mainly accounting firms and national standard-setters, suggested the IASB:
- (a) to clarify whether the recognition of a regulatory asset or regulatory liability, including those associated with income taxes (paragraphs B42–B43 of the ED), gives rise to the recognition of a deferred tax liability or deferred tax asset;

- (b) to clarify whether the income tax consequences of a regulatory asset or regulatory liability should be accounted for as a separate difference in timing; and
- (c) to provide comprehensive examples to illustrate the application of the proposed guidance on the interaction with income taxes and the presentation of regulatory income or regulatory expense associated with income taxes.

Amendments to IAS 36, IFRS 3, IFRS 5, IAS 8 and suggested amendments to other IFRS Standards

Amendments to IAS 36

ED proposals

- 100 The ED proposed to exclude regulatory assets from the scope of IAS 36. It also proposed to add in paragraph 43 of IAS 36 regulatory assets and regulatory liabilities as examples of assets in a CGU for which their cash inflows are largely independent from the cash inflows of the asset under review and of obligations that have been recognised as liabilities. In addition, the ED proposed to add regulatory assets and regulatory liabilities as examples in paragraph 79 of IAS 36 of assets and liabilities for which their recoverable amount may be included in the CGU for practical reasons.

Feedback to ED

- 101 The feedback received and IASB staff analysis and recommendations were discussed with the IASB in its February 2024 meeting ([Agenda Paper 9B](#)).
- 102 A few respondents disagreed that cash flows arising from regulatory assets are largely independent of cash flows generated by any other assets. A few others said that it may not always be possible to separate the cash flows of regulatory assets and regulatory liabilities from the cash flows of a CGU.
- 103 A few respondents, including EFRAG, requested guidance on how to assess a CGU that includes regulatory assets for impairment. Specifically, EFRAG suggested that the IASB provide further guidance on separating the cash flows from regulatory assets from the total cash flows generated by a CGU.
- 104 EFRAG also agreed that it is unnecessary to subject regulatory assets to impairment testing.

Amendments to IFRS 3

ED proposals

- 105 The ED proposed an exception to the recognition and measurement principles in IFRS 3 for regulatory assets and regulatory liabilities assumed in a business combination. It proposes that an entity apply the recognition and measurement principles of the prospective RRA

standard to such regulatory assets and regulatory liabilities, rather than recognising and measuring them at fair value.

106 The reasons for an exception are outlined in the *Basis for Conclusions* accompanying the ED and include:

- (a) the recognition threshold of IFRS 3 is different from that of the prospective RRA Standard. Consequently, an entity might not recognise some regulatory assets acquired or regulatory liabilities assumed in a business combination; and
- (b) incur significant costs in applying the requirements in IFRS 3.

Feedback to ED

107 The IASB received limited feedback on the proposed amendment to IFRS 3.

108 A national standard-setter and an accounting firm supported the proposal in the ED for the reasons included in the *Basis for Conclusions* to the ED. However, an European national standard-setter disagreed with the proposal because of the inconsistent accounting for goodwill as a result of the proposal and further complication to the impairment test in accordance with IAS 36.

109 EFRAG expressed support for the IASB proposal based on the consideration that recognising regulatory assets and regulatory liabilities at fair value on day 1 and remeasuring them by applying the measurement principles of the RRA model would create gains or losses that do not represent any economic event but simply reflect the change of one measurement basis to another.

110 EFRAG support for the IFRS 3 exception was also based on the observation that similar exceptions existed for IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* (avoiding the recognition of post-combination gains or losses by using the measurement and recognition principles of these standards).

Amendments to IFRS 5

ED proposals

111 The ED proposes to exclude regulatory assets from the scope of IFRS 5.

112 The IASB is of the view that it would be difficult to determine the fair value of regulatory assets and that the measurement requirements proposed in the ED would provide useful information.

Feedback to ED

113 The IASB received limited feedback on the proposed amendments to IFRS 5.

- 114 Initially, the rationale for excluding regulatory assets from the scope of IFRS 5 (it would be difficult to determine the fair value of regulatory assets) is consistent with the rationale for some existing scope exclusions in IFRS 5. It is also consistent with the rationale for the proposed exception to the recognition and measurement principles in IFRS 3.
- 115 In its FCL, EFRAG agreed with the IASB's tentative decision to exclude the regulatory assets from the scope of the measurement requirements of IFRS 5 and to measure them at modified historical cost instead of fair value. EFRAG considered that this approach removes the complexity of determining a discount rate to be used for the fair value measurement.

Amendments to IAS 8

ED proposals

- 116 The ED 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.
- 117 The temporary exception (paragraph 54G of IAS 8) was introduced following the issuance of the revised Conceptual Framework for Financial Reporting in 2018. It was intended to prevent unhelpful and unnecessary disruption for users of financial statements and entities, pending the development of a new IFRS Accounting Standard on rate-regulated activities. The exception in paragraph 54G of IAS 8 required entities to develop an accounting policy for regulatory account balances after considering paragraph 11 of IAS 8 to refer to the *Framework for the Preparation and Presentation of Financial Statements* rather than the *2018 Conceptual Framework*.

Feedback to ED

- 118 In its FCL, EFRAG agreed with the proposed deletion of paragraph 54G of IAS 8 explaining how the requirement is amended for regulatory account balances, which will no longer be applicable when the proposals of the ED will enter into force.