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Summary of the IASB's redeliberations - RRA

Objective

- 1 The objective of this paper is to provide a comprehensive summary of the redeliberations carried out by the IASB on the ED *Regulatory Assets and Regulatory Liabilities*. The summary includes the following information in columns:
 - (a) ED proposals
 - (b) A summary of the related feedback received by the IASB
 - (c) The related IASB's tentative decisions
 - (d) A summary of the feedback obtained by the EFRAG Secretariat from the EFRAG RRAWG, FR TEG and the FRB on each tentative decision.
- 2 This agenda paper is for background purposes and it is prepared based on the [Rate-regulated activities - cover note](#) prepared by the IASB staff in May 2024 and on the discussions held with the RRAWG, FR TEG and FRB.

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
Scope (October 2021 AP9A Feedback summary—Objective and Scope and February 2022 AP9A Scope—Overview)			
<p>Paragraph 1 of the Exposure Draft states that the objective of the [draft] Standard is to provide relevant information that faithfully represents how regulatory income and regulatory expense affect an entity's financial performance and how regulatory assets and regulatory liabilities affect its financial position.</p> <p>Paragraph 3 of the Exposure Draft proposes that an entity applies the [draft] Standard to all its regulatory assets and all its regulatory liabilities.</p> <p>The Exposure Draft define regulatory assets and regulatory liabilities as enforceable present rights and enforceable present obligations (paragraphs A9 and A10). Paragraph 9 of the Exposure Draft states that 'whether rights and obligations in a regulatory</p>	<p>Most respondents agreed with the objective of the Exposure Draft in paragraph A1. Some of these respondents also acknowledged there is a need for a Standard that addresses the accounting for regulatory assets and regulatory liabilities.</p> <p>Many respondents agreed with the proposed scope in paragraph A2. Respondents also said the proposals were clear enough to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities.</p> <p>However, many respondents said the proposed scope may be broader than intended and that there is a risk the final requirements may not be applied consistently. This perception is mainly caused by:</p> <ul style="list-style-type: none"> uncertainty about which regulatory agreements, arrangements and activities would be within or fall outside the scope of the proposals; uncertainty about the interaction 	<p>Determining whether a regulatory agreement is within the scope of the proposals—AP9B discussed in February 2022</p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to reconfirm the proposals in the Exposure Draft on: <ul style="list-style-type: none"> (iii) requiring an entity to apply the Standard to all its regulatory assets and regulatory liabilities. (iv) requiring the Standard to apply to all regulatory agreements and not only to those that have a particular legal form. (v) the conditions necessary for a regulatory asset or a regulatory liability to exist. not explicitly to specify in the Standard which regulatory schemes would be within or outside its scope. to clarify in the Standard that: <ul style="list-style-type: none"> (vi) a regulatory agreement may include enforceable rights and enforceable obligations to 	<p>FRB SODs 04 April 2022</p> <p>Members provided the following observations:</p> <ul style="list-style-type: none"> need to clarify the interaction with IFRS 17 cooperative arrangements in Denmark potentially falling out of scope. need to assess the amended wording of the scope to better understand the implications of who is in or out of scope. <p>FRB decided that this project can be categorised as 'significant'.</p> <p>RRAWG Chairman report 28 April 2022</p> <p>Scope of the proposed Standard</p> <p>The EFRAG RRAWG members welcomed the IASB's direction of redeliberation on the scope of the proposed Standard and agreed with the IASB's tentative decisions on scope so far. Members made the following comments with respect to:</p> <ul style="list-style-type: none"> Determining whether a regulatory agreement is within the scope – one member commented that the IASB's clarification that a regulatory agreement might include enforceable rights and enforceable obligations to adjust the regulated rate beyond the current regulatory period was relevant when defining the scope of the proposals. Definition of a regulator – members were supportive of adding the regulator as a necessary condition for regulatory assets and regulatory liabilities to exist. They also agreed with the proposed definition of a regulator. One member noted that the definition of a regulator was broad and would not help with reducing the scope. The member elaborated that the proposed definition would include both a regulator being a particular authorised body as well as a regulator being a town

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<p>agreement are enforceable is a matter of law. Regulatory decisions or court rulings may provide evidence about the enforceability of those rights and obligations.'</p> <p>Paragraph 6 of the Exposure Draft states that by definition a regulatory asset or a regulatory liability can exist only if:</p> <p>an entity is party to a regulatory agreement;</p> <p>the regulatory agreement determines the regulated rate the entity charges for the goods or services it supplies to customers; and</p> <p>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 (that is, differences in timing</p>	<p>between the proposals and IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments, IFRS 17 Insurance Contracts and IFRIC 12 Service Concession Arrangements; and</p> <p>a lack of clarity about:</p> <p>(i) the proposed definition of 'regulatory agreement'; and</p> <p>(ii) whether the existence of a regulator is required for assessing whether a right or obligation meets the definition of a regulatory asset or a regulatory liability.</p> <p>Some respondents had concerns on the impact that the term 'customers' may have on the scope of the proposals and shared application questions.</p> <p>Many respondents said that assessing whether rights and obligations are enforceable could be very challenging particularly in jurisdictions where the regulatory environment is not fully developed and when entities need to make assessments</p>	<p>adjust the regulated rate beyond the current regulatory period.</p> <p>(vii) regulatory agreements that create either regulatory assets or regulatory liabilities, but not both, are within its scope.</p> <p>(viii) a regulatory agreement that causes differences in timing when a specified regulatory threshold is met creates regulatory assets or regulatory liabilities.</p> <p>(ix) 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.</p> <p>Definition of a regulator—AP9C discussed in February 2022</p> <p>The IASB tentatively decided that the Standard will:</p> <p>include the existence of a regulator as part of the conditions necessary for a regulatory asset or a regulatory liability to exist.</p> <p>define a regulator as 'a body that is</p>	<p>hall empowered by law. However, on balance, members welcomed the IASB's proposed definition of a regulator.</p> <p>Self-regulation – members agreed with the IASB decision that self-regulation should stay outside of the scope of the proposed Standard and also agreed with the clarification that self-regulation for the purposes of the Standard excluded situations where a related party determined the regulated rates in accordance with a framework that was overseen by a body empowered by law or regulation.</p> <p>FR TEG SODs 13 July 2022</p> <p>Scope</p> <p>Members agreed that the IASB's tentative decisions on the scope of the proposed Standard were broadly in line with the comments raised in the EFRAG FCL on this topic.</p> <p>Enforceability of regulatory assets and regulatory liabilities</p> <p>One member was concerned about the enforceability of regulatory assets and regulatory liabilities being dependent on a confirmation given by the regulator at a future date. A suggestion was made that the point of enforceability needed to be verified across different regulatory regimes across Europe. Understanding whether there was an enforceable right was also important for recognition purposes.</p> <p>Clarifications to the term 'customers'</p> <p>A member suggested that the notion of 'customers' for purposes of the RRA model needed to be defined precisely. It was also observed that in contrast to IFRS 15 there was no direct enforceable right to <i>one</i> customer but rather to a <i>group</i> of clients.</p> <p>Members agreed that the IASB's tentative decisions on the scope of the proposed Standard were broadly in line with the comments raised in the EFRAG FCL on this topic.</p>

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<p>arise).</p> <p>The Exposure Draft defines a regulatory agreement as ‘a set of enforceable rights and obligations that determine a regulated rate to be applied in contracts with customers’ (paragraph 7 and Appendix A to the Exposure Draft).</p> <p>The Exposure Draft defines a regulated rate as ‘a price for goods or services, determined by a regulatory agreement, that an entity charges its customers in the period when it supplies those goods or services’ (paragraph 10 and Appendix A to the Exposure Draft).</p> <p>The Exposure Draft does not restrict the scope of the proposed requirements to regulatory agreements with a particular legal form or to those enforced by a regulator with particular characteristics (paragraph BC85 of the Basis for</p>	<p>beyond the current regulatory period. A few respondents asked the IASB to clarify how the assessment of enforceability would interact with the proposals on recognition (paragraph B25) and measurement (paragraph B32).</p> <p>Many respondents recommended providing further clarity and guidance on the aspects mentioned above to minimise the risk the Standard:</p> <p>unintentionally captures a wide range of regulatory agreements, arrangements and activities.</p> <p>may not be applied consistently.</p>	<p>empowered by law or regulation to determine the regulated rate or range of regulated rates’.</p> <p>include guidance to clarify that:</p> <ul style="list-style-type: none"> (x) self-regulation is outside the scope of the Standard. (xi) a situation in which an entity or its related party determines the rates but does so in accordance with a framework that is overseen by a body empowered by law or regulation, is not self-regulation for the purposes of the Standard. <p>Financial instruments within the scope of IFRS 9 Financial Instruments—AP9E discussed in May 2022</p> <p>The IASB tentatively decided:</p> <p>not to exclude from the scope of the Standard regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS 9.</p> <p>to explain in the Basis for Conclusions on the Standard that the regulation of interest rates is typically limited to setting a cap or floor on interest</p>	<p>ASAF 29 September 2022 Speaking Notes</p> <p>Scope</p> <p>Clarifications relating to the term ‘customers’ for RRA - members agreed with the IASB’s direction of proposals on scope relating to the term ‘customers’ for RRA. They supported the tentative decision that, for a regulatory asset or a regulatory liability to arise, it is necessary that timing differences originate and reverse through amounts included in the regulated rates that the entity accounts for as revenue in accordance with IFRS 15. In this respect the term ‘customers’ in the ED should be understood as defined in IFRS 15;</p> <p>Interaction with IFRS 9 <i>requirements</i> - members also supported the IASB’s tentative decision not to exclude from the scope of the ED regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS 9. However, some members expressed the view that it would be better to have the IFRS 9 exclusion to avoid future circumstances when such situations might appear. In their view, it was not sufficient to just explain in the Basis for Conclusions that regulation of interest rates which is typically limited to setting a cap or floor on interest rates is not expected to give rise to timing differences that result in the recognition of regulatory assets and regulatory liabilities.</p> <p>ASAF summary 29 September 2022</p> <p>Scope</p> <p>ASAF members generally agreed with the IASB’s tentative decisions on the scope of the Standard.</p> <p>The EFRAG member said its stakeholders had mixed views on the IASB’s tentative decision not to exclude regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS 9 from the scope of the Standard. The member suggested the IASB strengthen the arguments supporting this tentative decision and, if the intention of the model is to supplement only IFRS 15, the IASB should clarify this point because some stakeholders think the model is broader.</p>

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<p>Conclusions on the Exposure Draft).</p> <p>The [draft] Standard would not apply to any other rights or obligations created by the regulatory agreement. Paragraph 20 of the Exposure Draft states that an entity should apply other IFRS Accounting Standards in accounting for the effects of those other rights or obligations.</p>		<p>rates. This type of regulation is not expected to give rise to differences in timing.</p> <p>Customers—AP9D discussed in May 2022</p> <p>The IASB tentatively decided to clarify in the Standard that, for a regulatory asset or a regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue in accordance with IFRS 15. This is the case even when:</p> <p>an entity charges the regulated rates to its customers indirectly through another party.</p> <p>the origination and reversal of differences in timing occur in different revenue streams through regulated rates charged to different groups of customers.</p> <p>Interaction with IFRIC 12—AP9A discussed in September 2022</p> <p>The IASB tentatively decided:</p> <p>to clarify in the Standard the intended interaction between the model and IFRIC 12. That is, an</p>	<p>RRAWG Chairman report 08 November 2022</p> <p>EFRAG RRAWG members expressed support for the following IASB tentative decisions on the scope of the final Standard made in May and September 2022:</p> <p>the clarification of the term ‘customers’ for rate-regulated activities (‘RRA’) – the IASB tentatively decided to clarify that for a regulatory asset or a regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue in accordance with IFRS 15, even in cases when:</p> <ul style="list-style-type: none"> (xii) an entity charges the regulated rates to its customers indirectly through another party; (xiii) the origination and reversal of differences in timing occur in different revenue streams through regulated rates charged to different groups of customers. <p>Members observed that the IASB tentative decision was fully aligned with the EFRAG’s final comment letter recommendations;</p> <p>not to exclude financial instruments within the scope of IFRS 9 <i>Financial Instruments</i> – members considered that it was important not to provide scope exclusion for IFRS 9 requirements. This is because the RRA model was only an overlay model which would apply after IFRS Accounting Standards have been applied first. Additionally, they took note that there were no examples of transactions identified by the IASB staff and during the outreach activities that they were aware of where issues with the possible interaction with IFRS 9 requirements could arise. Furthermore, it was noted by the IASB staff that to be in the scope of the Standard, a regulator related to the rate-regulated transaction has to be in place and this made it very unlikely that there would be eligible transactions within the scope of IFRS 9.</p>

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		<p>entity would apply IFRIC 12 first and then apply the requirements of the Standard to any remaining rights and obligations to determine if the entity has regulatory assets or regulatory liabilities; and</p> <p>to include in the Standard examples to illustrate the interaction between the model and IFRIC 12.</p> <p>Interaction with IFRS 17—AP9B discussed in April 2024</p> <p>The IASB tentatively decided to exclude from the scope of the 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.</p>	<p>interaction of the RRA model with IFRIC 12 <i>Service Concession Arrangements</i> requirements – members agreed with the IASB's tentative decision to clarify that an entity would apply IFRIC 12 first and then apply the requirements of the final Standard to any remaining rights and obligations to determine if the entity has regulatory assets or regulatory liabilities and to also include examples to illustrate that interaction. Furthermore, the following comments were made:</p> <p>(xiv) one member noted that it was useful to clarify that an entity should apply the requirements in IFRIC 12 first because IFRIC 12 is only an interpretation and not a full Standard. This clarification was important to avoid confusion related to the interaction of the RRA model and IFRIC 12;</p> <p>(xv) two members suggested that the IASB further analyses examples of arrangements which currently affected the gas and electricity sector in Brazil. These arrangements were not currently regulated activities; however, it would be worth gathering additional information about their features as they could be extended in time.</p> <p>FRB SODs 21 December 2022</p> <p>Scope</p> <p>Questions were raised on the type of entities that would be eligible to be in the scope of the new Standard and why the exposure draft was needed (i.e., who was pushing for the change).</p> <p>ASAF 27-28 March 2023 Speaking Notes</p> <p>Scope - Interaction with IFRIC 12 Service Concession Arrangements</p> <p>EFRAG FR TEG and EFRAG CFSS members supported the IASB tentative decision to clarify the interaction between the RRA accounting model and IFRIC 12</p>

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			<p>Service Concession Arrangements and include illustrative examples in the final Standard.</p> <p>Members did not provide further comments on this IASB tentative decision.</p> <p>ASAF summary 27-28 March 2023</p> <p>Scope</p> <p>ASAF members generally welcomed the IASB's tentative decision to clarify the interaction between the final Accounting Standard (final Standard) and IFRIC 12 Service Concession Arrangements and to include examples to illustrate that interaction.</p> <p>The EFRAG representative noted that this interaction has been a long-standing issue and that stakeholders in EFRAG jurisdictions supported the direction of the tentative decision.</p>
<p>Regulatory assets and regulatory liabilities (October 2021 AP9B Feedback summary—Regulatory Assets and Regulatory Liabilities)</p>			
<p>Paragraph 4 and Appendix A to the Exposure Draft 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’.</p>	<p>Most respondents agreed with:</p> <ul style="list-style-type: none"> the proposed definitions of regulatory asset and regulatory liability; the focus of the proposals on the concept of total allowed compensation; regulatory assets and regulatory liabilities meeting the definitions of assets and liabilities in the Conceptual Framework; and accounting for regulatory assets 	<p>Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets’ useful lives—AP9B discussed in October 2022</p> <p>The IASB tentatively decided that the Standard:</p> <ul style="list-style-type: none"> provide guidance to help an entity determine whether its regulatory capital base and its property, plant and equipment have a direct relationship; retain the proposals for an entity to account for regulatory assets or 	

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<p>Paragraph 5 and Appendix A to the Exposure Draft 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’.</p> <p>The proposed definitions of regulatory asset and regulatory liability refer to the concept of total allowed compensation for goods or services. Total allowed compensation would include the recovery of allowable expenses and a profit component.</p> <p>Paragraphs BC37–BC47 of the Basis for Conclusions on the Exposure Draft include the rationale for the IASB’s</p>	<p>and regulatory liabilities separately from the rest of the regulatory agreement.</p> <p>However, some respondents qualified their support for the proposed definitions and the focus of the proposals on total allowed compensation because they disagreed with some of the regulatory assets or regulatory liabilities that would arise when applying paragraphs B3–B9 and B15 of the Exposure Draft, namely:</p> <p>regulatory assets or regulatory liabilities arising when the regulatory recovery period is longer or shorter than the assets’ useful lives; and</p> <p>regulatory liabilities arising when regulatory returns on an asset not yet available for use are included in regulated rates charged to customers during the period when the asset is not yet available for use (for example, the construction period).</p> <p>According to these respondents, these regulatory assets and regulatory</p>	<p>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</p> <p>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.</p> <p>The direct (no direct) relationship concept—Report on findings from the survey—AP9B and AP9C discussed in September 2023</p> <p>The IASB tentatively decided that the Standard would:</p> <p>include the direct (no direct) relationship concept to help an entity identify differences in timing arising from the regulatory compensation the entity receives on its regulatory</p>	

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<p>conclusion that regulatory assets and regulatory liabilities meet the definitions of assets and liabilities in the <i>Conceptual Framework for Financial Reporting (Conceptual Framework)</i>.</p> <p>The Exposure Draft proposes an entity recognise s regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement.</p> <p>Paragraphs 18–19 of the Exposure Draft discuss instances in which differences between revenue and total allowed compensation arise but these differences are not differences in timing that would meet the definitions of a regulatory asset and a regulatory liability in the Exposure Draft</p> <p>Paragraphs 21–23 of the Exposure Draft discuss rights and obligations that are not regulatory assets and regulatory liabilities.</p>	<p>liabilities:</p> <p>do not represent enforceable rights and enforceable obligations arising from the regulatory agreements;</p> <p>would not meet the definitions of regulatory assets and regulatory liabilities; and</p> <p>would not result in useful information for users of financial statements if recognised in the financial statements.</p> <p>No respondents identified other situations, except for those mentioned in paragraphs B8–B9, in which the proposed definitions would result in entities recognizing regulatory assets or regulatory liabilities that would fail to provide information that is useful to users of financial statements.</p>	<p>capital base;</p> <p>specify that an entity's ability to trace differences between the regulatory capital base and the property, plant and equipment at an asset level is a strong indicator that they have a direct relationship;</p> <p>specify that, in the case of service concession arrangements, an entity determines whether the regulatory capital base has a direct (no direct) relationship with the intangible asset that arises from the service concession arrangement; and</p> <p>include examples to illustrate how an entity determines the direct (no direct) relationship using specific fact patterns.</p> <p>Survey on the direct (no direct) relationship concept— Additional feedback—AP9A discussed in October 2023</p> <p>The IASB tentatively decided to include in the Standard guidance on how to account for regulatory returns on an asset not yet available for use that compensate for borrowing costs an entity has capitalised. The</p>	

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		<p>guidance would illustrate how an entity accounts for such regulatory returns if:</p> <p>the entity determines the capitalised borrowing costs at a higher level of aggregation than the individual asset level; or</p> <p>a regulator determines the regulatory returns on a real basis.</p>	
<p>Total allowed compensation (October 2021 AP9C Feedback summary—Total allowed compensation and May 2022 AP9C Total allowed compensation—Overview)</p>			
<p>Components of total allowed compensation</p> <p>Paragraph 16 of the Exposure Draft states that the[draft] Standard adopts the principle that an entity should reflect the total allowed compensation for goods or services supplied as part of its reported financial performance for the period in which those goods or services are supplied.</p> <p>Paragraph B2 of the Exposure Draft states that total allowed compensation</p>	<p>Components of total allowed compensation</p> <p>Some respondents said that the proposed components of total allowed compensation in paragraph B2 of the Exposure Draft do not fit well with the features of incentive-based schemes.</p> <p>Respondents expressed mixed views on the proposed guidance on amounts that recover allowable expenses minus chargeable income. While many agreed with the proposals, many others in particular respondents subject to allowance-based regulatory</p>	<p>Components of total allowed compensation—AP9A discussed in July 2022</p> <p>The IASB tentatively decided that in the Standard, the application guidance focus on:</p> <p>helping entities to identify differences in timing instead of specifying the components of total allowed compensation; and</p> <p>the most common differences in timing that could arise from various types of regulatory schemes.</p>	<p>ASAF 29 September 2022 Speaking Notes</p> <p>Components of total allowed compensation:</p> <p>members welcomed the IASB's extensive outreach to address the concerns reported by respondents. However, it would be important to see the wording of the guidance to provide a view on whether the revised wording defining total allowed compensation would work for all regulatory regimes.</p> <p>RRAWG Chairman report 08 November 2022</p> <p>Components of total allowed compensation</p> <p>EFRAG RRAWG members noted that the IASB had responded well to the concerns of respondents and agreed with the decisions the IASB was taking on total allowed compensation and aligning the future requirements with the regulatory frameworks.</p> <p>EFRAG RRAWG members agreed with a more principle-based approach to describe total allowed compensation which would work for entities that operate in incentive-based regulatory regimes. Some members noted that regulation</p>

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<p>comprises:</p> <p>amounts that recover allowable expenses minus chargeable income;</p> <p>target profit, of which main components are:</p> <p>(xvi) profit margins that vary with an allowable expense;</p> <p>(xvii) regulatory returns; and</p> <p>(xviii) performance incentives; and</p> <p>regulatory interest income and regulatory interest expense.</p> <p>The Exposure Draft proposes that:</p> <p>amounts that recover allowable expenses minus chargeable income should form part of total allowed compensation in the period when an entity recognises the expense or income by applying IFRS Accounting</p>	<p>schemes disagreed.</p> <p>These respondents particularly disagreed with the proposed guidance and some illustrative examples on depreciation expense. These respondents said the proposals aim to link the recognition of compensation arising from the regulatory depreciation to the depreciation expense recognised in accordance with IFRS Accounting Standards. The application of the proposals to allowance-based regulatory schemes would lead, according to these respondents, to the recognition of regulatory assets and regulatory liabilities that would:</p> <p>not reflect an entity's rights and obligations arising from their regulatory agreements;</p> <p>meet neither the proposed regulatory asset and regulatory liability definitions in the Exposure Draft nor the asset and liability definitions in the Conceptual Framework;</p> <p>not result in useful information; and</p>		<p>was constantly changing which meant that the components of total allowed compensation which formed the basis of the regulated rates entities could charge to customers were also changing. It was important that entities would be able to link regulatory total allowed compensation or the equivalent thereof (such as allowed revenue as it was referred to in some jurisdictions) with the accounting definition of total allowed compensation. The goal was for the accounting requirements to reflect the economics of regulation in the IFRS financial statements. Currently, some entities were more transparent than others by providing more detailed voluntary disclosure in their financial statements.</p> <p>One member however noted that the components delineated in the Application Guidance were useful and it was unclear whether these would still be provided.</p>

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<p>Standards (paragraphs B3–B9 of the Exposure Draft). This is the case even if the recovery of an allowable expense occurs in a period different from that in which the entity incurred the expense (for example, when the regulatory agreement allows an amount that recovers the depreciation expense on an item of property, plant and equipment using a longer or shorter period of recovery than the asset's useful life).</p> <p>profit margins on allowable expenses should form part of total allowed compensation in the period when an entity recognises the expense by applying IFRS Accounting Standards (paragraph B12 of the Exposure Draft).</p> <p>Paragraphs B13–B14 of the Exposure Draft propose</p>	<p>be costly to account for</p> <p>Most respondents agreed with the proposed requirement for regulatory returns applied to a base, such as the regulatory capital base, to form part of total allowed compensation for goods or services supplied in the same period that a regulatory agreement entitles an entity to add them in the regulated rates charged to customers.</p> <p>Many respondents agreed with the proposed guidance on profit margins on allowable expenses and regulatory interest income and regulatory interest expense.</p>		

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<p>that regulatory returns applied to a base, such as the regulatory capital base, that a regulatory agreement entitles an entity to add in determining a regulated rate for goods or services supplied in a period should form part of the total allowed compensation for goods or services supplied in the same period.</p> <p>The Exposure Draft proposes that regulatory interest income and regulatory interest expense should form part of total allowed compensation as the discount unwinds until recovery of the regulatory asset or fulfilment of the regulatory liability (paragraphs B21–B27 of the Exposure Draft).</p>			
<p>Proposed definition of allowable expense and treatment of allowable expenses based on benchmarks</p> <p>Paragraph 11 and Appendix A to</p>	<p>Proposed definition of allowable expense and treatment of allowable expenses based on benchmarks</p> <p>A few accounting firms said that further guidance is needed to apply the concept of total allowed</p>	<p>Proposed definition of allowable expense and treatment of allowable expenses based on benchmarks— AP9A discussed in October 2022</p> <p>The IASB tentatively decided that the</p>	<p>RRAWG Chairman report 08 November 2022</p> <p>Allowable expenses and benchmark expenses</p> <p>In October 2022, the IASB tentatively decided that the final Standard:</p> <ul style="list-style-type: none"> retain the proposed definition of allowable expense; clarify that a regulatory agreement may determine the amount that

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<p>the Exposure Draft defines total allowed compensation as 'the full amount of compensation for goods or services supplied that a regulatory agreement entitles an entity to charge customers through the regulated rates, in either the period when the entity supplies those goods or services or a different period'.</p>	<p>compensation to allowance-based regulatory schemes</p>	<p>Standard:</p> <p>retain the proposed definition of allowable expense;</p> <p>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</p> <p>clarify the treatment of allowable expenses based on benchmarks and include examples to help entities identify differences in timing in those cases.</p>	<p>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; and</p> <p>clarify the treatment of allowable expenses based on benchmarks and include examples to help entities identify differences in timing in those cases.</p> <p>RRAWG members were supportive of the IASB's tentative decision to incorporate benchmark expenses within total allowed compensation, rather than focus on compensation for entity-specific costs. This would align the requirements of the final Standard with the way some regulators in Europe determined regulated rates.</p> <p>One RRAWG member asked how enforceability would work when recoverable differences were subject to ex-post reviews (after the accounting period). One such example could be volume variances that could be subject to negotiation after the close of the accounting period. This happened in the airline sector. The IASB staff representative responded that this could be more of a measurement issue (which the IASB would redeliberate at a future meeting). In some cases, depending on existence uncertainty, it would also relate to recognition.</p> <p>One RRAWG noted that given the application complexity of some of the proposals, it would be important for the IASB to create a Transition Reporting Group (TRG) as had been recommended in the EFRAG final comment letter to monitor and assist entities with application issues once the final Standard was published.</p> <p>FR TEG SODs 18-19 January 2023</p> <p>Allowable expense and benchmark expenses</p> <p>EFRAG FR TEG members supported the IASB's tentative decision on allowable expense and benchmark expenses as it would address the concerns noted by</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>EFRAG and others when allowed expenses were based on benchmark or peer average expenses.</p> <p>Regulatory assets and regulatory liabilities arising from differences in regulatory recovery pace and assets' useful lives.</p> <p>EFRAG FR TEG members supported the IASB's tentative decision to find a solution to the concerns on recognition of regulatory assets and regulatory liabilities arising from differences in the regulatory recovery period and IFRS useful lives applied for depreciation.</p> <p>One member highlighted that there would be significant judgement involved to identify a direct (no direct) relationship between the regulatory capital base and the IFRS property, plant and equipment (PPE). This member considered that it would be preferable for the IASB to develop factors rather than indicators to determine this relationship. The difference between would be that with "factors" an entity would need to comply, which was different to indicators. Therefore, making the decision based on factors would be clearer and more decisive.</p> <p>Members asked whether in incentive-based regulatory regimes where there is no direct relationship, there would be any regulatory assets and regulatory liabilities to recognise. It was noted that, as explained in the IASB staff paper provided for the session on direct (no direct) relationship, many of the differences in timing that arose from differences between the regulatory capital base and the IFRS PPE would not result in recognition of regulatory assets and regulatory liabilities if there was no direct relationship. For such cases, the IASB was considering disclosure requirements.</p> <p>Members considered that it would be important to test the application of direct (no direct) relationship as this was a new concept in the IASB tentative decisions that would have a significant impact on the outcome of the RRA accounting model.</p> <p>A member asked if/when, in light of the principle of a direct (no direct) relationship, regulatory assets and regulatory liabilities could arise for</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>incentives-based schemes. It was clarified that differences in timing that result in the recognition of regulatory assets and regulatory liabilities still occur when there are volume variances and performance incentives among other areas.</p> <p>ASAF 27-28 March 2023 Speaking Notes</p> <p>Proposed definition of allowable expense and benchmark expenses</p> <p>EFRAG FR TEG and EFRAG CFSS members did not raise any concerns or comments on the IASB decision to clarify the proposed definition of allowable expense and benchmark expenses.</p> <p>ASAF summary 27-28 March 2023</p> <p>Proposed definition of allowable expense and benchmark expenses</p> <p>ASAF members generally welcomed the IASB's tentative decision to retain the proposed definition of allowable expense but to 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 Standards.</p>
		<p>Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives—AP9B discussed in October 2022</p> <p>The possible courses of action suggested by the IASB staff to address the concerns were:</p> <p>Course of Action 1: Consider the</p>	<p>RRAWG Chairman report 28 April 2022</p> <p>Total allowed compensation – Accounting for regulatory assets and regulatory liabilities arising from differences between the regulatory recovery pace and assets' useful lives</p> <p>Members provided the following views:</p> <p>Overall, members supported course of action 1 as it would be the only workable solution, is principle-based and caters for evolution in regulatory regimes and due to concerns about the complexities associated with course of action 2.</p>

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		<p>relationship between regulatory depreciation and accounting depreciation (i.e., Regulatory assets and regulatory liabilities recognition would occur depending on the linkage between recovery of allowable expense under the regulatory agreement and accounting depreciation);</p> <p>Course of Action 2: Overall calculation (making the regulatory base and the accounting base comparable);</p> <p>Course of Action 3: Confirm the ED's proposals.</p> <p>The IASB tentatively decided that the Standard:</p> <p>provide guidance to help an entity determine whether its regulatory capital base and its property, plant and equipment have a direct relationship;</p> <p>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</p>	<p>One member that supported course of action 1 confirmed that in his jurisdiction/ sector (UK- water utility) there is no link between the regulatory base and the accounting base. The member stated that a reconciliation of the RAB to IFRS PPE (i.e., course of action 2) is not possible.</p> <p>One member supported course of action 1 noting that it would be more consistent with the objective of the standard of ensuring alignment between regulatory and IFRS accounting.</p> <p>A member noted that he was not aware of differences in regulatory recovery pace in his jurisdiction (France) but supported course of action 1.</p> <p>One member noted that course of action 2 would be complex and would not address to the range of concerns related to TAC (e.g., does not address inflation related to the regulatory asset base).</p> <p>A member supported course of action 1 but suggested that disclosures should be restricted to those that are qualitative due to the noted difficulties in reconciling RAB to IFRS PPE. A user member elaborated on why quantitative disclosures could be useful observing that in her analysis primacy is accorded to future cash flows over profit or loss portrayal that may depict non-cash items under the ED's proposals. Nonetheless, it would be helpful to have quantitative disclosures that help users to understand how the regulator recovery of allowable expense may differ from accounting depreciation.</p> <p>FR TEG SODs 13 July 2022</p> <p>Differences between regulatory recovery pace and assets' useful lives</p> <p>A member noted that illustrative examples were needed for a better grasp of the problem. The member noted that the issues raised touched on the definition of regulatory assets and regulatory liabilities and also questioned the usefulness of the proposed disclosures to understand the effects of regulation.</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
		<p>regulatory capital base and its property, plant and equipment have a direct relationship; and</p> <p>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.</p> <p>The direct (no direct) relationship concept—Report on findings from the survey—AP9B and AP9C discussed in September 2023</p> <p>The IASB tentatively decided that the Standard would:</p> <p>include the direct (no direct) relationship concept to help an entity identify differences in timing arising from the regulatory compensation the entity receives on its regulatory capital base;</p> <p>specify that an entity's ability to trace differences between the regulatory capital base and the property, plant and equipment</p>	<p>Another member welcomed the direction of travel and supported Course of action 1 outlined in the IASB staff paper (i.e. Regulatory assets and regulatory liabilities recognition would occur depending on the linkage between recovery of allowable expense under the regulatory agreement and accounting depreciation) as only assets and liabilities that fulfil the definition in the Conceptual Framework should be recognised in the financial statements.</p> <p>ASAF summary 29 September 2022</p> <p>ASAF members generally agreed with the IASB's tentative decision to focus the application guidance of the final Accounting Standard (Standard) on differences in timing instead of specifying the components of total allowed compensation.</p> <p>The EFRAG member said it is unclear how the guidance would be articulated without the list of the proposed components for total allowed compensation. The staff said that the Standard would not prescribe the components of total allowed compensation but that the staff expected the Standard still to use the proposed components of total allowed compensation as the main source of differences in timing.</p> <p>RRAWG Chairman report 08 November 2022</p> <p>Regulatory assets and regulatory liabilities arising from differences in regulatory recovery pace and assets' useful lives</p> <p>In October 2022, the IASB tentatively decided that the final Standard:</p> <ul style="list-style-type: none"> provide guidance to help an entity determine whether its regulatory capital base and its property, plant and equipment have a direct relationship; 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 require an entity that has concluded that its regulatory capital base and its

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
		<p>at an asset level is a strong indicator that they have a direct relationship;</p> <p>specify that, in the case of service concession arrangements, an entity determines whether the regulatory capital base has a direct (no direct) relationship with the intangible asset that arises from the service concession arrangement; and</p> <p>include examples to illustrate how an entity determines the direct (no direct) relationship using specific fact patterns.</p> <p>Survey on the direct (no direct) relationship concept— Additional feedback—AP9A discussed in October 2023</p> <p>The IASB tentatively decided to include in the Standard guidance on how to account for regulatory returns on an asset not yet available for use that compensate for borrowing costs an entity has capitalised. The guidance would illustrate how an entity accounts for such regulatory returns if:</p> <p>the entity determines the capitalised borrowing costs at a higher level</p>	<p>property, plant and equipment have no direct relationship to provide disclosures to enable users of financial statements to understand the reasons for its conclusion.</p> <p>Some RRAWG members welcomed the IASB's tentative decision not to recognise regulatory assets and regulatory liabilities when a direct link between the RAB and IFRS PPE does not exist. However, these members noted that the indicators to help with the assessment of a direct relationship were very important. The indicators developed by the IASB staff were a good starting point, but further work was needed to understand the different regulatory schemes and assess whether there were “grey areas” for which further guidance might be needed.</p> <p>One EFRAG RRAWG member noted that assessing whether there is a direct relationship between RAB and IFRS PPE would be highly judgemental and difficult to audit. This member also believed that the IASB tentative decision would leave out many entities and thus not meet the general objective of the project which was to account for regulatory assets and regulatory liabilities that met the recognition criteria.</p> <p>There was some support for the IASB staff's proposed possible disclosures for when an entity concludes that there is no direct relationship between the RAB and IFRS PPE. Disclosures would become important given the level of judgement to assess whether a direct relationship existed. However, one member commented that entities might find it difficult to provide quantitative disclosures as the information may not be readily available.</p> <p>One RRAWG member considered that a link would generally exist for recovery of depreciation expense – it was more a question of the period of recovery – which under the ED was considered a difference in timing and gave rise to a regulatory asset or a regulator liability. The difficulty noted in the UK might be a question of whether an entity maintained a fixed asset register and tracked the differences between the regulatory accounts and IFRS. It was understood that in the UK such tracking was not done and thus it was difficult to identify which differences would be differences in timing as defined by the RRA accounting</p>

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		<p>of aggregation than the individual asset level; or</p> <p>a regulator determines the regulatory returns on a real basis.</p> <p>Capitalised borrowing costs—AP9A and AP9C discussed in November 2022</p> <p>The IASB tentatively decided when an entity's regulatory capital base and its property, plant and equipment have a direct relationship and the entity capitalises its borrowing costs:</p> <p>if the regulatory agreement provides the entity with both a debt and an equity return on an asset not yet available for use—to require the entity to reflect only those returns in excess of the entity's capitalised borrowing costs in the statement of financial performance during the construction period; and</p> <p>if the regulatory agreement provides the entity with only a debt return on such an asset—to prohibit the entity from reflecting the return in the statement of financial</p>	<p>model. Other members representing EC entities noted that granular tracking of differences in timing could be an issue and questioned whether a regulator asset or a regulatory liability should be recognised in such cases.</p> <p>One RRAWG member (UK) explained that in the UK water regulation was based on providing an entity with a revenue stream which was not linked to an entity's IFRS PPE value. The difficulty in identifying differences in timing was therefore broader than depreciation expense and would involve other differences. This member said that the IASB staff proposed indicators set out in the paper did a good job of identifying a direct link.</p> <p>The IASB representative explained that the IASB would be discussing other differences in timing between the RAB and IFRS PPE at future meetings.</p> <p>RRAWG Chairman report 27 February 2023</p> <p>Use of the direct (no direct) relationship concept in the model</p> <p>EFRAG RRAWG members discussed the use and application of the direct (no direct) relationship concept in the accounting model for regulatory assets and regulatory liabilities. Several members noted the concept had been considered before.</p> <p>Overall, several members welcome the concept, there was need to look carefully at the indicators, need to see how it will work in practice and the findings of the IASB survey will be important. Specifically, members noted that:</p> <p>Most members welcomed the IASB's decision to apply this concept to cases where there is no direct relationship between an entity's regulatory capital base and its property, plant and equipment ('PPE'). These members indicated how complex and costly such an exercise would be in their jurisdiction and other jurisdictions where a direct relationship does not exist. In their view, using this concept would also reduce subjectivity when assessing whether there are regulatory assets (regulatory liabilities) to recognise.</p> <p>One member noted that it was not clear whether the model and the use of</p>

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		<p>performance during the construction period.</p>	<p>the direct (no direct) concept should be applied in the half-year accounts – and if so, this could create challenges in timing.</p> <p>One member pointed out that the concept had not been included in the Exposure Draft; hence there was a need for the IASB to be transparent about the outcome of its outreach on the concept to avoid the perception of a breach of due process.</p> <p>Some members noted they would be able to determine whether their entity has a direct or (no direct) relationship, with some indicating they had no direct relationship. One member indicated that his entity had a direct relationship, and another indicated that they use IFRS numbers when making this assessment.</p> <p>Other members, while not disagreeing with the use of the direct (no direct) concept, had the following comments:</p> <p>It was questioned whether an entity had to quantify its assessment (based on for example, when revenue is based on opex/capex) when determining whether it was in a direct or no direct relationship and that more than only indicators would be needed to help entities make the determination in a consistent way. In other words, whether it was only the qualitative indicators that should be applied in determining whether is a direct (no direct) relationship. The IASB staff clarified that there are no materiality indicators, and that the determination of the relationship was meant to be qualitative.</p> <p>Given the importance of the concept, the indicators noted in the IASB agenda paper (October 2022 IASB meeting) were too generic using words like “broadly aligned” which could lead to diversity in practice. It was suggested that practical examples should be developed.</p> <p>There would be cases when the regulatory regimes would be hybrid and contain features of both direct and no direct relationship within the same jurisdiction or different jurisdictions, which could also mean that some subsidiaries within the group would be direct and others indirect.</p>

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			<p>Some members thought that there was a need to tighten the indicators to ensure they were clear and allowed entities to make a consistent assessment.</p> <p>In response to a question on whether the use of local GAAP by the regulator impacts the assessment of the direct (no direct) relationship, the IASB staff acknowledged there may be cases where expenses are on the basis of local GAAP but they were not aware of it impacting the assessment of a direct (no direct) relationship. The input the IASB will receive from the survey it is conducting will help the IASB staff to develop application guidance for determining the direct (no direct) relationship between the regulatory capital base and its PPE,</p> <p>Capitalised borrowing costs</p> <p>EFRAG RRAWG discussed the IASB's tentative decisions regarding the accounting for regulatory returns on an asset not yet available for use when an entity capitalises borrowing costs to construct that asset.</p> <p>Mixed views were expressed on the IASB's tentative decision with a few members preferring no action being done while one agreed to address the accounting mismatch. Concerns revolved around the additional complexity, materiality of the issue, and perceived inconsistency with the regulatory. Detailed comments are as follows:</p> <p style="padding-left: 40px;">For those that indicated that they preferred no action to be taken (i.e. make no amendments to address the noted accounting P&L mismatch due to the borrowing costs being recognised as part of regulatory income (P&L) in a period whereas the capitalised borrowing costs are only recognised in P&L afterwards), reasons provided include that the tentative decisions would be costly to make sure that there is no accounting mismatch; the amendment would result in excess complexity and questions on whether the issue was material.</p> <p>One member preferred to address the accounting mismatch for a direct relationship by deferring part of the regulatory return equal to</p>

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			<p>capitalised borrowing costs (consistent with the IASB's tentative decisions).</p> <p>One member indicated that their company has a non-direct relationship between the regulatory capital base and its PPE, and they invoice returns on construction work in progress during the construction period. In this situation, there would also be this accounting mismatch because the revenue would include the total amount charged to customers, but they apply IAS 23. This member suggested disclosing information if material. This member did not agree with amending IAS 23 because the rate regulated activities model is a supplementary model, and the underlying model should not change.</p> <p>Another member indicated that the Standard should take into consideration what the regulation stipulates on the total allowed compensation. Therefore, for situations whereby the regulated return is included in the regulated rate in the operation phase, this member did not agree with recognising a regulatory asset. The IASB Staff responded that the recognition of a regulatory asset is linked to if goods or services are supplied during construction rather than the period when the regulator includes the returns in the rates charged. The proposed model is consistent with accrual accounting and the treatment of regulatory returns is consistent with the treatment of performance bonuses.</p> <p>This member also indicated that for situations whereby the regulated return is included in the regulated rate in the construction phase, she was not comfortable with recognising a liability as this is contradictory with the July IASB tentative decisions (i.e., regulatory returns that are included in IFRS 15 revenue during construction should not result in timing differences).</p> <p>Another member indicated that there are two types of mismatches: the accounting mismatch as revenue is only recognised in construction and not when assets are in use; and an economic mismatch because of the revenue recognised and the capitalisation of the borrowing costs. This member indicated his company decided not to capitalise their borrowing costs so as not to recognise a regulatory liability.</p>

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			<p>Another member recalled two situations whereby the regulated return is included in the regulated rate in the operation phase: one whereby the construction work in progress is being maintained on an existing network compared to another situation whereby there is a creation of a new asset. For the latter situation, it would be risky to recognise a regulatory asset as the entity may not be sure if it will be successful. Therefore, this member preferred to have criteria to make a distinction between these two situations. A member added that it would also be complicated and complex to measure if the entity earns in the operation period. This member wanted to understand the cash impact of the cash flows being received. The IASB Staff responded that for a new asset being developed, the regulator may set different rules. The entity would need to assess enforceable rights.</p> <p>ASAF 27-28 March 2023 Speaking Notes</p> <p>Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives</p> <p>Most EFRAG FR TEG and EFRAG CFSS members did not raise any concerns or comments on the IASB decision.</p> <p>One CFSS member referred to a scenario where the regulated rates could be determined partly on the regulatory capital base and partly on the PPE amount. The IASB Staff commented that they were not aware of such scenarios. The feedback from the survey the IASB Staff was conducting on the direct (no direct) concept was designed to gather additional information on the different types of regulatory regimes and whether the direct (no direct) concept could be applied in practice.</p> <p>Capitalised borrowing costs</p> <p>One member indicated that the root cause of the issue is IAS 23. On the one hand, they considered that the proposals would be difficult to implement and questioned on whether the schemes affected were material. While on the other</p>

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			<p>hand, this member acknowledged that the accounting mismatch would be difficult to explain to users so agreed, at this stage, with the tentative decisions.</p> <p>Another member considered that Approach 3: Deferring part of regulatory return equal to capitalised borrowing cost (as discussed by the IASB's Consultative Group) should apply to all situations and indicated that the IASB's tentative decisions becomes more complex.</p> <p>Regarding recognition of a regulatory liability for the capitalised borrowing cost recognised during construction, the IASB Staff indicated that they have seen that for most of the cases, the returns on regulated rates are included in the operation period. They only encountered one case when there is a direct relationship whereby regulated returns are included in the regulated rates during the construction period.</p> <p>ASAF summary 27-28 March 2023</p> <p>Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives</p> <p>ASAF members generally supported the IASB's tentative decisions about the accounting for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives. However, the EFRAG representative noted that stakeholders in EFRAG jurisdictions have raised some questions regarding the concept of a direct (no direct) relationship between an entity's regulatory capital base and its property, plant and equipment. For example, stakeholders have raised questions about:</p> <ul style="list-style-type: none"> the possibility of having a partially direct relationship. whether the application of local generally accepted accounting principles (GAAP) in the regulatory capital base by a regulator affects the assessment of the relationship between an entity's regulatory capital base and its property, plant and equipment. the indicators an entity would use to determine if the relationship is direct or not. Some stakeholders have said the indicators are broad.

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			<p>Consequently, examples illustrating how an entity could use these indicators to determine the direct (no direct) relationship would, they said, be helpful.</p> <p>The EFRAG representative said users of financial statements generally had questions on non-cash differences in timing. This member expected users would be keen to see a distinction made between cash and non-cash differences in timing; and the member suggested that the IASB should consider this matter when developing its disclosure requirements.</p> <p>FR TEG SODs 13 April 2023</p> <p>Capitalised borrowing costs</p> <p>In general, subject to the results of the IASB's survey to preparers on the direct/no direct concept, members were supportive of additional outreach to EU preparers by EFRAG to understand the prevalence of situations whereby an entity includes regulatory returns when charging the customer during the construction of the asset whilst capitalising borrowing costs. The outreach would also help to identify any other issues arising with the application of the model based on the IASB's tentative decisions (e.g., on the direct relationship/no direct concept between 'RCB and IFRS PPE'). However, one member questioned the need for outreach as he agreed with the IASB's tentative decisions to resolve the accounting mismatch.</p> <p>Several members supported the IASB decision not to amend IAS 23 (allow a scope exception) in order to resolve the accounting mismatch problem. A member noted the problem needed to be dealt with in the specific standard it arises, and the amendment of IAS 23 would result in different accounting between rate-regulated companies and other companies.</p> <p>One member indicated that the final RRA Standard will supplement current IFRS Standards. As a result, he supported the IASB's tentative decisions. He, however, indicated disappointment within his jurisdiction due to the re-introduction of the recognition of a regulatory liability. He questioned the IASB Staff's assertion that the fact patterns leading to recognition of regulatory liability were</p>

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			<p>uncommon especially as in his jurisdiction there were several entities with a direct relationship. He suggested more education is needed by the IASB on the IASB's tentative decisions to better understand the fact patterns and he supported further outreach to ascertain the prevalence of this situation.</p> <p>One member questioned whether similar to IFRS 9, an accounting policy choice could be introduced within the final RRA Standard to avoid the accounting mismatch. It was highlighted that this option had not been considered in the EFRAG RRAWG discussions.</p> <p>The IASB Staff indicated that the option not to do anything was not considered as they thought the accounting mismatch should be addressed. The IASB Staff explained that they did not recommend amending IAS 23 as the issue affected only a group of rate-regulated entities that had been identified as a result of the Rate-regulated Activities project. Also, if IAS 23 was amended, the rate-regulated entities scoped out from IAS 23 would need to be defined or described. In addition, there are rate-regulated entities applying IFRS 14 currently that do not have an issue applying IAS 23. Consequently, instead of amending IAS 23, addressing the issue in the final Standard was considered a better option. The IASB Staff agreed to check the prevalence of entities that charge returns to customers during the construction period.</p> <p>FRB SODs 03 May 2023</p> <p>A member sought clarification on whether regulatory assets and regulatory liabilities only arise when there is a direct relationship. The member sought clarification on why and when differences between RAB and IFRS PPE can occur.</p> <p>Members raised several concerns about the direct (no direct) relationship concept including its enforcement, the comparability of reporting, and consistent application (e.g., when average costs are applied). A member questioned whether companies with the same rights and obligations might apply different recognition and measurement principles.</p>

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			<p>A member sought to understand the reasons underpinning the RRAWG views/support for the concept.</p> <p>EFRAG RRAWG meeting 30 November 2023</p> <p>The direct (no direct) relationship concept –findings from the IASB staff survey</p> <p>Most members generally continued to support the relief provided by introducing the direct (no direct) relationship concept because the calculations necessary to compute regulatory assets and liabilities would not be practical under some regulatory regimes faced by companies. However, one member noted that the initial objective of the IASB project had been to recognise amounts that were legally enforceable resulting from regulated activities and now the concept of no direct relationship presented an ‘exit route’ for entities to not recognise regulatory assets and regulatory liabilities.</p> <p>The members supporting the model noted the gap between the regulatory treatment of RCB and IFRS accounting for PPE was wide and there was no mandatory reconciliation at the granular level required to be able to determine whether there were timing differences at individual asset level necessary for the recognition of regulatory assets and regulatory liabilities. This view was also supported by one member from the UK on the basis that it was challenging to reconcile the RCB for UK entities against fixed assets.</p> <p>One member noted that with hybrid arrangements it could be difficult to conclude whether the relationship was direct or not direct. However, the view of this member was that the indicators proposed by the IASB were helpful. A conclusion on the relationship would have to be made and it was not possible to be both. Another member asked if there could be a different outcome of the same regulation depending on which indicator was used. The view of this member was that the IASB’s indicators were useful but questioned whether they would be sufficient.</p>

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			<p>The observer from the UKEB also shed light on concerns that are in place in the UK. Some differences in timing would be recognised as regulatory assets and regulatory liabilities by entities with a direct relationship but not by those without a direct relationship. In the UK, regulatory regimes had no direct relationship and UKEB needed to ascertain what that meant for unrecognised regulatory assets and regulatory liabilities and how material these are. There was a concern that not reflecting regulatory assets and regulatory liabilities would fail to reflect the economics and result in a lack of comparability.</p> <p>Illustratively, the observer from the UKEB provided an example of a company that had US-based regulatory operations and UK-based regulatory operations. There was a question of whether that would mean that the entity would recognise more regulatory assets and liabilities for the US company but less for the UK and whether that was a fair economic reflection. The observer's view was that just because agreements differed did not mean that one set of agreements ought to have fewer differences in timing being recognised. The differences needed to be understood, whether and how they should be recognised rather than simply concluding that there were no adjustments without a direct relationship. This observer considered that the IASB was potentially creating a situation where non-direct entities would recognise fewer regulatory assets or liabilities than entities outside of the UK (like Canada and the US). That would impact comparability.</p> <p>FR TEG 18 January 2024</p> <p>IASB staff survey on the direct (no direct) relationship concept with a specific focus on the responses by EU:</p> <p>In response to a question on whether the direct/no direct concept might lead to re-exposure, the IASB representative conveyed that, as per its due process, before the Standard's finalisation, the IASB will consider if a re-exposure is needed. So far there were no indications that this may occur.</p> <p>Some members considered that the direct (no direct) concept was a pragmatic approach to solving the concerns raised during stakeholders' feedback to the</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>2021 IASB ED. A member noted that the concept could be seen as a practical expedient related to minor items. It was also noted that there is a need to ascertain the extent to which there could be challenges in reliably measuring the regulatory assets (liabilities) that were not being recognised.</p> <p>However, several members noted that the fact that the assessment of whether an entity is direct (no direct) depends on the entity's ability to reconcile accounting balances with regulatory balances may result in earnings management and put some pressure on auditors. They expressed unease that the determination of whether to recognise some regulatory assets (liabilities) would depend on the ability to reconcile. It also raised questions on the implications/pressures of disclosures.</p> <p>Questions were raised on the level at which reconciliations between accounting balances and regulatory balances should be made. If the reconciliation is made on a group of assets level it should be easier than if it is made on an individual asset level. Also, the reconciliation could be made at the consolidated financial statements level, which would take into account business combinations, or at the individual financial statements level.</p> <p>A member indicated that if an entity concludes that there is no direct relationship between its PPE and its regulatory capital base, it should revisit its regulatory agreement to ensure that the regulatory assets and the regulatory liabilities are enforceable assets and obligations that will add or deduct an amount in determining the regulated rate.</p> <p>A member suggested that EFRAG should make its own assessment to understand why European entities that claim to have no direct regulatory agreements cannot measure regulatory assets and regulatory liabilities (i.e. whether it is a matter of reliability or it is something else) and quantify the impact. He noted that regulation may change in the future to be closer to the Totex regulation prevailing in the US and the forthcoming IFRS Standard should stand the test of time.</p>

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			<p>A member questioned whether an entity would be allowed to change from the direct to the no-direct approach or vice versa. She also questioned the IASB’s next steps with regard to hybrid regulatory agreements. On this matter, another member noted that a way forward could be to have part of the regulatory scheme in the scope of the Standard and part outside of the scope.</p> <p>A member suggested that an entity that has a no direct relationship between its PPE and its regulatory capital base could provide qualitative disclosures if it cannot provide quantitative disclosures.</p> <p>FRB SODs 22 March 2024</p> <p>Another FRB member indicated that entities in his jurisdiction agreed with the IASB’s direct (no direct) approach and asked the EFRAG Secretariat to contribute to a consensus position across Europe so as not to delay the publication of the prospective Standard.</p> <p>ASAF 25–26 March 2024 Speaking notes</p> <p>Survey on the direct (no direct) relationship concept</p> <p>Members did not disagree with the IASB’s tentative decision and noted that companies that had “no direct” relationship would still be in the scope of the prospective Standard. One member noted that it was important to better understand the effects of the direct (no direct) concept on European companies impacted by the prospective Standard. He emphasised the importance of the outreach currently being undertaken by EFRAG in collaboration with NSS in several jurisdictions (i.e., Italy, France, Germany, Netherlands, Norway, Poland/CEE).</p> <p>There was interest expressed in better understanding the “Top-down” model being developed by the UKEB to supplement the IASB proposals and allow the recognition of RA/RL that will not be recognised under the current IASB proposals.</p> <p>As summarised in the meeting issues paper, RRAWG members supported the IASB tentative decisions related to the direct/no direct relationship concept. The</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>EFRAG FR TEG members considered it to be a pragmatic approach to addressing preparer concerns and made several comments that can be found in the issues paper.</p> <p>ASAF summary 25–26 March 2024</p> <p>Survey on the direct (no direct) relationship concept</p> <p>The EFRAG representative acknowledged that some entities with no direct relationship may be less supportive of the concept than other entities. However, this member also urged the IASB not to let this issue delay the issuance of the prospective Accounting Standard. The member said there is a strong demand for the timely issuance of a final Standard.</p>
<p>Regulatory returns on an asset not yet available for use</p> <p>Paragraph B15 of the Exposure Draft proposes that:</p> <p>regulatory returns on an asset not yet available for use should form part of total allowed compensation for goods or services supplied once the asset is available for use and over the remaining periods in which the entity recovers the carrying amount of the asset through the regulated rates; and an entity uses a reasonable</p>	<p>Regulatory returns on an asset not yet available for use</p> <p>Some respondents agreed with the proposal for an entity to reflect returns on an asset not yet available for use in the period when the asset is being used to supply goods or services to customers. However, most respondents disagreed. According to these respondents, the proposals would:</p> <ul style="list-style-type: none"> not reflect the economic substance of the regulatory agreements; not result in useful information; be costly to implement; and be inconsistent with US generally accepted accounting principles 	<p>Regulatory returns on an asset not yet available for use— AP9B discussed in May 2022 and AP9B and AP9C discussed in July 2022</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>ASAF 29 September 2022 Speaking Notes</p> <p>Regulatory returns on an asset not yet available for use:</p> <p>members supported the IASB's tentative decision to require companies to recognise a regulatory return on assets not yet in use when there was an enforceable right to the return. However, it was important the guidance and examples being developed did not create the possibility to recognise regulatory assets in cases when there was no enforceable right. Having the final wording of the guidance would be important to provide a view whether it would work.</p> <p>ASAF summary 29 September 2022</p> <p>Regulatory returns on an asset not yet available for use:</p> <p>ASAF members overall welcomed the IASB's tentative decision on regulatory returns on assets not yet available for use. This tentative decision would allow an entity to reflect in profit or loss during the construction period regulatory returns on an asset not yet available for use, if the entity has an enforceable right to those returns.</p>

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<p>and supportable basis in determining how to allocate the returns on that asset over those remaining periods and it applies that basis consistently.</p>	<p>(GAAP).</p> <p>In outreach during the comment period, most users of financial statements said entities should reflect regulatory returns on an asset not yet available for use in the statement of financial performance during the construction phase.</p>		<p>The ANC and EFRAG members said they would like to see the application guidance that the IASB tentatively decided to develop for entities to assess whether their rights to these regulatory returns are enforceable.</p> <p>ASAF summary 27-28 March 2023</p> <p>Regulatory returns on an asset not yet available for use</p> <p>ASAF members generally supported the IASB’s tentative decision on the treatment of regulatory returns on assets not yet available for use; in particular, when an entity capitalises borrowing costs to construct those assets, and there is a direct relationship between the entity’s regulatory capital base and its property, plant and equipment. However:</p> <p>the ANC representative suggested that the IASB should undertake outreach to understand the prevalence of entities including the regulatory returns in regulated rates charged to customers during the construction period. In this case, the tentative decision would mean that an entity recognises a regulatory liability. The ANC representative said that this tentative decision seemed to contradict the IASB’s tentative decision on whether an entity should reflect regulatory returns on an asset not yet available for use during the construction period. The ANC and EFRAG representatives said that stakeholders in their jurisdictions have suggested that the situation where an entity charges customers regulatory returns on an asset not yet available for use during the construction period, and the entity’s regulatory capital base has a direct relationship with its property, plant and equipment, might be more common than had been thought.</p> <p>the EFRAG representative indicated that stakeholders in EFRAG jurisdictions had mixed views on this matter with some questioning both its complexity and materiality. The member noted that the treatment of regulatory returns on an asset not yet available for use is complex and suggested that the IASB should consider how best to communicate its requirements, perhaps by way of a flow chart.</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>RRAWG Chairman report 28 April 2022</p> <p>Total allowed compensation - Regulatory returns on CWIP</p> <p>Members provided the following views:</p> <p>Some members supported the course of action to remove paragraph B15 as entities knew what types of goods or services they offered and are compensated for. For example, in the water supply sector, what was important to a customer was that when they turned on the tap there was water. However, goods and services to the regulator is different from goods and services to the customer. Hence, some members considered that there was need to broaden the definition of goods and services. One member also noted that there is ambiguity on the term customers, and it would be helpful to define customers and whether they represent the customer base rather than individual customers.</p> <p>Some members noted that regulation evolved and that both types of regimes discussed in the agenda paper (RA1 and RA2) were applicable to their organisations. This was the case for France. The course of action should address the concerns in both regulatory regimes and removing B15 might not do that. Hence a solution based on removing B15 and broadening the notion of goods or services would work better.</p> <p>One member explained that the regulatory agreement in their entity allowed the pre-financing of assets given that billions of EUR were being spent to build a nuclear plant. They had created an SPV to undertake the project and it would be odd to have revenue, and no costs should the entity recognise revenue for the returns on CWIP, but the infrastructure was still WIP and hence there would be no depreciation costs. It would be helpful to have a broader definition of goods or services.</p> <p>Some members preferred to expand the definition of goods and services as removing paragraph B15 could create an inconsistency with the principles in IFRS 15 regarding meeting an obligation to deliver goods</p>

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			<p>or services. One suggestion was to focus on what the regulation says – if the regulation says that an entity has a right to the regulatory return then the entity should recognise revenue. It was important to develop a principle that focused on the rights and obligations under the applicable regulation.</p> <p>Some members noted that it was important to note that the regulatory return on RAB (assets in use) was different (in terms of amount or percentage) to the regulatory return granted on CWIP - so the notion of a broader context of goods or services was important.</p> <p>Overall, members supported a principle-based solution that would address the concerns in all applicable regulatory regimes, keeping in mind that regulation evolves. This solution could be a mix of deleting paragraph B15 and having a broader notion of goods or services that focused on what the regulation says.</p> <p>FR TEG SODs 13 July 2022</p> <p>Total allowed compensation – regulatory returns on CWIP</p> <p>EFRAG FR TEG welcomed the direction of the IASB discussions and recommendations so far which considered the concerns raised by many stakeholders, including EFRAG.</p> <p>A member noted that it would be helpful to better understand the impact of borrowing costs on the accounting for total allowed compensation, once the IASB had discussed the issue at its upcoming meeting in July 2022.</p> <p>RRAWG Chairman report 08 November 2022</p> <p>Regulatory returns</p> <p>EFRAG RRAWG members supported the IASB's tentative decision on the grounds that the IASB decision was bring the requirements in line with how regulation worked and how regulators compensated entities during the construction period.</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
	<p>Inflation adjustment to the regulatory capital base</p> <p>A few respondents said it was unclear how the proposals dealt with inflation adjustments reflected in either the regulatory returns or the regulatory capital base.</p>	<p>Inflation adjustment to the regulatory capital base—AP9A discussed in December 2022</p> <p>The IASB tentatively decided that the Standard specify that an entity is neither required nor permitted to recognise as a regulatory asset inflation adjustments to the regulatory capital base.</p>	<p>RRAWG Chairman report 27 February 2023</p> <p>Inflation adjustments included in the regulatory capital base</p> <p>EFRAG RRAWG discussed the IASB’s tentative decisions on inflation adjustments to an entity’s regulatory capital base.</p> <p>Members were, in general, in agreement with the IASB’s tentative decision not to recognise a regulatory asset for inflation adjustments to the regulatory capital base. One member did not agree with the IASB’s tentative decisions indicating that he was not convinced by the argument that it will be too costly to track inflation adjustments. This member indicated that based on the IASB’s tentative decisions, the example 7C.2 of the Exposure Draft would need to be rephrased.</p> <p>One member confirmed that they apply a real return approach (incentive-based scheme). While another member was more familiar with the nominal approach.</p> <p>One member questioned whether all incentive-based schemes apply a real return and the IASB Staff responded that it was not necessary that all incentive-based schemes have a real return. Based on what the IASB Staff have seen, cost-based schemes applying a nominal return and incentive-based schemes applying a real return was coincidental rather than a reflection of the features of the scheme.</p> <p>In response to a member’s question for clarification on whether the IASB Staff’s recommendations were only for inflation adjustments linked to the regulatory asset base and not to other inflation adjustments, the IASB Staff confirmed that the tentative decisions relate only to inflation adjustments linked to the regulatory asset base. The IASB Staff indicated that the tentative decisions do not deal with other inflation adjustments that may be included in regulated</p>

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			<p>rates. Also, the tentative decisions are for both a direct and non-direct relationship between an entity's regulatory capital base and its PPE.</p> <p>ASAF summary 27-28 March 2023</p> <p>Inflation adjustment to the regulatory capital base</p> <p>ASAF members had mixed views about the IASB's tentative decision that an entity should not recognise as a regulatory asset the inflation adjustment to the regulatory capital base.</p> <p>The ARD and EFRAG representatives indicated general support from stakeholders on this tentative decision. However, the EFRAG representative queried whether the IASB also plans to address other types of inflation adjustments.</p> <p>The ARD and EFRAG representatives said stakeholders in their jurisdictions generally supported the IASB's tentative decision dealing with allowable expense or performance incentives included in an entity's regulatory capital base.</p>
		<p>Other items included in the regulatory capital base—AP9C discussed in December 2022</p> <p>The IASB tentatively decided that the Standard specify that:</p> <p style="padding-left: 40px;">an entity is required to recognise a regulatory asset or a regulatory liability relating to an allowable expense or performance incentive included in its</p>	<p>RRAWG Chairman report 27 February 2023</p> <p>Other items included in the regulatory capital base</p> <p>EFRAG RRAWG members considered the IASB's tentative decisions on other items included in the regulatory capital base including performance incentives.</p> <p>One member referred to a 2021 IFRIC agenda decision on the accounting treatment of costs relating to Software as a Service (SaaS) arrangements, as an example of other items that could be included in the regulatory capital base. This member supported the IASB's tentative decision not to require an entity to recognise regulatory assets (regulatory liabilities) if there was no direct relationship. This was because they did not track differences in timing for these</p>

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		<p>regulatory capital base when:</p> <p>(xix) the entity's regulatory capital base and its property, plant and equipment have a direct relationship; and</p> <p>(xx) the entity has an enforceable present right (obligation) to add (deduct) the allowable expense or performance incentive to (from)future regulated rates.</p> <p>an entity is neither required nor permitted to recognise a regulatory asset or a regulatory liability relating to an allowable expense or performance incentive included in its regulatory capital base when the entity's regulatory capital base and its property, plant and equipment have no direct relationship.</p>	<p>items and it would be complicated if they would be required to do so. This member highlighted that performance incentives were not added to the regulatory capital base.</p> <p>Other members welcomed the IASB tentative decision for the reasons already mentioned and noted that performance incentives were generally not added to the regulatory capital base. One member said that in some cases performance incentives could be part of the regulatory capital base.</p> <p>Members generally supported the IASB tentative decision which was consistent with the use and application of the direct (no direct) concept for other differences in timing that are affected by the relationship between an entity's regulatory capital base and its PPE.</p> <p>ASAF 27-28 March 2023 Speaking Notes</p> <p>Other items included in the regulatory capital base.</p> <p>On a question regarding whether other items only related to incentives included in the regulatory capital base, the IASB Staff confirmed in the affirmative.</p>
<p>Paragraphs B16–B18 of the Exposure Draft propose that amounts relating to a performance incentive should form part of or reduce the total allowed compensation for goods or</p>	<p>Most respondents agreed that performance incentives should form part of or reduce the total allowed compensation for goods or services supplied in the period in which an entity's performance gives rise to the incentive. A few</p>	<p>Total allowed compensation— performance incentives— AP9D discussed in February 2023</p> <p>The IASB tentatively decided to reconfirm in the Standard the proposed requirement relating to performance incentives. The requirement would be that</p>	<p>Chairman report of RRAWG 11 July 2023</p> <p>Total allowed compensation – performance incentives</p> <p>Members discussed the IASB tentative decision in February 2023 that performance incentives should form part of or reduce the total allowed compensation for goods or services supplied in the period in which the entity's performance gives rise to the incentive.</p>

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<p>services supplied in the period in which an entity's performance gives rise to the incentive. The Exposure Draft proposes the same treatment for construction-related performance incentives.</p> <p>Paragraph B19 of the Exposure Draft proposes that if the performance criteria test an entity's performance over a time frame that is not yet complete, the entity should estimate the amount of the performance incentive and determine the portion of that estimated amount that relates to the reporting period. That portion forms part of or reduces the total allowed compensation for the goods or services supplied in the reporting period. An entity should use a reasonable and supportable basis in determining that portion and apply that basis consistently.</p>	<p>accounting firms raised concerns about the practical difficulties that entities may face when measuring regulatory assets or regulatory liabilities associated with performance incentives that test entities' performance across multiple reporting periods.</p>	<p>amounts relating to performance incentives should form part of or reduce the total allowed compensation for goods or services supplied in the period in which the entity's performance gives rise to the incentive. These amounts would include those that result from an entity's performance of construction work.</p> <p>Long-term performance incentives—AP9A discussed in April 2023</p> <p>The IASB tentatively decided to reconfirm in the Standard the proposal to require an entity to estimate the amount of a long-term performance incentive, and to determine the portion of that estimated amount that relates to the reporting period using a reasonable and supportable basis.</p>	<p>Members generally agreed with the IASB's tentative decision and welcomed consistency with a principle based on when an entity performed.</p> <p>One member noted that as the amounts from performance incentives would not be significant compared to the whole revenue, he accepted it as a practical approach despite some diversity in estimation that could arise due to judgement being applied.</p> <p>Long-term performance incentives</p> <p>Members discussed the April tentative decisions on long-term performance incentives. The IASB tentatively decided to retain the proposal in the 2021 Exposure Draft Regulatory Assets and Regulatory Liabilities to require an entity to estimate the amount of a long-term performance incentive, and to determine the portion of that estimated amount that relates to the reporting period using a reasonable and supportable basis.</p> <p>Members were, in general, supportive of the tentative decisions.</p> <p>One member indicated that long-term incentives relate to something major that is on top of the ordinary business while for allowable benchmark expenses, this relates to ordinary business. Therefore, this member did not see an issue with introducing a measurement constraint for allowable benchmark expenses while it is not the case for long-term incentives, looking at hybrid schemes.</p> <p>Another member has not come across long-term incentives for example over five years. This member acknowledged that estimating the incentives would be challenging as it was not always possible to determine whether the entity had reached the target in time before publishing the financial statements. However, entities are used to determine the best estimate.</p> <p>Members generally indicated that, currently, they see incentives related to operational efficiency but there may be incentives in the future relating to having a greener economy.</p> <p>ASAF 28 September 2023 Speaking notes</p>

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			<p>Question 1: Do the tentative decisions on total allowed compensation help address feedback from stakeholders in your jurisdiction?</p> <p><i>Performance incentives</i></p> <p>The IASB tentative decision outlined in slide 8 of the ASAF paper affirmed the ED’s proposed treatment of performance incentives as a component of the total allowed compensation whereby “The amounts relating to performance incentives should form part of or reduce the total allowed compensation for goods or services supplied in the period in which the entity’s performance gives rise to the incentive. These amounts would include those that result from an entity’s performance of construction work.”</p> <p>EFRAG’s comment letter supported the ED’s proposals and only pointed to the then-inconsistency between the proposed treatment of regulatory returns for construction work in progress and performance incentives related to the construction period. However, the July 2022 IASB tentative decision resolved this noted inconsistency. Neither RRAWG members nor TEG-CFSS members objected to the IASB tentative decision affirming the treatment of performance incentives.</p> <p><i>Long-term performance incentives</i></p> <p>The IASB tentative decision is outlined in slide 8 of the ASAF paper.</p> <p>EFRAG’s comment letter: There was no specific comment on long-term performance incentives.</p> <p>A point to note is that there are no measurement constraints for long-term performance incentives but there are for allowable benchmark expenses.</p> <p>EFRAG FR TEG-CFSS members were, in general, supportive of the tentative decisions in slide 8 of the ASAF paper.</p> <p>Some comments from EFRAG RRAWG members:</p> <p>There were no concerns from the RRAWG regarding the fact that there are</p>

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			<p>no measurement constraints for long-term performance incentives but there are for allowable benchmark expenses members as they considered that allowable benchmark expenses relate to ordinary business while long-term incentives are in addition to ordinary business.</p> <p>It would be challenging to estimate the incentives as it was not always possible to determine whether the entity had reached the target in time before publishing the financial statements.</p> <p>RRAWG members generally indicated that, currently, they see incentives related to operational efficiency but there may be incentives in the future relating to having a greener economy.</p> <p>ASAF summary 28 September 2024</p> <p>ASAF members generally supported the IASB's tentative decisions related to performance incentives (including long-term performance incentives).</p> <p>A few ASAF representatives suggested that the IASB consider: (a) how the tentative decisions might be applied to some emerging performance incentives such as those dealing with green targets (EFRAG and UKEB representatives); and (b) providing examples to illustrate how the tentative decisions would apply to common performance incentives (AOSSG and ARD representatives).</p>
<p>Unit of account, recognition and derecognition (October 2021 AP9D Feedback summary—Recognition)</p>			
<p>Unit of account</p> <p>Paragraph 24 of the Exposure Draft proposes that:</p> <p>the right or obligation arising from each individual difference in timing should be accounted for as a</p>	<p>Unit of account</p> <p>A few respondents expressed concerns that the proposal may be onerous to apply in practice. This is because an entity may need more granular information than that currently used in setting regulated rates.</p>	<p>Unit of account and offsetting—AP9A discussed in December 2023</p> <p>The IASB tentatively decided that the Standard would:</p> <p>clarify that the unit of account is the right or obligation arising from a difference in timing or from a group of differences in timing.</p>	<p>RRAWG Chairman report 06 March 2024</p> <p>In response to the IASB tentative decisions on the unit of account:</p> <p>Some members supported the IASB's tentative decision to clarify that the unit of account is the right or obligation arising from a difference in timing or from a group of differences in timing when these differences meet certain criteria. In their view, the proposal to group timing differences would work well for 'clawback' accounts and allow them to recognise regulatory assets and regulatory liabilities. 'Clawback'</p>

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<p>separate unit of account.</p> <p>the rights, obligations, or rights and obligations arising from the same regulatory agreement may be treated as arising from the same individual difference in timing, if those rights and obligations have similar expiry patterns and are subject to similar risks.</p>		<p>The differences in timing included in that group would:</p> <p>(xxi) be created by the same regulatory agreement;</p> <p>(xxii) have similar expiry patterns; and</p> <p>(xxiii) be subject to similar risks</p>	<p>accounts include various items (such as revenue, expenses) which are not tracked separately and do not affect the regulatory capital base (RCB).</p> <p>One member proposed having a higher level of unit of account and cautioned that removing paragraph 71 of the ED (requirement on offsetting) might hinder the possibility of offsetting RA and RL.</p> <p>Some members considered the unit of account to be quite theoretical and asked for the IASB to consider providing examples. One member was unclear whether the revised definition of the unit of account was trying to accommodate the way the items were grouped by the regulator.</p> <p>One member noted that there is no real symmetry between regulatory assets and regulatory liabilities, therefore, having a higher level of the unit of account than proposed in the ED, should not affect the recognition of regulatory assets and regulatory liabilities.</p> <p>In sum, members' feedback indicates there are still challenges in understanding the applicability of the unit of account concept. A question arises as to why a unit of account at an individual asset level is warranted. It can be argued that if the unit of account at a higher level does not create problems for the recognition and measurement of regulatory assets (liabilities), then having it at a detailed level as proposed would likely create more costs than benefits for the entities.</p> <p>In response to the IASB tentative decisions on offsetting:</p> <p>Some members generally agreed with the proposal to omit the requirement on offsetting in paragraph 71 of the ED.</p> <p>One member questioned whether this tentative decision was necessary considering the modification made to the definition of the unit of account in relation to the grouping of timing differences. In his view, the requirement in paragraph 71 of the ED was providing a possibility for preparers to group regulatory assets and regulatory liabilities</p>

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			<p>meeting certain criteria and was not a requirement. As long as paragraph 71 was not inconsistent with the requirements in IAS 32 and IAS 12, this requirement would be good to have.</p> <p>In sum, it was seen as useful to retain paragraph 71 of the ED in order to apply the concepts in the RRA standard.</p> <p>ASAF 25–26 March 2024 Speaking notes</p> <p>Unit of account and offsetting</p> <p>One member commented that setting up the unit of account at the right level was critical for the RRA project. Since there were no different recognition and measurement criteria for regulatory assets and regulatory liabilities, having a very detailed unit of account was not necessary. Therefore, <u>the unit of account could be established at a higher level than currently proposed under the IASB tentative decisions confirming the ED proposals.</u></p> <p>One member observed that the unit of account when considering credit risk is at the level of each regulatory asset and each regulatory liability separately, or from considering any of them together with other regulatory assets or regulatory liabilities.</p> <p>Other suggestions made on the unit of account were a) to use a top-down approach like IFRS 17 for establishing the unit of account at a higher level where timing differences with similar risks are managed together; or b) to manage regulatory assets and regulatory liabilities together like IAS 12.</p> <p><i>Offsetting-</i> The EFRAG RRAWG considered that as long as paragraph 71 of the ED (requirement on offsetting) was not inconsistent with the requirements in IAS 32 and IAS 12, this requirement would be good to have.</p> <p>In conclusion:</p> <p>Unit of account - there are still challenges to understanding the applicability of the unit of account concept. It was seen as important to simulate the unit of account concept before the IASB finalises its</p>

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			<p>deliberations on this topic. If the unit of account does not create problems for recognition purposes, having it at a detailed level would create more costs than benefits for the entities.</p> <p>Offsetting – it is useful to retain paragraph 71 of the ED in order to apply the concepts in the RRA standard.</p> <p>ASAF summary 25–26 March 2024</p> <p>Unit of account and offsetting</p> <p>Some ASAF members welcomed the IASB's tentative decisions on the unit of account and offsetting. However, the EFRAG representative said that some stakeholders in their jurisdiction found the unit of account decisions too prescriptive. This member and the UKEB representative asked the IASB for more clarification and education on the unit of account to ease application of the prospective Accounting Standard</p>
<p>Recognition</p> <p>Paragraph 25 of the Exposure Draft proposes that an entity should recognise:</p> <ul style="list-style-type: none"> all regulatory assets and all regulatory liabilities existing at the end of the reporting period; and all regulatory income and all regulatory expense arising during the reporting period. <p>Paragraph 27 of the Exposure</p>	<p>Recognition</p> <p>Most respondents who commented agreed with the recognition proposals in paragraphs A26 and A28.</p> <p>A few respondents disagreed with the recognition proposals. Those respondents did not support the recognition of regulatory assets or regulatory liabilities:</p> <ul style="list-style-type: none"> associated with differences between the regulatory capital base and the carrying amount of property, plant and equipment 	<p>The recognition threshold—AP9B discussed in February 2023</p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to retain the proposal to require an entity to recognise a regulatory asset or a regulatory liability whose existence is uncertain if it is more likely than not that such an asset or liability exists; not to set a recognition threshold based on the probability of a flow of economic benefits; not to set a recognition threshold 	<p>Chairman report of RRAWG 11 July 2023</p> <p>Recognition threshold</p> <p>Members discussed the IASB tentative decisions made in February 2023. The IASB confirmed the recognition threshold for regulatory assets and regulatory liabilities defined in the ED and retained the asymmetric recognition threshold. The IASB also decided not to set a recognition threshold based on either the probability of a flow of economic benefits or measurement uncertainty except for regulatory assets and regulatory liabilities arising from allowable expenses based on benchmarks not known at the reporting date. The latter would be treated as an exception to the general recognition principle and the final Standard would prohibit an entity from recognising a regulatory asset or regulatory liability until the uncertainty on the allowable benchmark expense is resolved.</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>Draft provides an indicative list of facts and circumstances that an entity may consider in assessing whether a regulatory asset or a regulatory liability exists.</p> <p>Paragraph 28 of the Exposure Draft proposes that if it is uncertain whether a regulatory asset or a regulatory liability exists, an entity should recognise that regulatory asset or regulatory liability if it is more likely than not that it exists. It could be certain that a regulatory asset or a regulatory liability exists even if it is uncertain whether that asset or liability will ultimately generate any inflows or outflows of cash.</p>	<p>(paragraph B8). Some of these respondents described these regulatory assets and regulatory liabilities as arising from implicit differences in timing.</p> <p>when there is a significant outcome or measurement uncertainty.</p> <p>A few respondents suggested that an entity, in situations of:</p> <ul style="list-style-type: none"> existence uncertainty—is required to recognise a regulatory asset or a regulatory liability only if it is highly probable that it exists. significant outcome or measurement uncertainty—either: <ul style="list-style-type: none"> (xxiv) is required to apply a 'highly probable' recognition threshold; or (xxv) is precluded from recognising any regulatory asset or regulatory liability. <p>A few respondents asked the IASB to clarify the interaction between the scope and recognition proposals—for example:</p> <ul style="list-style-type: none"> how an assessment of enforceable rights and enforceable obligations would interact with 	<p>based on the level of measurement uncertainty, except for those regulatory assets and regulatory liabilities described in paragraph (e);</p> <ul style="list-style-type: none"> to retain the proposed symmetric recognition threshold for regulatory assets and regulatory liabilities; and to require an entity to recognise a regulatory asset or regulatory liability—whose measurement depends on a regulatory benchmark determined after the financial statements are authorised for issue—when the regulator determines the benchmark. <p>Timing of initial recognition—AP9A discussed in May 2023</p> <p>The IASB tentatively decided that the Standard would retain:</p> <ul style="list-style-type: none"> the proposal to require recognition of all regulatory assets and all regulatory liabilities existing at the end of the reporting period; and the proposal to treat any regulatory assets or regulatory liabilities 	<p>Members generally supported the tentative decisions including the exception made for recognition of regulatory assets and regulatory liabilities arising from allowable expenses based on benchmarks not known at the reporting date. On the latter, members agreed that in many cases companies do not know the amount that they are entitled to until it is communicated by the regulator. Members made the following additional comments:</p> <ul style="list-style-type: none"> One member observed that ongoing negotiations with the regulator or litigation may create a high level of uncertainty for such types of recoverable expenses and if it is recognised as a regulatory asset could result in a reversal of regulatory income in future periods. Another member explained that there may be cases when negotiations are extended due to changes in the environment and that could pose challenges in assessing whether the underlying rights and obligations were enforceable. One member noted that entities may need to apply IAS 10 Events After the Reporting Period if the information became available before the financial statements were approved for release, meaning that in such cases regulatory assets and regulatory liabilities arising from benchmarks would be recognised. <p>However, another member while acknowledging that there could be uncertainty associated with allowable expenses based on benchmarks not known at the reporting date and judgement may be required, opined that the uncertainty could be addressed through disclosures as required by other relevant IFRS Standards.</p> <p>The IASB staff representative clarified that whenever regulatory assets or liabilities arose from allowable expenses based on benchmark information not known at the reporting date, there was no existence uncertainty as the regulator would address differences between the estimate and actual in the following year. Therefore, the entity would have certainty that it would have an asset or liability, but there was significant measurement uncertainty until the entity</p>

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	<p>the 'more likely than not' recognition threshold.</p> <p>if it is the IASB's intention that the 'more likely than not' threshold should also be applied in determining whether there is a regulatory agreement, a higher threshold should be required to conclude a regulatory asset or a regulatory liability exists.</p> <p>A few respondents asked the IASB to modify some of the facts and circumstances listed in paragraph A27 to strengthen the evidence required for establishing the existence of regulatory assets and regulatory liabilities.</p>	<p>arising from regulated rates denominated in a foreign currency as monetary items when applying IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>.</p> <p>Enforceability and recognition—AP9C discussed in February 2023</p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to reconfirm and clarify the proposed single assessment of the existence of enforceable present rights and enforceable present obligations in the Standard, for the individual regulatory assets or regulatory liabilities. to clarify in the Standard that rights and obligations can be enforceable even if their existence is uncertain. to consider the principles in paragraph 35(c) of IFRS 15 <i>Revenue from Contracts with Customers</i> that relate to an entity's right to payment for performance completed to date in developing the Standard. These principles would be used to set the requirements for 	<p>published its financial statements. The benchmarks in question were specific to situations when the entity did not have access to the benchmark information/know the applicable benchmark rate at the reporting period date. In other cases, benchmarks were published on a quarterly basis and an entity would have the ability to derive an estimate. The latter was a different issue. The drafting of the final Standard would need to be clear on what type of benchmarks the exception should be applied to.</p> <p>Members did not identify other items with significant measurement uncertainty that should be treated in a similar manner to allowable expenses based on benchmark expenses not known at the reporting date.</p> <p>Interaction between recognition and enforceability</p> <p>Members discussed the IASB tentative decision in February 2023 on the interaction between recognition of regulatory assets and regulatory liabilities and enforceability. The IASB confirmed the ED's proposed single assessment of the existence of enforceable present rights and present obligations for the recognition of individual regulatory assets or regulatory liabilities, clarified that rights and obligations can be enforceable even if their existence is uncertain, and to consider the principles in IFRS 15 that relate to an entity's right to payment for performance completed to date while developing the final Standard.</p> <p>Members generally supported the IASB's tentative decisions including that to maintain a single assessment for regulatory assets and regulatory liabilities. They noted it was important to link recognition to factors such as the regulation, regimes applicable in their jurisdiction and local law, and the IASB tentative decision allowed for judgement on the facts and circumstances.</p> <p>One member suggested that there be a pre-requisite step that assessed the enforceability of the regulatory agreement to accommodate where the agreement was not sufficiently detailed. Another member noted that even when the agreement is sufficiently detailed, because of political influences or</p>

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		<p>assessing the existence of enforceable present rights for regulatory returns on an asset not yet available for use, and for assessing the existence of enforceable present rights or enforceable present obligations for long-term performance incentives.</p>	<p>other factors, the end result might be different from what is stated in the regulatory agreement. However, these cases might be exceptional.</p> <p>Timing of initial recognition</p> <p>Members discussed the May 2023 IASB’s tentative decisions on initial recognition of regulatory assets and regulatory liabilities and the application of IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> on initial recognition.</p> <p>The IASB tentatively decided that the prospective Standard would retain the proposals in the 2021 Exposure Draft Regulatory Assets and Regulatory Liabilities:</p> <ul style="list-style-type: none"> to require recognition of all regulatory assets and all regulatory liabilities existing at the end of the reporting period; and to treat any regulatory assets or regulatory liabilities arising from regulated rates denominated in a foreign currency as monetary items when applying IAS 21. <p>Members were generally supportive of the tentative decisions.</p> <p>One member indicated that if an entity derecognises/recognises at the end of the reporting date, then there would not be a need to create processes to monitor each single regulatory asset or liability and that is a detriment to derecognition.</p> <p>ASAF 28 September 2023 Speaking notes</p> <p>Question 2: Do the tentative decisions on recognition help address feedback from stakeholders in your jurisdiction?</p> <p><u>The recognition threshold</u></p> <p>The tentative decisions made on the recognition threshold are listed in slide 9 of the IASB ASAF paper.</p> <p>Decision (a) on slide 9- retaining the ED’s proposed “more likely than not” threshold. Related to decision (a) is decision (c), which is not to include a</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>recognition threshold based on measurement uncertainty except for allowable expenses based on benchmark expenses not known at reporting date. We note that:</p> <p>EFRAG's comment letter supported this recognition threshold. However, the letter noted a concern about this threshold from a few stakeholders due to the significant uncertainty in estimating amounts due to the nature of regulatory agreements in their jurisdictions (e.g., Italy). These stakeholders called for a highly probable threshold akin to the IFRS 15 treatment of variable consideration.</p> <p>RRAWG supported the tentative decision. There was no objection to this tentative decision from the TEG-CFSS members except for the OIC affirming its preference for a "highly probable" threshold due to the types of regulatory agreements prevailing in Italy.</p> <p>Decisions (b) not to include a recognition threshold based on probability of flow of economic benefits and (d)- to retain the symmetric recognition of RA and RL; are not contentious. RRAWG and TEG-CFSS had no objections to these decisions and there was also implicit support for these decisions in EFRAG's comment letter positions.</p> <p>Decision (e)- requires the recognition of allowable expenses based on benchmark expenses not known at reporting date only when benchmarks are known. In other words, it is an exception to the recognition principle (i.e., recognise when more likely than not). EFRAG's comment letter called for clarification of this fact pattern that was associated with the regional grid operators in some EU jurisdictions (e.g., the Netherlands). RRAWG supported the IASB tentative decisions. Questions were raised by some RRAWG members on whether this exception pertains to certain allowable expenses based on benchmarks (e.g., where benchmarks are published on a quarterly basis) and the IASB staff indicated the final Standard will clarify which type of allowable expenses based on benchmarks will be an exception to the broader recognition principle. The TEG-CFSS members did not object to this decision. However, a TEG-CFSS member (Norway) sought clarity on the accounting treatment when</p>

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			<p>the benchmark expenses only became clear after two years. <u>The IASB staff indicated the need to examine the complexities associated with this fact pattern (two-year lag before regulator benchmarks are known).</u> A TEG-CFSS member (Netherlands) also <u>noted the need for further clarification on exactly when recognition for allowable expenses based on benchmarks can occur (i.e., is it when it is reasonably estimable or precisely known?).</u></p> <p><i>Enforceability and recognition</i></p> <p>The IASB's tentative decision on slide 10 of the ASAF paper retains and clarifies the ED's proposed single assessment for the existence of enforceable present rights and enforceable present obligations at the level of the individual regulatory assets or regulatory liabilities (i.e., tentative decision a). The requirements will be strengthened by incorporating IFRS 15 requirements that relate to an entity's right to payment for performance completed to date in the assessment of enforceability (i.e., tentative decision c).</p> <p>The IASB tentative decisions were made because many respondents to the ED said that assessing whether rights and obligations are enforceable could be very challenging and they requested further guidance and illustrative examples. Difficulties can exist in the following cases:</p> <ul style="list-style-type: none"> in jurisdictions where the regulatory environment is not fully developed and there is no history of whether a specific right or obligation will be enforced when a regulatory agreement establishes a broad framework, but it may not be sufficiently detailed or may be silent, on whether an entity would have a right to recover specific costs an entity's ability to include amounts in future regulated rates may be subject to the discretion of the regulator. <p>EFRAG's comment letter raised questions on the enforceability of rights and obligations in the context of eligibility to be within the scope of the final Standard. Our letter did not explicitly call for clarification of the interaction</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>between enforceability and recognition of rights and obligations. However, we called for application guidance on the application of the recognition principles.</p> <p>RRAWG members supported the IASB tentative decisions and the TEG-CFSS members did not object to these decisions. A TEG-CFSS member (France) called for illustrative examples of the application of the enforceability assessment. In the RRAWG discussion, one member suggested there be a pre-requisite step that assessed the enforceability of the regulatory agreement to accommodate where the agreement was not sufficiently detailed. Another member noted that even when the agreement is sufficiently detailed, because of political influences or other factors, the end result might be different from what is stated in the regulatory agreement. However, these cases might be exceptional.</p> <p><u>Timing of initial recognition</u></p> <p>EFRAG's comment letter:</p> <p>EFRAG's comment letter stated that it was necessary to clarify paragraph 25 of the ED and explain at which point an entity would initially recognise a regulatory asset and a regulatory liability. In EFRAG's view, the lack of clarity would have wide implications (such as how to apply IAS 21).</p> <p>EFRAG also recommended that the IASB explains how it concluded that regulatory assets and regulatory liabilities were monetary items when applying IAS 21.</p> <p>EFRAG FR TEG-CFSS members were, in general, supportive of the tentative decisions in slide 11 of the ASAF paper.</p> <p>EFRAG FR TEG-CFSS agreed not to prohibit entities from recognising the regulatory assets and liabilities earlier than the reporting period, if they were able to do so. [Note that reporting period means interim reporting or annual reporting]</p> <p>ASAF summary 28 September 2024</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>ASAF members generally supported the IASB's tentative decisions related to:</p> <ul style="list-style-type: none"> the recognition threshold; enforceability and recognition; and timing of recognition <p>Enforceability and recognition</p> <p>A few ASAF members asked for further guidance on the assessment of enforceability. The ANC representative suggested that the prospective Accounting Standard include guidance on enforceability based on some of the clarifications suggested in the staff paper on this topic.</p> <p>Timing of recognition</p> <p>A few ASAF members said the timing of recognition might be unclear, for example:</p> <ul style="list-style-type: none"> if an entity's financial reporting period is not aligned with its regulatory reporting period and the entity is entitled to receive an amount that accumulates beyond the financial reporting period (ASCG); or if a regulatory asset or regulatory liability arises from items included in an entity's regulatory capital base and that base has no direct relationship with the entity's property, plant and equipment (UKEB).
<p>Derecognition</p> <p>The Exposure Draft does not contain a separate section on derecognition.</p> <p>Paragraph BC129 of the Basis for Conclusions on the Exposure Draft states that an entity would</p>	<p>Derecognition</p> <p>A few respondents asked the IASB to develop requirements for derecognising regulatory assets and regulatory liabilities.</p> <p>Those respondents also asked the IASB to clarify certain application</p>	<p>Derecognition—AP9B discussed in April 2023</p> <p>The IASB tentatively decided that the Standard:</p> <p>require an entity to derecognise:</p> <ul style="list-style-type: none"> i. a regulatory asset as it recovers part or all of the regulatory asset by 	<p>Chairman report of RRAWG 11 July 2023</p> <p>Derecognition</p> <p>Members discussed the April 2023 tentative decisions on derecognition. The IASB tentatively decided that the prospective Standard would:</p> <p>require an entity to derecognise:</p> <ul style="list-style-type: none"> (xxviii) a regulatory asset as it recovers part or all of the regulatory asset by adding amounts to future regulated rates charged

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<p>derecognise part or all of a regulatory asset or a regulatory liability when the entity recovers that part of the regulatory asset, or fulfils that part of the regulatory liability, by adding or deducting an amount in determining future regulated rates. Furthermore, because the measurement proposals would require an entity to update its estimates of future cash flows, the measurement of regulatory assets and regulatory liabilities would be nil if estimated future cash flows were nil. The IASB therefore considers that the Exposure Draft contains sufficient proposals to explain when and how regulatory assets and regulatory liabilities should be derecognised.</p>	<p>questions.</p>	<p>adding amounts to future regulated rates charged to customers; and</p> <p>ii. a regulatory liability as it fulfils part or all of the regulatory liability by deducting amounts from future regulated rates charged to customers.</p> <p>explain that the derecognition of regulatory assets and regulatory liabilities, as described in paragraph (a), is the most common way in which regulatory assets and regulatory liabilities would be derecognised. Therefore, in applying the recognition and measurement requirements at the end of each reporting period, an entity would not be required to consider explicitly when and how its regulatory assets and regulatory liabilities should be derecognised.</p> <p>clarify that an entity would derecognise a regulatory asset or a regulatory liability if the asset or liability ceased to meet</p>	<p>to customers; and</p> <p>(xxix) a regulatory liability as it fulfils part or all of the regulatory liability by deducting amounts from future regulated rates charged to customers.</p> <p>explain that the derecognition of regulatory assets and regulatory liabilities, as described in paragraph (a), is the most common way in which regulatory assets and regulatory liabilities would be derecognised. Therefore, in applying the recognition and measurement requirements at the end of each reporting period, an entity would not be required to consider explicitly when and how its regulatory assets and regulatory liabilities should be derecognised.</p> <p>clarify that an entity would derecognise a regulatory asset or a regulatory liability if the asset or liability ceased to meet the 'more likely than not' recognition threshold.</p> <p>include guidance on the derecognition of regulatory assets and regulatory liabilities settled by a regulator or another designated body. The guidance would also require an entity to recognise the difference between the derecognised regulatory asset or regulatory liability and any new asset or liability in profit or loss.</p> <p>specify that if a regulatory asset or a regulatory liability is added to or deducted from an entity's regulatory capital base and the entity's regulatory capital base has no direct relationship with its property, plant and equipment, the entity would derecognise:</p> <p>(xxx) the regulatory asset and recognise any associated regulatory expense in profit or loss; and</p> <p>(xxxi) the regulatory liability and recognise any associated regulatory income in profit or loss.</p> <p>The IASB also tentatively decided not to include in the prospective Standard any guidance on the securitisation of regulatory assets.</p>

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		<p>the 'more likely than not' recognition threshold.</p> <p>include guidance on the derecognition of regulatory assets and regulatory liabilities settled by a regulator or another designated body. The guidance would also require an entity to recognise the difference between the derecognised regulatory asset or regulatory liability and any new asset or liability in profit or loss.</p> <p>specify that if a regulatory asset or a regulatory liability is added to or deducted from an entity's regulatory capital base and the entity's regulatory capital base has no direct relationship with its property, plant and equipment, the entity would derecognise:</p> <p>(xxvi) the regulatory asset and recognise any associated regulatory expense in profit or loss; and</p> <p>(xxvii) the regulatory liability and recognise any associated regulatory income in profit or loss.</p>	<p>Members were, in general, supportive of the tentative decisions.</p> <p>On securitisation:</p> <p>Members were not aware of securitisation of regulatory assets in their jurisdictions.</p> <p>One member indicated that, in practice, there is a high hurdle to transfer all the risks and rewards as the performance risks remain with the entity that still has to perform to transform a regulatory asset into an IFRS 15 contract asset. Therefore, one could link derecognition to an entity's performance risk.</p> <p>On the IASB tentative decisions reflected in paragraph 24(e) above, this member indicated that if an entity was moving from a direct to a no-direct relationship between its regulatory capital base and its PPE, the entity should ascertain whether the regulation provides the entity with a buffer to maintain the rights that are recognised and if this is not the case, then the entity can derecognise.</p> <p>ASAF 28 September 2023 Speaking notes</p> <p>Question 3: Do the tentative decisions on derecognition help address feedback from stakeholders in your jurisdiction?</p> <p>EFRAG's comment letter:</p> <p>EFRAG recommended that the IASB provide further guidance in the body of the future Standard regarding the 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.</p> <p>EFRAG considered that it would be helpful to include the guidance on derecognition that is included in the Basis for Conclusions in the body of the future Standard.</p>

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			<p>EFRAG FR TEG-CFSS members were, in general, supportive of the tentative decisions which are in slides 12 and 13 of the ASAF paper.</p> <p>EFRAG RRAWG were also supportive of the IASB's tentative decisions on derecognition. There was a suggestion from an EFRAG RRAWG member that if an entity was moving from a direct to a no-direct relationship between its regulatory capital base and its PPE, the entity should ascertain whether the regulation provides the entity with a buffer to maintain the rights that are recognised and if this is not the case, then the entity can derecognise.</p> <p>ASAF summary 28 September 2024</p> <p>Derecognition</p> <p>ASAF members generally supported the IASB's tentative decisions on derecognition.</p>
<p>Measurement (estimating future cash flows) (October 2021 AP9E Feedback summary—Measurement)</p>			
<p>Paragraph 29 of the Exposure Draft specifies the measurement basis for regulatory assets and regulatory liabilities as historical cost, modified for subsequent measurement by using updated estimates of the amount and timing of future cash flows. An entity would implement that measurement basis by applying a cash-flow-based measurement technique.</p> <p>Paragraph 30 of the Exposure</p>	<p>Most respondents who commented agreed with the measurement proposals in paragraphs A31–A33.</p> <p>A few respondents who agreed with the proposals suggested the IASB:</p> <ul style="list-style-type: none"> provide more guidance or illustrative examples on certain aspects of the measurement proposals; simplify the proposals along the lines of the requirements in IAS 12 <i>Income Taxes</i>; require an entity to change the method used to estimate 	<p>Estimating uncertain future cash flows—AP9B discussed in June 2023</p> <p>The IASB tentatively decided that the Standard:</p> <ul style="list-style-type: none"> retain the requirement proposed in the Exposure Draft that an entity estimate uncertain future cash flows using whichever of the two methods—the 'most likely amount' method or the 'expected value' method—the entity expects would better predict the cash flows; require an entity to reassess the method of estimating uncertain 	<p>ASAF 28 September 2023 Speaking notes</p> <p>Question 4: Do the tentative decisions on measurement help address feedback from stakeholders in your jurisdiction?</p> <p>In our comment letter, our concerns on measurement were primarily related to the regulatory boundary. We noted the regulatory boundary should be considered in the recognition rather than measurement requirements. We also recommended that the IASB considers consistency in the respective treatment of credit risk in the estimated cash flows and the regulatory discount rate.</p> <p>Only the IASB tentative decisions on estimating uncertain future cash flows will be discussed at ASAF and these are outlined in slide 14 of the ASAF paper. These decisions are yet to be discussed with the RRAWG post-ED and TEG-CFSS members did not express any disagreement or seek any clarifications on these four decisions (i.e., we assume they supported).</p> <p>Tentative decision (a) on slide 14 affirms the ED's proposal to require the use of either the most likely amount method or the expected value method for</p>

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<p>Draft proposes that a cash-flow-based measurement technique would involve:</p> <p>estimating future cash flows that are within the boundary of a regulatory agreement—including future cash flows arising from regulatory interest—and updating those estimates at the end of each reporting period to reflect conditions existing at that date; and</p> <p>discounting those estimated future cash flows to their present value.</p> <p>Paragraph 34 of the Exposure Draft proposes that cash flows are within the boundary of a regulatory agreement only if:</p> <p>those cash flows would result from an enforceable present right or an enforceable present obligation that the entity has at the end of the reporting</p>	<p>uncertain cash flows when circumstances change and the method selected at initial recognition does not better predict the cash flows; and</p> <p>impose a constraint similar to the constraint on variable consideration imposed by IFRS 15, especially on regulatory assets associated with performance incentives.</p> <p>A few respondents, mainly European preparers with rate-regulated activities in the United States, disagreed with the cash-flow-based measurement technique mainly due to concerns about the cost of applying the proposals. They preferred the requirements in US GAAP.</p> <p>Some respondents said that the proposals could lead entities to different conclusions about whether an entity has enforceable rights and enforceable obligations only in the periods for which the regulator has determined the basis for rate-setting and approved the regulated rates, or whether the boundary of a</p>	<p>cash flows only if there is a significant change in facts and circumstances such that the entity no longer expects the method to better predict the cash flows;</p> <p>clarify that when an entity uses the 'expected value' method to estimate uncertain future cash flows the entity should consider the entire range or outcomes, including those outcomes in which a regulatory asset or a regulatory liability would not exist, or would exist but produce no future cash flows; and</p> <p>retain the proposal in the Exposure Draft not to require a separate impairment test for regulatory assets.</p> <p>The IASB also tentatively decided that the Standard would not provide additional guidance on circumstances in which the 'most likely amount' method might better predict uncertain future cash flows.</p> <p>Credit and other risks—AP9A discussed in September 2023</p> <p>The IASB tentatively decided that the Standard:</p>	<p>estimating uncertain future cash flows. This is consistent with the requirements of IFRS 15 and IFRIC 23 Uncertainty over Tax Treatment. EFRAG's comment letter supported the core measurement principle that this decision affirms.</p> <p>Tentative decision (b)- "reassessment of estimation method only if there is a significant change in only if there is a significant change in facts and circumstances such that the entity no longer expects the method to better predict the cash flows" - was in response to concerns about Paragraph 42 of the ED which stated that "an entity apply the chosen method for estimating uncertain future cash flows consistently from initial recognition to recovery or fulfilment". A concern was raised that entities may chop and change the estimation method in a manner that may mislead investors. During the IASB discussion, a change in estimation method was deemed to be a change in estimates rather than a change in accounting policy viz a viz IAS 8. Some board members argued that this decision may be unnecessary as it was a change in accounting estimate, but all the three user board members supported this proposal and eventually the IASB voted in favour. EFRAG's comment letter did not raise the concern this tentative decision is resolving.</p> <p>Tentative decision (c)- Interaction between estimation methods and existence uncertainty- the IASB clarified that all possible outcomes are considered when estimating future cash flows. (Expected value method). In the IASB discussions, it was noted that one cannot ignore possible outcomes for the most likely method. This decision was made as some stakeholders questioned whether the measurement of RA and RL should only encompass their certain future cash flows. The IASB was clarifying that once it is "more likely than not" certain that RA or RL exist- then you have to consider all the related cash flows of the RA and RL in the measurement including those cash flows that are uncertain. EFRAG's comment letter did not raise the concern this tentative decision is resolving.</p> <p>Tentative decision (d) -No need for a separate impairment test, affirms the ED's proposals. The reasoning is that the measurement of regulatory assets is based on updated estimates of future cash flow including credit risk and demand risk. Hence, impairment is embedded within the measurement. EFRAG's comment</p>

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<p>period to add or deduct amounts in determining a future regulated rate; and</p> <p>that addition or deduction would occur on or before the latest future date at which that right or obligation permits the addition or requires the deduction.</p> <p>Paragraphs B28–B40 of the Exposure Draft provide guidance to help entities to determine the boundary of a regulatory agreement and to reassess and account for changes to the boundary.</p> <p>If cash flows arising from a regulatory asset or regulatory liability are uncertain, the Exposure Draft proposes that an entity estimate those cash flows applying whichever of two methods—the ‘most likely amount’ method or ‘expected value’ method—better predicts the cash flows</p>	<p>regulatory agreement goes beyond those periods.</p> <p>Respondents expressed alternative views to the proposal to estimate uncertain future cash flows using the expected value method:</p> <p>a few respondents disagreed with using the expected value method to estimate uncertain future cash flows mainly due to concerns about the complexity in applying the method. They suggested the IASB require an entity to use the most likely amount method combined with the constraint on variable consideration imposed by IFRS 15, especially on regulatory assets associated with performance incentives.</p> <p>a few respondents suggested the IASB require the use of the expected value method for all regulatory assets and regulatory liabilities.</p>	<p>retain the requirement proposed in the Exposure Draft that an entity estimating future cash flows arising from a regulatory asset or a regulatory liability:</p> <p>(xxvii) reflects in the estimates the uncertainty about the amount or timing of future cash flows; and</p> <p>(xxviii) assesses whether the entity or its customers bear this uncertainty in future cash flows.</p> <p>specify that if an entity bears credit risk, the entity:</p> <p>(xxix) estimates uncollectible amounts considering the net cash flows that will arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities; and</p> <p>(xxx) allocates the estimates of uncollectible amounts to regulatory assets only.</p> <p>provide no additional guidance on how an entity accounts for:</p> <p>(xxxi) credit risk if the entity is compensated for this</p>	<p>letter agreed with the reasoning for there being no separate impairment requirements. However, EFRAG’s comment letter suggested 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.</p> <p>ASAF summary 28 September 2024</p> <p>Measurement</p> <p>ASAF members generally supported the IASB’s tentative decisions related to estimating uncertain future cash flows.</p> <p>Chairman report of RRAWG 30 November 2023</p> <p>Measurement of regulatory assets and regulatory liabilities – credit risk and other risks</p> <p>Most members agreed with the IASB’s tentative decisions.</p> <p>However, one member indicated that she was struggling to ascertain how the allocation of the estimates of uncollectible amounts to only the regulatory assets would work in practice since an entity should use the total net amount of regulatory assets and liabilities in a given scheme to estimate the uncollectible amounts and subsequently allocate it to regulatory assets only.</p> <p>One member noted that the IASB should indicate somewhere that an entity to estimate the credit risk of regulatory assets and regulatory liabilities could consider the same basis the entity uses in calculating a loss allowance on trade receivables applying IFRS 9.</p> <p>Boundary of the regulatory agreement (October 2023 IASB tentative decisions)</p> <p><i>Determining the boundary of a regulatory agreement</i></p>

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<p>(paragraph 39 of the Exposure Draft). The entity should apply the chosen method consistently from initial recognition to recovery or fulfilment (paragraph 42 of the Exposure Draft).</p>		<p>risk; and</p> <p>(xxxvii) demand risk; and</p> <p>retain the requirement proposed in the Exposure Draft that an entity's estimates of future cash flows arising from a regulatory liability do not reflect the entity's own non-performance risk.</p> <p>Boundary of a regulatory agreement—AP9B discussed in October 2023</p> <p>The IASB tentatively decided that the Standard would:</p> <p>retain the proposed guidance in the Exposure Draft on rights to renew or cancel a regulatory agreement. The IASB would clarify in the Standard that those rights might be explicit or implicit.</p> <p>retain the proposed guidance in the Exposure Draft on compensation for cancellation of a regulatory agreement. The IASB would clarify in the Standard that the guidance also applies to other circumstances in which termination occurs.</p> <p>include the principles in paragraph</p>	<p>Members agreed with the IASB's tentative decisions.</p> <p>One member indicated that at the time of IFRS 15, there were many questions on how to apply paragraph 35(c) of IFRS 15 and this was discussed at the IASB Transition Group and the IFRS Interpretations Committee. It would be useful to include this in the Basis for Conclusions of the Prospective Standard.</p> <p><u><i>Rights to renew or cancel a regulatory agreement</i></u></p> <p>Most members did not disagree with the IASB's tentative decision. However, one member disagreed, and she was supportive of including guidance on 'practical ability to renew'.</p> <p><u><i>Specifying the process for identifying and measuring the cash flows that are within the boundary</i></u></p> <p>Members were supportive of including flowcharts as guidance for specifying the process for identifying and measuring the cash flows that are within the boundary.</p> <p>One member indicated that a significant difficulty is the initial assessment of the boundary and this was being discussed with the legal department. They are looking at, for example, when the boundary would end.</p> <p>Members also discussed the view raised in EFRAG's comment letter to the 2021 ED that the regulatory boundary should be included in the recognition and not in the measurement of regulatory assets and regulatory liabilities. Some members considered that regulatory boundary guidance may be included in recognition with a link in the measurement section.</p> <p>Other members considered that this guidance is more appropriate in recognition.</p> <p><u><i>Reassessment and changes to the boundary</i></u></p> <p>Members agreed with the IASB's tentative decisions.</p> <p>ASAF 25–26 March 2024 Speaking notes</p>

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		<p>35(c) of IFRS 15 <i>Revenue from Contracts with Customers</i> 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.</p> <p><i>retain the proposed requirements in the Exposure Draft on reassessment of and changes to the boundary of a regulatory agreement.</i></p> <p>The IASB also tentatively decided 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.</p> <p>Boundary of a regulatory agreement—AP9A discussed in February 2024</p>	<p>Credit risk and other risks</p> <p>Members did not disagree with the IASB’s tentative decision on credit and other risks (i.e., to estimate uncollectible amounts considering the net cash flows arising from regulatory assets and liabilities and then allocating the amount to regulatory assets only). That said, one member observed that the tentative decision seemed very prescriptive.</p> <p>Most RRAWG members agreed with the IASB’s tentative decision. However, one member questioned how the allocation of the estimates of uncollectible amounts to only the regulatory assets would work in practice.</p> <p>One RRAWG member suggested the IASB should indicate that, to estimate the credit risk of regulatory assets and regulatory liabilities, an entity could consider the <u>same</u> basis the entity uses in calculating a loss allowance on trade receivables applying IFRS 9</p> <p>EFRAG’s comment letter called for the IASB to provide additional guidance on how estimates of credit risk should be allocated to regulatory assets.</p> <p>In conclusion, the IASB tentative decision is in response to the call made by some stakeholders including EFRAG and the RRAWG members mostly agreed with the decision.</p> <p>ASAF summary 25–26 March 2024</p> <p>Credit risk and other risks</p> <p>the EFRAG representative said that the majority of the stakeholders in their region agreed with the IASB’s tentative decisions, but some found the decisions a bit too prescriptive while some others have requested more guidance on how to allocate estimates of uncollectible amounts to individual regulatory assets.</p> <p>RRAWG Chairman report 16 May 2024</p> <p>Boundary of a regulatory agreement</p>

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		<p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to acknowledge that a right to supply goods or services might exist for an undefined period; and to 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: <ul style="list-style-type: none"> (xxxviii) an enforceable right to recover or enforceable obligation to fulfil by adding amounts to or deducting amounts from future regulated rates charged; or (xxxix) an enforceable right to receive or enforceable obligation to pay compensation on termination of the agreement. <p>A regulatory agreement may include enforceable rights and enforceable obligations to adjust the regulated rate beyond the current regulatory period.</p>	<p>RRAWG Members did not disagree with the IASB's tentative decisions. Other discussion points related to the topic but not encompassed in the tentative decisions are noted below.</p> <p>Whether a flowchart to identify cash flows that arise within the boundary: A question was raised on why the IASB would not include a flowchart to identify cash flows that arise within the boundary in the prospective standard. The IASB staff explained that stakeholder feedback (from October 2023) led them to conclude that a flowchart was not needed and that reinforcing the ED's principles was more appropriate. It was considered that in some cases the regulatory agreement provided certainty that the entity had a right to recover the regulatory assets, either because the entity had a right to recover through future rates (for example, entities subject to legislative or regulatory frameworks that give the entity an enforceable right to recover the regulatory asset over the asset's life) or because the entity has an enforceable right to recover through compensation on termination (entities that operate in jurisdictions with legislative or regulatory frameworks that give entities a right to recover a regulatory asset through rates charged over the asset's life are generally jurisdictions that would also ensure investors recover their investments on termination of the agreement). In those cases, including a decision sequence in a flowchart was unnecessary. On the other hand, if the regulatory agreement did not provide certainty on recoverability having a decision sequencing order would not provide much help either. That said, the RRAWG Chairman still considered that a flow chart would be helpful.</p> <p><i>Interaction with other standards:</i> A RRAWG member asked how the recognition of a regulatory asset based on the right to recover cash flows through compensation at termination interacted with other IFRS standards like IFRS 15 or IFRS 9. The member noted that there was diversity in practice as some entities were recognising similar assets based on current IFRS Standards. In response, it was explained that the prospective standard was a supplementary standard and therefore an entity would need to apply other IFRS Standards (e.g. IFRS 15) before applying the prospective standard on rate-regulated activities.</p>

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			<p><i>Whether thresholds are necessary?:</i> A RRAWG member highlighted that the IASB's tentative decisions had omitted some of the wording proposed by the IASB Staff in AP9A of the IASB February 2024 meeting (i.e. 'substantially all' in paragraphs 2(b)(i) and 2(b)(ii) and paragraph 2(c)). The IASB representative explained that the IASB had considered that additional thresholds could undermine the definition of enforceable rights and obligations and make the requirements more complex.</p> <p><i>Assessing the enforceability of rights and obligations:</i> Members noted there may be diversity while determining whether an entity had enforceable rights and obligations because each regulatory agreement and jurisdiction had their specific circumstances (i.e. the same regulatory agreement may give rise to enforceable rights and obligations in a jurisdiction while it does not do it in a different jurisdiction). Entities would also need to anticipate what regulators would do in the future which could pose some challenges. In reaction, the IASB representative noted that the IASB was unlikely to change the wording related to enforceability (i.e. enforceability of rights and obligations in a regulatory agreement is a matter of law and regulatory decisions or court rulings may provide evidence about the enforceability of those rights and obligations).</p>
<p>Discount rate (October 2021 AP9F Feedback summary—Discount rate)</p>			
<p>Paragraphs 46–49 and 55 of the Exposure Draft propose that an entity:</p> <ul style="list-style-type: none"> measures a regulatory asset or a regulatory liability by discounting to their present value the future cash flows; uses the regulatory interest rate for a regulatory asset or a regulatory 	<p>Most respondents agreed with the proposed requirement to use the regulatory interest rate for a regulatory asset or a regulatory liability as the discount rate for that regulatory asset or regulatory liability.</p> <p>A few respondents did not support the proposal. Many of these respondents supported instead a discount rate that would be determined using principles</p>	<p>Discounting estimated future cash flows—AP9A discussed in March 2024</p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> 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; to retain the proposal that an entity be required to use the 	<p>EFRAG RRAWG Chairman Report 21 December 2023</p> <p>Regulatory interest rate as the discount rate</p> <p>Similar to the feedback received to the ED, some members were of the view that an entity should not discount its regulatory assets and regulatory liabilities if a regulatory interest rate is not specified in the regulatory agreement. Applying a different interest rate would increase complexity and result in an undesirable additional difference with the regulatory accounts. Conversely, some members considered that to be consistent with other IFRS Accounting Standards, discounting should not depend on whether the regulatory agreement includes a regulatory interest rate (e.g. IFRS 16 requires entities to use the incremental borrowing rate if an explicit interest rate is not included in the lease agreement).</p>

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<p>liability as the discount rate for that regulatory asset or regulatory liability, except in specified circumstances; and</p> <p>continues to use the discount rate at initial recognition, except when the regulatory agreement changes the regulatory interest rate subsequently. In that case, the entity would use the new regulatory interest rate as the new discount rate.</p> <p>The Exposure Draft defines regulatory interest rates as 'the interest rate provided by a regulatory agreement to compensate an entity for the time lag until recovery of a regulatory asset or to charge the entity for the time lag until fulfilment of a regulatory liability' (Appendix A to the Exposure Draft).</p> <p>Paragraphs 50–51 of the Exposure Draft propose</p>	<p>similar to those in other IFRS Accounting Standards.</p> <p>Many respondents said that an entity should be exempted from discounting the future cash flows arising from a regulatory asset or a regulatory liability, if the effect of discounting is not significant, or the regulatory asset or the regulatory liability is expected to be recovered within a specified period, for example one year.</p> <p>Most respondents did not support the minimum interest rate proposal described in paragraph A38. These respondents were concerned the costs to implement the proposal would outweigh any benefits. Some also raised concerns about the asymmetric treatment of regulatory assets and regulatory liabilities. Most of these respondents supported instead using the regulatory interest rate as the discount rate for all regulatory assets and regulatory liabilities in all circumstances.</p> <p>Most of the users of financial statements from whom we received feedback on the topic of</p>	<p>regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability;</p> <p>to retain the definition of a regulatory interest rate proposed in the Exposure Draft;</p> <p>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;</p> <p>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;</p> <p>not to exempt an entity from applying the proposed requirement described in (a) to</p>	<p>As a few respondents to the ED indicated that an entity should be exempted from discounting when a regulatory asset or liability arises from an item or expense or income that is measured using discounting cash flows applying other IFRSs, members discussed an IASB staff example of a regulatory asset that arises from an environmental expense that is paid in 5 years and therefore recognised as a provision. The regulatory agreement allows the entity to recover the expense on an accrual basis with a two-year delay. The example provided two measurement alternatives. Under Alternative 1, an entity uses the ED's general measurement requirement (i.e. regulatory assets are measured based on cash inflows that are discounted using an adequate discount interest rate). Under Alternative 2, which is akin to the measurement exception allowed in the ED's proposals, an entity considers that the cash flows of its regulatory asset are related to the discounted cash flows of the provision (i.e. the regulatory asset is measured using the measurement basis used in measuring the provision). Members generally supported alternative 2 as it would result in less income statement volatility. Members considered that the example provided by the IASB staff was realistic.</p> <p>Mixed views were expressed on an exemption from discounting regulatory assets (liabilities) that are either recovered (fulfilled) within 12 months of recognition or when the impact of discounting is not significant. Most members who commented supported the proposal. A member did not consider the exemption to be helpful as an entity would still need to calculate the impact to assess how significant it is while a few members considered that the exemption should be applied on a voluntary basis.</p> <p>Minimum interest rate</p> <p>Consistent with the feedback to the ED including EFRAG's comment letter and the IASB Consultative Group views, all members that commented supported removing the proposal as it added complexity, it was asymmetrical and there were no clear benefits from applying the proposal.</p>

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<p>that, on initial recognition of a regulatory asset and then subsequently if the regulatory agreement changes the regulatory interest rate:</p> <p>an entity assesses whether there is any indication that the regulatory interest rate maybe insufficient to compensate the entity for the time value of money and for uncertainty in the amount and timing of future cash flows arising from that regulatory asset; and</p> <p>if such an indication exists, the entity estimates the minimum interest rate sufficient to provide that compensation and use the minimum interest rate as the discount rate if it is higher than the regulatory interest rate.</p> <p>Paragraph 52 of the Exposure Draft provides examples of such indications.</p>	<p>discount rate during the comment period of the Exposure Draft said the minimum interest rate proposal would not facilitate comparability amongst entities and would be confusing for users.</p> <p>Fewer respondents commented on the proposal about uneven regulatory interest rates in paragraph A41. Many of these respondents provided mixed views about whether the proposal would simplify or add complexity to the measurement of regulatory assets and regulatory liabilities.</p> <p>Some respondents asked for further clarification and additional guidance on certain aspects of the discount rate proposals—for example, how an entity should determine the discount rate when the regulatory agreement does not stipulate a regulatory interest rate.</p>	<p>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;</p> <p>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;</p> <p>not to provide guidance on the computation of the single discount rate described in (g);</p> <p>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;</p> <p>to require an entity that elects to apply the exemption described</p>	<p>Some members said that they were not aware of cases where the regulatory interest rate could be insufficient. These members provide the following comments:</p> <p>One member provided an example of a regulatory agreement that did not allow for an inflation indexation and instead changed the revenue profile and allowed the entity to recover more revenue through increased rates in the earlier years. In this case, the regulatory rate could be considered as “insufficient”, however, the allowed revenue could be considered sufficient. The proposal in the ED looked at the regulatory rate in isolation, but what was important was the bigger picture and whether the overall allowed revenue an entity was entitled to was sufficient.</p> <p>If the regulatory return was insufficient this could be an indication of impairment of the regulatory asset.</p> <p>Some members suggested that similar to IAS 12, there should be no discounting because of the complexity involved.</p> <p>Another member said that in case the impact of discounting would be significant the future Standard should provide guidance how an entity should determine a discount rate as is done in other IFRS Standards like IAS 37.</p> <p>Uneven regulatory interest</p> <p>Consistent with the feedback to the ED including EFRAG’s comment letter and the IASB Consultative Group views, AI members that commented generally supported using the regulatory interest rates rather than determining a single rate as proposed in the ED when there are different rates over the period of recovery (settlement) of a regulatory asset (liability).</p> <p>One member said that applying the regulatory interest rates, which may change at each regulatory period date, would be easier to do and easier to understand. This member added that in her view there was no practical benefit of applying</p>

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<p>For a regulatory liability, the Exposure Draft proposes that an entity uses the regulatory interest rate as the discount rate in all circumstances (paragraph 53 of the Exposure Draft).</p> <p>A regulatory agreement may specify a series of different regulatory interest rates for successive periods over the life of a regulatory asset or regulatory liability. Paragraph 54 of the Exposure Draft proposes that an entity, on initial recognition of a regulatory asset or a regulatory liability and subsequently if the regulatory agreement changes the regulatory interest rate:</p> <p>translates those uneven regulatory interest rates into a single discount rate and use that rate throughout the life of the regulatory asset or the regulatory liability; and</p> <p>does not consider possible future changes in the</p>		<p>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</p> <p>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 to provide further guidance on measuring such a regulatory asset or regulatory liability.</p> <p>Discounting of future cash flows— Minimum interest rate— AP9A discussed in April 2024</p> <p>The IASB tentatively decided:</p> <p>to retain the proposals in paragraphs 50–52 of the Exposure Draft 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</p>	<p>the proposal. Other members agreed that it would be complex to determine a single rate, and it would be better to stick to the rates in the regulatory agreement.</p> <p>One member noted that having different regulatory rates in different periods was analogous to the interest rate yield curve applied in the valuation of bonds. However, this member acknowledged that in practice it could be complex to determine a single rate. On this basis, he supported removing the proposal.</p> <p>Another member noted the problem was that total allowed compensation referred to IFRS expenses (income). In this members' view working with a single rate could be easier than discounting using multiple rates. However, he agreed that determining the single rate could be complex.</p> <p>RRAWG Chairman report 06 March 2024</p> <p>Some members expressed concern about the IASB tentative decision on the discount rate to be used for provisions. In particular, members provided the following comments:</p> <ul style="list-style-type: none"> Several IFRS Accounting Standards already require entity to use different discount rates. This proposal would introduce a new one. Reflecting the time value of money would not necessarily mean that the rate of government bonds should be applied. There were arguments for not including non-performance risk, because this might be difficult to determine objectively and could result in counterintuitive outcomes, but this did not mean that a government bond rate had to be applied. The use of a risk-free rate could be followed from a theoretical point of view. However, as it is something that only exists in theory, it could be difficult to determine in practice although the interest on a AAA bond could be considered to be close to a risk-free rate. Not including non-performance risk did not mean that the specific risk related to an obligation, as currently required by IAS 37, should not be considered. Not considering this risk would be a significant change and

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<p>regulatory interest rate in determining the single discount rate.</p> <p>Paragraphs 55–58 of the Exposure Draft propose that after its initial recognition, a regulatory asset or a regulatory liability is measured at the end of each reporting period by:</p> <p>updating the estimated amounts and timings of future cash flows arising from the regulatory asset or regulatory liability to reflect conditions existing at that date; and</p> <p>continuing to use the discount rate determined at initial recognition, except in certain circumstances (paragraph A36(c)).</p>		<p>from the regulatory asset, and to use the minimum interest rate as the discount rate if it is higher than the regulatory interest rate;</p> <p>to clarify in the application guidance that an entity performing the assessment described in (a) 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 (a);</p> <p>to retain the proposal in paragraph 53 of the Exposure Draft that would require an entity to use the regulatory interest rate as the discount rate for a regulatory liability in all circumstances;</p> <p>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> <p>to exempt an entity from applying</p>	<p>it was difficult to see the benefits of this.</p> <p>If the discount rate should not include risk, the risks should/could be taken into account in the cash flows. The outcome would/could thus be similar to the current outcome, but it would be more complicated, and thus more costly, for preparers to adjust the cash flows (as the cash flows would be specific to each situation and incorporating the risk in consistent manner could therefore be difficult, whereas the same discount rate could be applied to all cases within a group).</p> <p>If the proposals would result in provisions being measured at a higher amount this could have economic consequences for entities as some regulators would require entities to have set aside specified assets to cover the provisions. Higher provisions would thus mean that more assets would have to be set aside.</p> <p>The other suggested amendments to IAS 37 (i.e., the revised definition of liability and the costs to include in measuring a provision) were minor for rate-regulated entities.</p> <p>RRAWG Chairman report 16 May 2024</p> <p>Discounting cash flows</p> <p>Consistent with the views expressed at the December 2023 meeting, members generally agreed with the IASB's tentative decisions on discounting future cash flows using the regulatory interest rate.</p> <p>Regarding the definition of regulatory interest rate, one member informed that some regulatory agreements might not provide a rate and referred to WACC and in those cases, it was not clear which rate an entity should use. Another member responded that an entity should always use the rate the regulatory agreement would allow an entity to recover in the rates it charges to customers. This member explained that in some regulations the rate would allow more than only the time value of money.</p>

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		<p>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</p> <p>to require an entity that chooses to apply the exemption described in (e) 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.</p>	<p>Exemption from discounting</p> <p>Members also generally 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.</p> <p>One member noted the 12-month exemption was welcomed but would have preferred a materiality exemption. The IASB representative explained that the exemption was developed considering that the effects of the time value of money over a 12-month period are unlikely to be significant, so to some extent materiality had been considered when designing the exemption. In addition to that, the overall materiality concept would apply to discounting.</p> <p>Uneven interest rates – determining a single rate</p> <p>Regarding the IASB tentative decision to require an entity to compute a single discount rate in the cases specified in the IASB tentative decision, members continued to prefer using the regulatory interest rate (rather than determining a single discount rate). This is because as noted in previous meetings the proposal would add complexity and the proposal would create an additional difference between the IFRS numbers and the regulatory balances.</p> <p>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,</p> <p>The IASB representative explained that the proposal on determining a single rate would apply when there was a time lag between the initial recognition of a regulatory 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 Exposure Draft. [For information purposes an extract of this example is included in the appendix to this Chairman report].</p>

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			<p>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.</p> <p>RRAWG Chairman report 24 July 2024</p> <p>Minimum interest rate proposals</p> <p>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.</p> <p>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 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:</p> <ul style="list-style-type: none"> 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); 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

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			<p>rate should be the discount rate to be used.</p> <p>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:</p> <ul style="list-style-type: none"> Entities from developing countries might have material regulatory assets, however, they might not be receiving interest on those assets; and 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. <p>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.</p> <p>The IASB staff representative provided examples of instances where the entity would use WACC as the discount rate:</p> <ul style="list-style-type: none"> The WACC is not a rate that is expected to be used for discounting of 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. 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; <p>One RRAWG member pointed out that the minimum interest rate proposals would apply at 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</p>

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			matter would be considered during the EFRAG’s preparatory work for endorsement advice- outreach to preparers.
Items affecting regulated rates only when related cash is paid or received (October 2021 AP9G Feedback summary—Items affecting regulated rates only when related cash is paid or received)			
<p>In some cases, a regulatory asset or a regulatory liability arises because a regulatory agreement treats an item of expense or income as allowable or chargeable in determining the regulated rates only once an entity pays or receives the related cash, or soon after that, instead of when the entity recognises that item as expense or income in its financial statements by applying IFRS Accounting Standards. For such a regulatory asset or a regulatory liability, its:</p> <p>cash flows are a replica of the cash flows arising from the related liability or related asset, except for the effect of any uncertainty present in the regulatory asset or regulatory liability but</p>	<p>. Most respondents agreed with the following measurement and presentation proposals:</p> <p>Paragraph 61 of the Exposure Draft proposes that, in such cases, the entity measures the regulatory asset and regulatory liability by:</p> <p>(xl) using the measurement basis used in measuring the related liability or related asset by applying IFRS Accounting Standards; and</p> <p>(xli) adjusting the measurement of the regulatory asset or regulatory liability to reflect any uncertainty present in it but not present in the related liability or related asset.</p> <p>Paragraph 66 of the Exposure Draft proposes that an entity ceases applying paragraph 61 when the entity pays cash to settle the related liability or receives cash that recovers the related</p>	<p>Items affecting regulated rates on a cash basis—AP9D discussed in December 2023</p> <p>The IASB tentatively decided that the Standard would:</p> <p>retain the proposed concept that differences in timing that arise from differences between regulatory and accounting criteria represent enforceable present rights or enforceable present obligations. Those rights or obligations meet the proposed definitions of regulatory assets and regulatory liabilities.</p> <p>retain the measurement requirements proposed in paragraph 61 of the Exposure Draft for items that affect regulated rates only when related cash is paid or received.</p> <p>retain the requirements proposed in paragraph 69 of the Exposure Draft to present specified</p>	<p>RRAWG Chairman report 06 March 2024</p> <p>RRAWG members agreed with the measurement exception related to items of expense or income that affect regulated rates only when related cash is paid or received as it reduces complexity.</p> <p>RRAWG members generally agreed with the presentation exception to present specified regulatory income and regulatory expense in OCI when the underlying items of income or expense are paid or received on a cash basis and with the approach to reclassify them to profit or loss to the extent that the underlying item is required to be reclassified. A few members, including one with a user background, supported the exception for understandability purposes as it would not lead to volatility in the statements of profit and loss. One member also noted that the IASB had decided in the past to present certain items in OCI (e.g. actuarial gains or losses related to defined benefit plans). It was her view that the same logic should be applied to the RRA model.</p> <p>However, one member disagreed with the presentation exception. She noted that regulatory income is complementary to IFRS 15. Therefore, as revenue, regulatory income should always be presented in the statements of profit and loss.</p> <p>One RRAWG member supported extending the measurement and presentation exception to other items (e.g. accruals). The IASB will discuss this aspect at a future meeting. However, the IASB staff conveyed that the IASB would likely be against extending the exception because, for these other items, the cash flows arising from the regulatory rates would not be a replica of the cash flows of the underlying asset (liability).</p> <p>ASAF 25–26 March 2024 Speaking notes</p>

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>not present in the related liability or related asset; and</p> <p>regulatory interest rate is not observable from the regulatory agreement because the regulatory agreement does not identify regulatory interest as a separate part of the cash flows arising from the regulatory asset or regulatory liability.</p> <p>Paragraph 61 of the Exposure Draft proposes that, in such cases, the entity measures the regulatory asset and regulatory liability by:</p> <p>using the measurement basis used in measuring the related liability or related asset by applying IFRS Accounting Standards; and</p> <p>adjusting the measurement of the regulatory asset or regulatory liability to reflect any uncertainty present in it but not</p>	<p>asset. From that date, the entity measures any remaining part of the regulatory asset or regulatory liability by applying the cash-flow-based measurement technique proposed for all other regulatory assets and regulatory liabilities.</p> <p>Paragraph 69 of the Exposure Draft proposes that when an entity remeasures a regulatory asset or regulatory liability applying the proposals in paragraph 61, the entity presents the resulting regulatory income or regulatory expense in other comprehensive income to the extent that the regulatory income or regulatory expense results from remeasuring the related liability or related asset through other comprehensive income.</p> <p>A few respondents disagreed with the measurement proposals—and consequently the presentation proposal—because the proposals would, according to them:</p> <p>result in the recognition of regulatory assets and</p>	<p>regulatory income and regulatory expense in other comprehensive income.</p> <p>clarify that an entity is required to reclassify regulatory income or regulatory expense presented in other comprehensive income to profit or loss if IFRS Accounting Standards require the entity to reclassify the related expense or income to profit or loss.</p> <p>include no additional presentation requirements for other comprehensive income. An entity would apply the requirements in IAS 1 or the prospective IFRS Accounting Standard <i>Presentation and Disclosure in Financial Statements</i>.</p>	<p>Items affecting regulated rates only when related cash is paid or received</p> <p>Members did not disagree with the IASB's tentative decisions on items affecting regulated rates on a cash basis whose measurement basis will be that of the underlying asset (liability) and with the presentation made in OCI (i.e. measurement and presentation exceptions to the general model). One member noted that these exceptions are needed to avoid complexity in the application of the standard. The member favoured extending the exceptions to other fact patterns (e.g. accruals affecting regulated rates).</p> <p>The IASB will make decisions on extending the exception to other items (e.g. accruals) at a future meeting. However, as conveyed by the IASB staff at the March 2024 RRAWG meeting, the IASB will likely be against extending the exception because, for these other items, the cash flows arising from the regulatory rates would not be a replica of the cash flows of the underlying asset (liability).</p> <p>Most RRAWG members agreed with the IASB's tentative decisions. However, one member disagreed with the presentation exception (i.e., OCI presentation) with the view that all regulatory income and expenses should be presented in P&L as it signals how much revenue an entity will collect in the future through regulated rates.</p> <p>The IASB tentative decisions are consistent with the position in EFRAG's comment letter, which in addition to supporting the measurement and presentation exceptions, also called for additional guidance on the certain items presented in OCI that are never recycled (actuarial gains or losses). The latter is important to note as a question may arise about the treatment of pension costs.</p> <p>ASAF summary 25–26 March 2024</p> <p>Items affecting regulated rates only when related cash is paid or received</p> <p>ASAF members that commented were generally in agreement with the IASB's tentative decision on the proposed measurement and presentation</p>

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>present in the related liability or related asset.</p> <p>Paragraph 66 of the Exposure Draft proposes that an entity ceases applying paragraph 61 when the entity pays cash to settle the related liability or receives cash that recovers the related asset. From that date, the entity measures any remaining part of the regulatory asset or regulatory liability by applying the cash-flow-based measurement technique proposed for all other regulatory assets and regulatory liabilities.</p> <p>Paragraph 69 of the Exposure Draft proposes that when an entity remeasures a regulatory asset or regulatory liability applying the proposals in paragraph 61, the entity presents the resulting regulatory income or regulatory expense in other comprehensive income to the extent that the regulatory income or</p>	<p>regulatory liabilities arising from differences in timing that will not represent adjustments to future regulated rates in accordance with the regulatory agreements; and</p> <p>create an exception for a subset of items, which may add complexity to the model in the Exposure Draft.</p> <p>Some respondents raised questions and concerns about certain aspects of the measurement proposals, including:</p> <p>the proposal to limit this measurement to those cases when a regulatory agreement treats an item of expense or income as allowable or chargeable only once an entity pays or receives the related cash (cash basis); and</p> <p>the interaction between the proposals and the boundary of a regulatory agreement (paragraph A33).</p> <p>A few respondents—mainly preparers in North America—supported extending the presentation proposal to all regulatory income</p>		<p>requirements for items affecting regulated rates only when related cash is paid or received.</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>regulatory expense results from remeasuring the related liability or related asset through other comprehensive income.</p>	<p>and regulatory expense that arise from a remeasurement of the related liability or related asset through other comprehensive income. They supported this approach regardless of whether the regulatory assets or regulatory liabilities from which the regulatory income and regulatory expense arises are remeasured applying the proposals in paragraph 61 of the Exposure Draft. According to these respondents, this would result in a presentation that would be more understandable to users of financial statements and would be consistent with previous conclusions reached by the IASB in IFRS 14 <i>Regulatory Deferral Accounts</i>.</p> <p>A few respondents disagreed with the presentation proposal. They said presenting all regulatory income and regulatory expense in profit or loss instead would help portray better the total allowed compensation for the goods or services supplied to customers during the period. This approach would also avoid the additional complexity that may result from</p>		

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
	<p>presenting regulatory income and regulatory expense wholly or partly in other comprehensive income.</p> <p>A few respondents raised questions about whether and how the cumulative amount of regulatory income or regulatory expense presented in other comprehensive income should be reclassified to profit or loss.</p>		
<p>Presentation (November 2021 AP9A Feedback summary—Presentation)</p>			
<p>Paragraphs 67–68 of the Exposure Draft propose that:</p> <p>an entity presents in the statement(s) of financial performance all regulatory income minus all regulatory expense in a separate line item immediately below revenue, except as required by paragraph 69 of the Exposure Draft (paragraph A46); and</p> <p>regulatory income includes regulatory interest income and regulatory</p>	<p>Most respondents agreed with the proposals in paragraph A47.</p> <p>Some respondents suggested the IASB permit, or instead require, an entity to classify all regulatory income minus all regulatory expense as revenue.</p> <p>A few respondents said that regulatory interest income and regulatory interest expense should be included within finance income and finance expenses, respectively.</p> <p>Although the IASB did not ask an explicit question on the proposals in paragraph A48, a few respondents:</p>	<p>Unit of account and offsetting—AP9A discussed in December 2023</p> <p>The IASB tentatively decided that the Standard would omit the proposal in paragraph 71 of the Exposure Draft that would have permitted an entity to offset regulatory assets and regulatory liabilities in the statement of financial position.</p> <p>Presentation—AP9B discussed in December 2023</p> <p>The IASB tentatively decided that the Standard would:</p> <p>require an entity to classify all regulatory income minus all regulatory expense (regulatory</p>	<p>RRAWG Chairman report 06 March 2024</p> <p>Presentation of regulatory income minus regulatory expense</p> <p>RRAWG members agreed with presenting regulatory income minus regulatory expense as revenue as it represented an extension of an entity's revenue that was recovered through the regulated rates.</p> <p>However, RRAWG members had mixed views on presenting regulatory income minus regulatory expense as a separate line item. Members that disagreed noted that if the amount was not material, it would not be useful to present it as a separate line item. These members highlighted that materiality had to be considered.</p> <p>Classification of regulatory interest</p> <p>RRAWG members agreed with the classification of regulatory interest within the operating category as interest was collected through the regulated rates as part of the operating activities of the entity.</p> <p>It was noted that the prospective Standard on PFS would require interest paid on certain liabilities to be classified as financing and there was a question</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>expense includes regulatory interest expense.</p> <p>Paragraphs 70–71 of the Exposure Draft propose that an entity:</p> <p>presents line items for regulatory assets and regulatory liabilities in the statement of financial position; and</p> <p>is permitted to offset regulatory assets and regulatory liabilities that form separate units of account only if the entity:</p> <p>(xlii) has a legally enforceable right to offset those regulatory assets and regulatory liabilities by including them in the same regulated rate; and</p> <p>(xliii) expects to include the amounts resulting from the recovery or fulfilment of those regulatory assets and regulatory liabilities in</p>	<p>explicitly agreed with the proposal to present line items for regulatory assets and regulatory liabilities; and</p> <p>disagreed with, or raised questions about, the proposed conditions for offsetting regulatory assets and regulatory liabilities.</p> <p>A European national standard-setter said it is unclear how the proposed conditions for offsetting regulatory assets and regulatory liabilities would interact with the proposed requirements for determining the unit of account (paragraph A25).</p> <p>All users of financial statements who commented on the proposed presentation requirements during outreach events agreed with those proposals.</p>	<p>income or regulatory expense) as revenue.</p> <p>require an entity to present regulatory income or regulatory expense as a separate line item in the statement(s) of financial performance.</p> <p>omit the proposed amendment to paragraph 82 of IAS 1 that would have required an entity to present regulatory income or regulatory expense as a separate line item immediately below revenue.</p> <p>retain the proposals to require an entity to include regulatory interest income within regulatory income and regulatory interest expense within regulatory expense.</p> <p>amend the prospective IFRS Accounting Standard <i>Presentation and Disclosure in Financial Statements</i> to clarify that regulatory interest is classified in the operating category.</p> <p>retain the proposal to require an entity to present in its statement of financial position:</p>	<p>whether the same requirement should apply to regulatory expense. RRAWG members however considered that regulatory interest expense had an operating nature and should therefore be classified as operating. Furthermore, it would be difficult to split out the financing component, in case one was present, from the operating component as for regulatory purposes this was not considered.</p> <p>Presentation of regulatory assets (liabilities) in the statement of financial position</p> <p>RRAWG members generally agreed with the IASB's tentative decision to present regulatory assets and regulatory liabilities separately and also with classification as current/non-current.</p> <p>One RRAWG considered that regulatory assets and regulatory liabilities would always be current. However, other RRAWG members disagreed noting that in many cases if not all there will be non-current regulatory assets (liabilities).</p> <p>One member asked for classification on the term "operating cycle".</p> <p>ASAF 25–26 March 2024 Speaking notes</p> <p>Presentation</p> <p>Members did not disagree with the IASB's tentative decision on presentation in the statement of financial performance (regulatory income minus regulatory expense classified as revenue and presented as a separate line item) and statement of financial position (separate presentation of regulatory assets (liabilities)).</p> <p>Regarding the classification of regulatory interest (income minus expense) within the operating category (rather than financing) the EFRAG FR TEG Chair noted that IFRS 18 (presentation of financial statements) would require interest on a liability to be classified as financing which would be different to the IASB tentative decision for rate-regulated entities. One CFSS member explained that he did not oppose the IASB tentative decision on the basis that regulatory interest formed part of the compensation included in the regulated tariffs</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>the same regulated rate for goods or services supplied in the same future period.</p>		<p>(xiv) line items for regulatory assets and regulatory liabilities; and</p> <p>(xlv) current and non-current regulatory assets and current and non-current regulatory liabilities as separate classifications by applying paragraphs 66 and 69 of IAS 1, except when the entity presents all assets and liabilities in order of liquidity.</p>	<p>charged to customers. It would also be difficult to differentiate regulatory interest with a financing component (if any) from operating regulatory interest.</p> <p><i>Presentation of regulatory income minus regulatory expense</i> - RRAWG members agreed with presenting regulatory income minus regulatory expense as revenue as it represented an extension of an entity's revenue that was recovered through the regulated rates. However, RRAWG members had mixed views on presenting regulatory income minus regulatory expense as a separate line. Members that disagreed noted that if the amount was not material, it would not be useful to present it as a separate line item.</p> <p><i>Classification of regulatory interest</i> – RRAWG members agreed with the classification of regulatory interest within the operating category as interest was collected through the regulated rates as was part of the operating activities of the entity.</p> <p><i>Presentation of regulatory assets (liabilities) in the balance sheet</i> – RRAWG members generally agreed with the IASB tentative decision to present regulatory assets and regulatory liabilities separately and also with classification as current/non-current. One member asked for classification on the term "operating cycle".</p> <p>ASAF summary 25–26 March 2024</p> <p>Presentation</p> <p>ASAF members that commented were generally in agreement with the IASB's tentative decisions on the presentation proposals in the Exposure Draft and the proposed amendments to IAS 1 Presentation of Financial Statements. ASAF members also welcomed the IASB's tentative decision to amend the prospective IFRS 18 Presentation and Disclosure in Financial Statements (prospective PFS Standard) to clarify that regulatory interest is classified in the operating category.</p> <p>However, the ASBJ and EFRAG representatives queried whether the amendment to the prospective PFS Standard could be regarded as an exception to the</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			<p>principles relating to interest in that Standard. The EFRAG representative said the risk of such amendment is that it may undermine the interest-related principles in the prospective PFS Standard.</p>
<p>Disclosure (November 2021 AP9B Feedback summary—Disclosure)</p>			
<p>Paragraph 72 of the Exposure Draft says that the overall objective of the disclosure requirements is for an entity to disclose in the notes information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities.</p> <p>In paragraphs 77–83, the Exposure Draft proposes three specific disclosure objectives that require an entity to disclose information that enables users of financial statements to understand:</p> <ul style="list-style-type: none"> how the entity's financial performance was affected by differences in timing; the entity's regulatory assets and regulatory liabilities at the end of the reporting period; 	<p>Most respondents who commented agreed with the focus of the proposed overall disclosure objective on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities.</p> <p>However, some respondents suggested the IASB develop a broader overall objective of providing users of financial statements with information about the nature of the regulatory agreement, the risks associated with it and its effects on an entity's financial performance, financial position or cash flows. These respondents also suggested some pieces of information that the IASB may consider requiring entities to disclose.</p> <p>Some respondents explicitly agreed with the proposed specific disclosure objectives and the disclosure requirements.</p> <p>A few respondents said that the IASB's</p>	<p>Disclosures proposed in Exposure Draft—AP9C discussed in February 2024</p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> to retain the overall disclosure objective proposed in paragraph 72 of the Exposure Draft; to retain the proposals on aggregation and disaggregation of disclosures in paragraphs 75–76 of the Exposure Draft; to include examples of the characteristics an entity could use to aggregate or disaggregate disclosures in accordance with the principles in the prospective IFRS Accounting Standard Presentation and Disclosure in Financial Statements (prospective PFS Standard); to retain the specific disclosure objective relating to financial performance proposed in paragraph 77 of the Exposure Draft; 	<p><u>EFRAG RRAWG Chairman Report 21 December 2023</u></p> <p>Breakdown of regulatory income or regulatory expense</p> <p>Unlike the feedback received by the IASB on the ED and the feedback provided by the IASB consultative group for rate regulation where there were some views in favour of the disclosure requirements included in paragraph 78 of the ED, members generally considered that the components of regulatory income or regulatory expense to be disclosed are excessive. One member noted that the IASB should focus on the disclosures that regulatory entities have disclosed in the past to convey the specificities of their business.</p> <p>Conversely, another member supported the proposed disclosure requirements. As entities do not know how regulatory schemes will evolve, it is better to develop IT tools that can provide disaggregated information. She considered that entities should apply the overarching materiality principle to assess which components of regulatory income and regulatory expense should be disclosed according to their specific circumstances.</p> <p>Some members were of the view that to be consistent with the presentation in the income statement, the amount of regulatory interest income or expense should be disclosed together with the regulatory income and expense instead of separately.</p> <p>Reconciliation</p> <p>Members generally supported Example 1. Since entities have many regulatory agreements across multiple jurisdictions, building a disaggregated table would be complex and could have an impact on readability.</p>

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<p>and any changes in regulatory assets and regulatory liabilities that were not a consequence of regulatory income or regulatory expense.</p> <p>To achieve the specific disclosure objectives in paragraph A50, the Exposure Draft proposes requiring an entity to disclose in the notes, for example:</p> <p>specified components of regulatory income or regulatory expense included in profit or loss (paragraph 78 of the Exposure Draft).</p> <p>quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities, and whether the amounts disclosed are undiscounted or discounted (paragraphs 80–81 of the Exposure</p>	<p>redeliberation of the disclosure proposals should be informed by its decisions on the project <i>Disclosure Initiative—Targeted Standards-level Review of Disclosures</i>.</p> <p>Some respondents raised concerns that the cost of providing the following information could outweigh the benefits to the users of financial statements:</p> <p>the components of regulatory income or regulatory expense; and</p> <p>quantitative information about the expected timing of recovery of regulatory assets and fulfilment of regulatory liabilities.</p> <p>A few respondents suggested the IASB explicitly require an entity to disclose significant judgments made in applying specified proposed requirements.</p> <p>A few respondents raised concerns about, or asked for further guidance on, determining the appropriate level of aggregation and disaggregation for some disclosures that require</p>	<p>to retain the proposals in paragraphs 78(a)–(e) of the Exposure Draft 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;</p> <p>to require that an entity apply the aggregation and disaggregation principles in the prospective PFS Standard 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;</p> <p>to retain the specific disclosure objective relating to financial position proposed in paragraph</p>	<p>Similar to the comments provided by the IASB Consultative Group and the comments raised by some respondents to the ED, members suggested having an outline of reconciliation items that have no impact on the statement of comprehensive income such as business combinations or divestments.</p> <p>Maturity analysis, risk uncertainty and discount rate</p> <p>Unlike the feedback provided by the IASB Consultative Group where some members considered the time-band disclosure requirement to be difficult to provide or that it should not be required, EFRAG RRAWG did not show disagreement with this disclosure. A member indicated that in addition to the time bands about when an entity expects to recover the regulatory assets and fulfil the regulatory liability, it could also disclose qualitative information about when those regulatory assets (liabilities) should be recovered (fulfilled) under the regulatory scheme. A few members noted that uncertainties about the recovery or fulfilment of specific items would be sensitive information.</p> <p>Level of aggregation/disaggregation</p> <p>Consistent with the feedback raised by the IASB Consultative Group and with the comments raised by a few respondents to the ED, members considered that it would be useful for the IASB to provide guidance to help an entity determine the level of aggregation and disaggregation of information. They noted that the categories for disaggregating regulatory assets and regulatory liabilities suggested by the IASB staff in paragraph Error! Reference source not found. above were good enough.</p> <p>Potential new disclosure requirements</p> <p>Members considered that it would be necessary that an entity discloses whether there is a direct (no direct) relationship between its regulatory capital base and its property, plant and equipment and the reasons behind the conclusion.</p> <p>Members considered that if there is no direct relationship between an entity's regulatory capital base and its property, plant and equipment, the entity should not disclose any unrecognised difference. It would be very difficult, costly and in</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>Draft).</p> <p>a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities (paragraph 83 of the Exposure Draft).</p> <p>Regulatory assets and regulatory liabilities relating to an item of expense or income that is allowable or chargeable only once an entity pays or receives the related cash are measured applying paragraph 61 of the Exposure Draft (paragraph A44). In considering the disclosures for those regulatory assets and regulatory liabilities, paragraphs 84–85 of the Exposure Draft propose that the entity also considers what information to disclose about the related liabilities and related assets and how to disclose the information.</p>	<p>significant judgements.</p> <p>All users of financial statements who commented on the proposed disclosure requirements during outreach events agreed with the proposed overall and specific disclosure objectives and the proposed disclosure requirements.</p>	<p>79 of the Exposure Draft;</p> <p>to retain the proposals in paragraphs 80(a) and 81 of the Exposure Draft requiring that an entity disclose quantitative information, using time bands, about when it expects to recover regulatory assets and fulfil regulatory liabilities;</p> <p>to retain the proposal in paragraph 80(b) of the Exposure Draft 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;</p> <p>to retain the proposal in paragraph 80(c) of the Exposure Draft 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;</p> <p>to retain the proposal in paragraph 80(d) of the Exposure Draft requiring that an entity disclose an explanation of how risks and</p>	<p>contradiction with the initial judgment. Members held the same view and arguments for inflation adjustments.</p> <p>Other</p> <p>Members considered that it was necessary to provide some additional qualitative information about the regulatory agreements. A few members highlighted the importance of the boundary of a regulatory agreement. They indicated that it is important for users to understand the description of the boundary, how it has been determined and the changes during the period. A member noted that it would also be necessary to disclose the name of the regulator due to the recent IASB's tentative decision.</p> <p>RRAWG Chairman report 16 May 2024</p> <p>Disclosures proposed in the ED</p> <p>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:</p> <p>One member agreed that disclosures should be a matter of judgement with respect to changes in regulatory assets (RA) and regulatory liabilities (RL);</p> <p>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;</p> <p>It was suggested to eliminate disclosure that required significant efforts to</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>Paragraphs 74–76 of the Exposure Draft propose guidance to help entities to determine the level of aggregation or disaggregation of the information necessary to satisfy the overall disclosure objective and the specific disclosure objectives.</p>		<p>uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities;</p> <p>to provide no additional guidance on risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities;</p> <p>to combine the proposed specific disclosure objective relating to changes in regulatory assets and regulatory liabilities in paragraph 82 of the Exposure Draft with the specific disclosure objective in paragraph 79 of the Exposure Draft;</p> <p>to retain the proposals in paragraph 83 of the Exposure Draft requiring that an entity disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities;</p> <p>to include examples of significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense;</p> <p>to include a requirement that an entity disclose a qualitative</p>	<p>prepare;</p> <p>On aggregation and disaggregation of information, one member explained that it was possible that one regulator had 10 different tariffs in which case the aggregation/disaggregation between different tariffs could be difficult to make; and</p> <p>One member considered that it should be mandatory to disclose the name of the regulator.</p> <p>New disclosures arising from the ED's redeliberations</p> <p>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:</p> <p>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.</p> <p>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.</p> <p>Members considered it useful to have mock-up examples related to the proposed new disclosures especially when these disclosures are not quantitative.</p>

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		<p>explanation of any significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense;</p> <p>to retain the proposal in paragraph 84 of the Exposure Draft relating to the disclosure of regulatory assets and regulatory liabilities measured applying paragraph 61 of the Exposure Draft; and</p> <p>to extend the proposals in paragraph 78 of the Exposure Draft to include a requirement that an entity disclose separately the components of regulatory income or regulatory expense included in other comprehensive income.</p> <p>New disclosures—AP9D discussed in February 2024</p> <p>The IASB tentatively decided:</p> <p>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</p>	<p>Reduced disclosure requirements for the prospective IFRS 19 Standard</p> <p>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.</p> <p>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.</p>

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
		<p>property, plant and equipment; to include—in order to achieve the specific disclosure objective in (a)—a requirement that an entity disclose:</p> <p>(xlv) whether its regulatory capital base has a direct or no direct relationship with its property, plant and equipment; and</p> <p>(xlvi) the reasons the entity has concluded its regulatory capital base has a direct or no direct relationship with its property, plant and equipment;</p> <p>not to include a requirement that an entity disclose the amount of its regulatory capital base;</p> <p>to include a requirement that an entity disclose the nature of unrecognised regulatory assets and unrecognised regulatory liabilities;</p> <p>to include a requirement that an entity disclose the regulatory approach (nominal or real) used by the regulator to compensate the entity for inflation;</p> <p>not to include a requirement that an entity disclose assumptions used</p>	

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
		<p>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 1 <i>Presentation of Financial Statements</i>;</p> <p>to include, for an entity whose regulatory capital base has a direct relationship with its property, plant and equipment and capitalises its borrowing costs, a requirement to disclose whether it receives regulatory returns on an asset not yet available for use; and</p> <p>not to include—for an entity whose regulatory capital base has a direct relationship with its property, plant and equipment and capitalises its borrowing costs—a requirement to disclose:</p> <p>(xlviii) the composition of the regulatory returns between debt and equity returns, and when these regulatory returns are included in regulated rates charged; and</p>	

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
		<p>(xlix) the effects of those regulatory returns on changes in the related regulatory assets or regulatory liabilities.</p> <p>Reduced disclosures for rate-regulated entities—AP9B discussed in March 2024</p> <p>The IASB tentatively decided:</p> <p>not to develop reduced disclosures for the Standard now; and</p> <p>to include a question seeking stakeholders' views on the decision not to develop reduced disclosures in the 'catch-up' exposure draft the IASB plans to publish after it issues the prospective IFRS Accounting Standard <i>Subsidiaries without Public Accountability: Disclosures</i>.</p>	
<p>Interaction with other IFRS Accounting Standards, including amendments to other IFRS Accounting Standards (October 2021 AP9H Feedback summary—Interaction with other IFRS Standards, November 2021 AP9A Feedback summary—Presentation, November 2021 AP9C Feedbacksummary—Effective date and transition)</p>			
<p>Interaction with other IFRS Accounting Standards</p>			
<p>IAS 12 <i>Income Taxes</i></p> <p>Paragraphs B42–B46 of the Exposure Draft discuss: regulatory assets or regulatory liabilities</p>	<p>IAS 12 <i>Income Taxes</i></p> <p>Most respondents who commented supported the proposed guidance. The respondents suggested the IASB provide</p>	<p>Interaction with IAS 12</p> <p>Regarding the prospective IFRS Accounting Standard on rate-regulated activities, the IASB tentatively decided to clarify that:</p>	

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>that arise when the regulated rates do not yet fully reflect current tax expense (income), or when an entity has a deferred tax liability or a deferred tax asset (paragraphs B42–B43);</p> <p>deferred tax liabilities or deferred tax assets resulting from applying IAS 12 to a regulatory asset or a regulatory liability (paragraph B44); and</p> <p>how income taxes affect the measurement of regulatory assets and regulatory liabilities (paragraphs B45–B46).</p>	<p>detailed guidance and examples to illustrate application of the proposed guidance and presentation of regulatory income or regulatory expense associated with income taxes.</p> <p>A few respondents asked the IASB to clarify certain application questions.</p>	<p>the income tax consequences of a regulatory asset or regulatory liability might give rise to a separate regulatory asset or regulatory liability; and</p> <p>an entity would determine the tax base of a regulatory asset or regulatory liability by applying the requirements in IAS 12.</p>	

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>IFRIC 12 Service Concession Arrangements</p> <p>Paragraph B47 of the Exposure Draft states that:</p> <p>“IFRIC 12 applies to a public-to-private service concession arrangement if the grantor controls or regulates the price at which the operator must provide services, and if other specified conditions are met. Accordingly, some arrangements within the scope of IFRIC12 may create regulatory assets or regulatory liabilities within the scope of this [draft] Standard. An entity shall account for those regulatory assets or regulatory liabilities separately from the assets and liabilities within the scope of IFRIC 12.”</p>	<p>IFRIC 12 Service Concession Arrangements</p> <p>Most respondents who commented said the proposed guidance is insufficient. The respondents suggested the IASB provide detailed guidance and examples on how the model interacts with IFRIC 12.</p>	<p>The IASB tentatively decided:</p> <p>to clarify in the Standard the intended interaction between the model and IFRIC 12. That is, an entity would apply IFRIC 12 first and then apply the requirements of the Standard to any remaining rights and obligations to determine if the entity has regulatory assets or regulatory liabilities; and</p> <p>to include in the Standard examples to illustrate the interaction between the model and IFRIC 12.</p>	
Amendments to other IFRS Accounting Standards			
IFRS 1 First-time Adoption of International Financial Reporting Standards	IFRS 1 First-time Adoption of International Financial Reporting Standards		

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>The Exposure Draft proposes amendments to:</p> <ul style="list-style-type: none"> the optional exemption from applying IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS Accounting Standards; and the optional exemption relating to deemed cost for some assets used in operations subject to rate regulation. <p>Business combinations</p> <p>Some regulatory agreements treat goodwill as an allowable cost to be added in determining the future regulated rates. In some such cases, first-time adopters applying their previous GAAP treated that goodwill as a regulatory balance (goodwill-related regulatory balance). Because such a goodwill-related regulatory balance does not arise from the</p>	<p>. An accounting firm suggested the IASB provide guidance on:</p> <ul style="list-style-type: none"> how entities that did not previously recognise regulatory balances applying IFRS 1 should identify differences in timing that arose before the date of transition to IFRS Accounting Standards; and the interaction with the optional exemptions in IFRS 1 that entities have previously elected to apply on transition to IFRS Accounting Standards. <p>Another accounting firm suggested the IASB consider whether additional amendments to IFRS 1 may be necessary for entities that become a first-time adopter at the same time that they initially apply the Standard.</p>		

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>supply of goods or services, that balance does not give rise to a regulatory asset when a business combination occurs.</p> <p>The Exposure Draft proposes to require a first-time adopter to derecognise goodwill-related regulatory balances in the same way as intangible assets not qualifying for recognition: by increasing the carrying amount of goodwill, rather than by decreasing equity.</p> <p>Deemed cost</p> <p>IFRS 1 permits a first-time adopter to use carrying amounts determined under a previous GAAP as deemed cost of certain assets used in operations subject to rate regulation. The Exposure Draft proposes to retain the transition relief but to align terminology with that in the Exposure Draft.</p>			
IFRS 3 Business Combinations	IFRS 3 Business Combinations	Amendments to IFRS 3 and IFRS 5— AP9C discussed in April 2024	RRAWG Chairman report 24 July 2024

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>The Exposure Draft proposes amendments to require an entity to recognise and measure regulatory assets acquired and regulatory liabilities assumed in a business combination applying the recognition and measurement principles proposed in the Exposure Draft, rather than recognise and measure them at fair value.</p>	<p>A European national standard-setter disagreed with the proposed amendment. In the respondent's view, an acquiring entity may recognise a higher amount of goodwill by not recognising at fair value all regulatory assets acquired and all regulatory liabilities assumed in a business combination.</p> <p>An accounting firm suggested the IASB further investigate whether the application of the proposed amendments has any unintended consequences, especially affecting subsequent measurement and the interaction with IAS 36 <i>Impairment of Assets</i>.</p>	<p>The IASB tentatively decided to retain the proposals in the Exposure Draft to create an exception to the recognition and measurement principles in IFRS 3 for regulatory assets acquired and regulatory liabilities assumed.</p> <p>The IASB tentatively decided to retain the proposals in the Exposure Draft to exclude regulatory assets from the scope of IFRS 5.</p>	<p>Amendment to IFRS 3</p> <p>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).</p> <p>However, some members noted the tentative decision was counter intuitive 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 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.</p> <p>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).</p> <p>Amendment to IFRS 5</p>

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
			EFRAG RRAWG members agreed with the IASB's tentative decision on the proposed amendment to IFRS 5.
<p>IAS 1 Presentation of Financial Statements</p> <p>The Exposure Draft proposes amendments 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.</p>	<p>IAS 1 Presentation of Financial Statements</p> <p>A few respondents suggested the IASB provide guidance on the interaction with the requirements in IAS1 on aggregation and disaggregation of line items, and on classification of liabilities as current or non-current</p>	<p>retain the proposal to require an entity to present in its statement of financial position:</p> <ul style="list-style-type: none"> (i) line items for regulatory assets and regulatory liabilities; and (ii) current and non-current regulatory assets and current and non-current regulatory liabilities as separate classifications by applying paragraphs 66 and 69 of IAS 1, except when the entity presents all assets and liabilities in order of liquidity. <p>The IASB tentatively decided to include examples of the characteristics an entity could use to aggregate or disaggregate disclosures in accordance with the principles in the prospective IFRS Accounting Standard <i>Presentation and Disclosure in Financial Statements</i> (prospective PFS Standard);</p>	
<p>IAS 36 Impairment of Assets</p> <p>The Exposure Draft proposes</p>	<p>IAS 36 Impairment of Assets</p> <p>Most respondents who commented on</p>	<p>Amendments to IAS 36 — AP9B discussed in February 2024</p>	<p>RRAWG Chairman report 16 May 2024</p> <p>RRAWG members generally agreed with the IASB's tentative decisions.</p>

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>amendments:</p> <p>to specify that regulatory assets are outside the scope of IAS 36; and</p> <p>to avoid double-counting of estimates of future cash flows when testing an asset or a cash-generating unit for any impairment.</p>	<p>the proposed amendments suggested the IASB provide guidance and illustrative examples.</p> <p>A few respondents said:</p> <p>it may not always be possible to separate cash flows of regulatory assets and regulatory liabilities from the cash flows of a cash-generating unit;</p> <p>regulatory assets and regulatory liabilities should always be included in the cash-generating unit to which they belong because they do not generate largely independent cash flows; and</p> <p>applying the proposed amendments may not lead to a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount because of different discount rates used in those measurements.</p>	<p>The IASB tentatively decided:</p> <p>to retain the proposal to exclude regulatory assets from the scope of IAS 36;</p> <p>to omit the proposed amendments to paragraphs 43 and 79 of IAS 36; and</p> <p>to provide no further guidance on applying IAS 36.</p>	

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Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>Other IFRS Accounting Standards</p> <p>The Exposure Draft proposes amending:</p> <p>IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to delete paragraph 54G. This paragraph provides a temporary exception that would no longer be needed when applying the proposals in the Exposure Draft.</p> <p>IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> to exclude regulatory assets from the scope of the measurement requirements of that Standard.</p>	<p>Other IFRS Accounting Standards</p> <p>An accounting firm and a national standard-setter from North America suggested the IASB include guidance in IAS 7 <i>Statement of Cash Flows</i> on how an entity should consider its regulatory assets, regulatory liabilities, regulatory income and regulatory expense in its statement of cash flows.</p> <p>A few respondents suggested the IASB provide guidance on the interaction with, and amend, a few other IFRS Accounting Standards.</p>	<p>Amendments to IAS 8 and suggested amendments to other IFRS Accounting Standards</p> <p>The IASB tentatively decided to retain the proposal in the Exposure Draft 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 <i>Framework for the Preparation and Presentation of Financial Statements</i> instead of the <i>Conceptual Framework for Financial Reporting</i> issued in 2018.</p>	<p>RRAWG Chairman report 24 July 2024</p> <p>Amendment to IAS 8</p> <p>EFRAG RRAWG members agreed with the IASB's tentative decision on the proposed amendment to IAS 8.</p>
<p>Effective date and transition (November 2021 AP9C Feedback summary—Effective date and transition)</p>			
<p>Paragraph C1 of the Exposure Draft proposes that an entity applies the [draft]</p>	<p>Most respondents who commented asked for a longer transition period, such as a transition period</p>		

Summary of the IASB's redeliberations - RRA

Summary of proposals	Summary of feedback	Tentative decisions	EFRAG FR TEG /FRB/ RRAWG feedback
<p>Standard for annual reporting periods beginning on or after a date 18– 24 months from the date of its publication. Earlier application is permitted.</p> <p>Paragraph C3 of the Exposure Draft proposes that an entity applies the [draft] Standard retrospectively in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (full retrospective application), except as permitted in paragraph C4.</p> <p>Paragraph C4 of the Exposure Draft proposes that an entity may elect not to apply the [draft] Standard retrospectively to a past business combination.</p>	<p>of at least 24–36 months after the date of publication, with earlier application permitted.</p> <p>Most respondents did not support the proposed requirement to apply the Standard retrospectively in accordance with IAS 8. Respondents were particularly concerned about the cost and complexity of full retrospective application for some regulatory assets and regulatory liabilities. Some respondents suggested the IASB permit a modified retrospective application that:</p> <ul style="list-style-type: none"> permits the use of hindsight in making the judgements and estimates; provides relief from certain recognition and measurement requirements; and does not involve restatement of comparative information. <p>Many respondents who commented agreed with the proposals relating to the simpler approach for past business combinations.</p>		