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Regulatory assets and regulatory liabilities standard

Cover Note

Objective

- 1 The purpose of today's (15 April) and tomorrow's (16 April) sessions is to discuss and obtain EFRAG FR TEG's views on the IASB tentative decisions related to the upcoming IFRS *Regulatory Assets and Regulatory Liabilities* Standard (IFRS 'RARL Standard') on the following topics:
 - (a) Unit of account and offsetting;
 - (b) Recognition and derecognition of regulatory assets and regulatory liabilities; and
 - (c) Measurement (general measurement principle, discounting, and minimum interest rate).
- 2 As indicated in Appendix 1 (excerpted from the February 2025 EFRAG FR TEG agenda paper containing a plan for discussions through 2025), the above topics have not been discussed in an exclusive EFRAG FR TEG meeting.

Background

- 3 As shown in the Appendix, based on the EFRAG RRAWG and EFRAG FR TEG-CFSS discussions of the respective IASB tentative decisions:
 - (a) EFRAG Secretariat assessed the unit of account and offsetting to be of medium concern as some members expressed concerns about the applicability of the concept of unit of account in practice. These members considered that having the unit of account at a higher level might be more beneficial for reporting entities if it does not hinder the recognition of regulatory assets and regulatory liabilities.
 - (b) EFRAG Secretariat assessed the recognition and derecognition of regulatory assets and regulatory liabilities to be of low concern as members were generally supportive of the IASB's tentative decisions.
 - (c) EFRAG Secretariat assessed 1) the general measurement principle and aspects of discounting (i.e. uneven discount rates) to be of low concern; 2) requiring the application of a minimum interest rate if the regulatory interest rate provided for a regulatory asset is insufficient to compensate the entity to be of high concern. EFRAG RRAWG members did not support the latter decision as it added complexity, reduced comparability, it was asymmetrically applied only for regulatory assets, and there

were no clear benefits from applying the proposal. Some members said that they were not aware of cases where the regulatory interest rate could be insufficient.

Agenda Papers

- 4 In addition to this cover note, agenda papers for today's (15 April) session are:
 - (a) Agenda paper 10-02 – RRA unit of account and offsetting;
 - (b) Agenda paper 10-03 – Recognition and derecognition of RA and RL; and
 - (c) Agenda paper 10-04 – Recognition and derecognition - examples.
- 5 The agenda paper for tomorrow's (16 April) session is:
 - (a) Agenda paper 04-01 – Measurement (general principles, discounting and minimum interest rate)

Appendix 1: Excerpt from agenda paper 07-01 for the EFRAG FR TEG meeting held on 11 February 2025

Topic	Past discussions	Level of concerns raised / Whether discussed in EFRAG FR TEG only meeting	High-level description of feedback including concerns (i.e. from EFRAG consultative and decision-making bodies and other EFRAG constituents)
Unit of account			
<p>Unit of account – The IASB made a tentative decision to retain the ED’s definition of the unit of account as the right or obligation arising from a difference in timing or from a group of differences in timing created by the same regulatory agreement and having similar expiry patterns and subject to similar risks.</p> <p>Offsetting – the IASB tentatively decided to omit the proposal in paragraph 71 of the ED</p>	<p>EFRAG RRAWG meeting (6 March 2024)</p> <p>EFRAG FR TEG-CFSS (13 March 2024)</p>	<p>MEDIUM CONCERN (categorisation could be revised based on survey feedback) / <input checked="" type="checkbox"/> Topic not discussed in EFRAG FR TEG only meeting</p>	<p>Some EFRAG FR TEG-CFSS members questioned the applicability of the unit of account concept. They noted that, unless it is for resolving recognition challenges, specifying a unit of account at a detailed level as done in the ED/IASB tentative decisions could create more costs than benefits for reporting entities.</p> <p>This aspect has been included in the EFRAG survey to preparers. <u>Hence, if further concerns are highlighted in the feedback received, this aspect may be revised and deemed to be of high concern.</u></p> <p>Offsetting – In disagreement with the IASB tentative decision, some CFSS members considered it useful to</p>

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that would have permitted an entity to offset regulatory assets and regulatory liabilities in the statement of financial position.			retain paragraph 71 of the ED to apply the concepts in the RARL standard.
Recognition and derecognition			
The recognition threshold, the timing of initial recognition and derecognition, and the interaction between enforceability and recognition (see agenda paper 07-02 for a detailed description of IASB’s tentative decisions).	EFRAG FR TEG-CFSS (14 September 2023) EFRAG RRAWG (11 July 2023) EFRAG FR TEG-CFSS (12 September 2024)	LOW CONCERN (categorisation could be revised based on survey feedback on enforceability) / ☒ Topic not discussed in EFRAG FR TEG only meeting	EFRAG FR TEG-CFSS and RRAWG members were generally supportive of the IASB’s tentative decisions related to recognition and derecognition. In September 2024, EFRAG FR TEG members suggested that enforceability should be one of the focus areas of EFRAG’s preparatory work for endorsement advice. <u>Hence, if concerns are highlighted in the feedback to EFRAG’s survey to preparers, this aspect may be revised and deemed to be of either medium or high concern.</u>

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Measurement			
<p>Measurement principle: estimating uncertain future cash flows, credit and other risks</p>	<p>EFRAG FR TEG-CFSS (14 September 2023)</p> <p>EFRAG RRAWG (Nov and Dec 2023)</p> <p>EFRAG RRAWG (24 July 2024)</p> <p>EFRAG FR TEG-CFSS (12 September 2024)</p>	<p>LOW CONCERN / ☒ Topic not discussed in EFRAG FR TEG only meeting</p>	<p>EFRAG FR TEG-CFSS and RRAWG members generally agreed with the IASB's tentative decisions on the measurement principle and using the regulatory interest rate to discount future cash flows.</p>
<p>Discounting: discounting estimated future cash flows and using a minimum interest rate. The IASB made a tentative decision to retain the ED proposal to require discounting based on a minimum interest rate if the regulatory interest rate provided</p>	<p>EFRAG RRAWG (December 2023)</p> <p>EFRAG RRAWG (24 July 2024)</p> <p>EFRAG FR TEG-CFSS (12 September 2024)</p>	<p>HIGH CONCERN / ☒ Topic not discussed in EFRAG FR TEG only meeting</p>	<p>In its FCL, EFRAG did not support the ED proposal. EFRAG RRAWG members did not support the IASB tentative decision to retain the ED proposal for using a minimal interest rate if the regulatory rate is insufficient as it added complexity, reduced comparability, it was asymmetrically applied only for regulatory assets, and there were no clear benefits from applying the proposal.</p>

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for a regulatory asset is insufficient to compensate the entity.			Some members said that they were not aware of cases where the regulatory interest rate could be insufficient. This aspect is included in EFRAG’s survey to preparers. EFRAG FR TEG-CFSS members provided limited comments. One member said that the application of the minimum interest rate is not prevalent in France considering the regulation. The member recommended that the IASB should carefully consider the drafting of the RARL standard and provide clear implementation guidance.
Discounting: Uneven discount rates (using a single rate)	EFRAG RRAWG (16 May 2024) EFRAG FR TEG-CFSS (12 September 2024)	LOW CONCERN / ☒ Topic not discussed in EFRAG FR TEG only meeting	EFRAG RRAWG and TEG-CFSS members generally supported the IASB proposal – it was not expected to be a common issue in the EU.
Exemption to discounting: for items that affect regulated rates on an accrual basis	EFRAG FR TEG-CFSS (December 2024)	To be determined as yet to get RRAWG views / ☒ Topic	EFRAG FR TEG-CFSS members provided limited feedback. However, some members questioned

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<p>when having considered all reasonable and supportable information that is available without undue cost or effort, is unable to estimate the amount and timing of those future cash flows.</p>	<p>EFRAG RRAWG (February 2025)</p>	<p>not discussed in EFRAG FR TEG only meeting</p>	<p>whether the exemption from discounting is required. These members suggested that if an entity lacks the information required to discount cash flows it would be unable to discount cash flows, regardless of whether the prospective Standard included an exemption.</p> <p>RRAWG members will discuss the topic on 13 February 2025.</p>
<p>Inflation: An entity is neither required nor permitted to recognise as a regulatory asset, inflation adjustments to the regulatory capital base.</p>	<p>EFRAG FR TEG (April 2023)</p> <p>EFRAG FR TEG-CFSS (March 2023)</p> <p>EFRAG RRAWG (Feb 2023 and Nov 2024)</p>	<p>HIGH CONCERN/ <input checked="" type="checkbox"/> Topic discussed in EFRAG FR TEG meeting</p>	<p>The IASB made the tentative decision to prohibit recognising as regulatory assets inflation adjustments to the regulatory capital base due to the associated cost and complexity. The concern is of particular importance for entities having a direct relationship between an entity’s RCB and its PPE as they can track the difference between both at the unit of account level.</p> <p>Members were, in general, in agreement with the IASB’s tentative decision. A few members highlighted the challenges entities that are under a direct relationship</p>

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			<p>approach could face in excluding inflation-related revenue. A member did not support the tentative decision as he considered cost and complexity not to be valid reasons. A member with a user background supported the IASB’s decision as she considered that revenue related to inflation adjustments would be disconnected from the related cash flows and this would create confusion for generalist users.</p>
<p>Exceptions to general measurement requirements: Items affecting regulated rates only when related cash is paid or received</p>	<p>EFRAG FR TEG-CFSS (March 2024)</p> <p>EFRAG RRAWG (March 2024)</p>	<p>LOW CONCERN/ <input checked="" type="checkbox"/> Topic not discussed in EFRAG FR TEG only meeting</p>	<p>EFRAG TEG-CFSS 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>The extension of the measurement exception to other items that are not paid or received in cash will be discussed with the RRAWG in February 2025.</p>