



IFRS® Foundation

Exposure Draft *Regulatory Assets and Regulatory Liabilities*

OIC Webinar
6 May 2021

Agenda

IASB Perspective

Proposals

Next steps

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, suggesting latitude and longitude.

IASB Perspective

What is the problem?

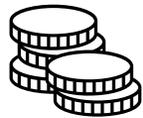
A regulatory agreement establishes

HOW MUCH a company can charge for supplying goods or services to customers

&

WHEN the company can charge that compensation to customers through the rates

In the period of supply



Compensation in rates



Supply of goods or services

No difference in timing

In a **different period** than the period of supply

Past period

Current period

Future period



Difference in timing arises—reported financial performance and financial position is **INCOMPLETE**

How does the Board propose to solve the problem?

Problem

Without information about **differences in timing**, investors have an **insufficient basis** for understanding their effects on a company's **financial performance, financial position and prospects for future cash flows**.

Proposals

A company should report **regulatory income** and **regulatory expense** in its income statement, and **regulatory assets** and **regulatory liabilities** in its balance sheet.

That information would supplement the information that companies already provide by applying IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers*.

Principle

A company should **reflect compensation*** for **goods or services supplied** as part of its reported financial performance **for the period in which it supplies those goods or services**.

*The ED calls this compensation 'total allowed compensation' and defines it 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.

Likely benefits for users

To give users a more complete picture of the financial performance and financial position of rate-regulated companies

Enhance comparability

Improve understanding
of financial
performance

Improve understanding
of risks and
uncertainties

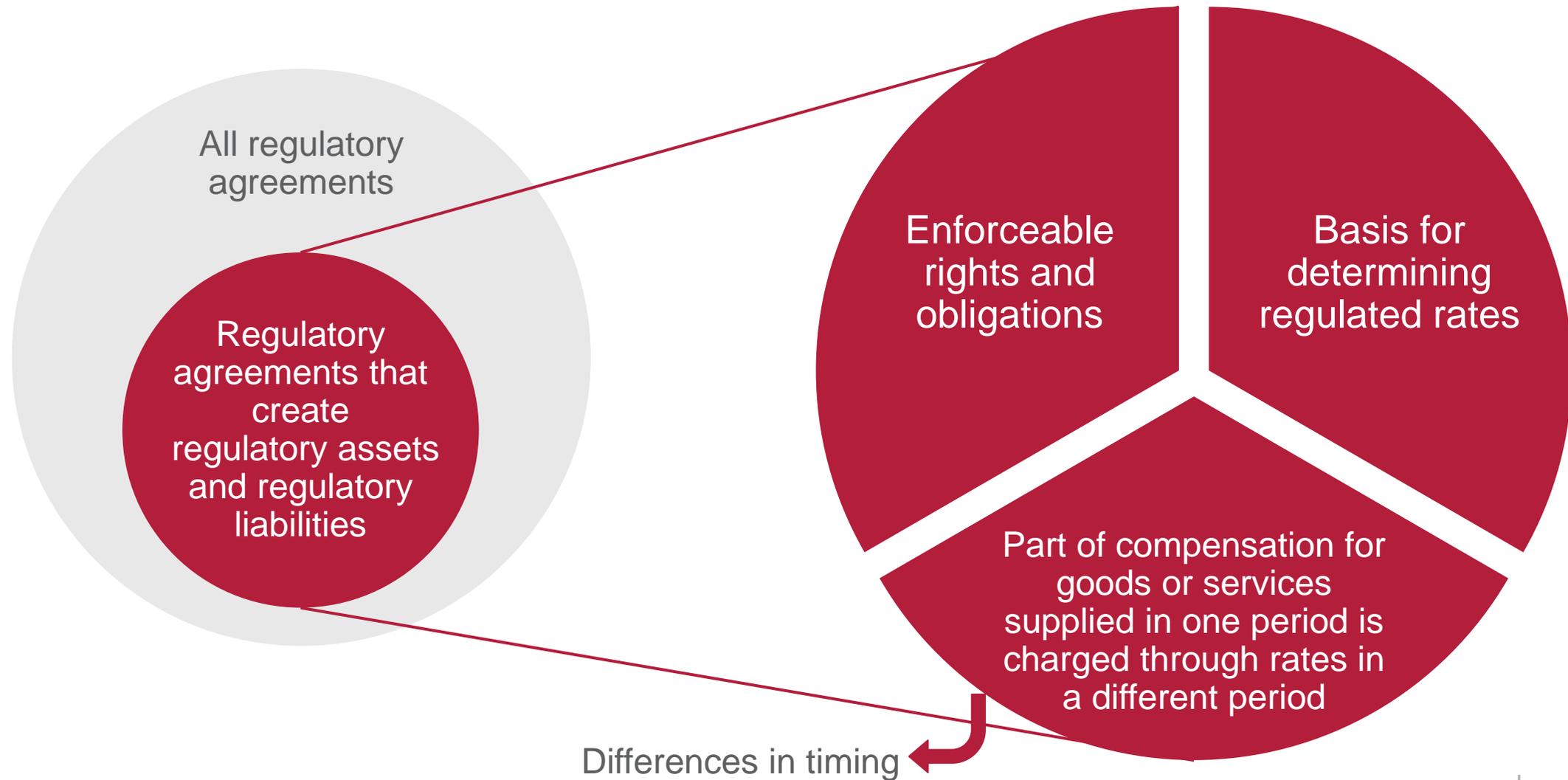
Improve understanding
of future cash flows

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Proposals

Scope

Scope

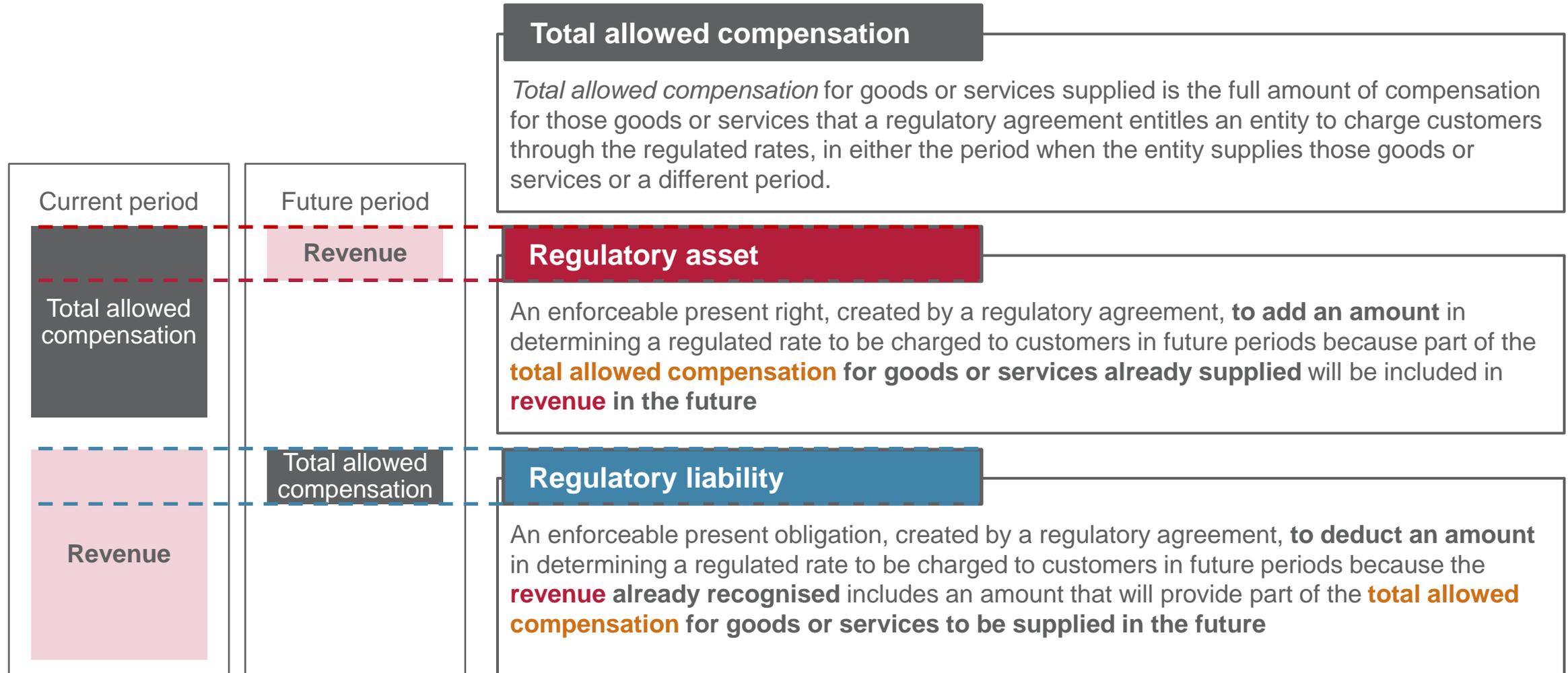




Proposals

Recognition

Regulatory assets and regulatory liabilities and total allowed compensation



Recognition

An entity shall recognise:

- All regulatory assets and all regulatory liabilities **existing** at the end of the reporting period.

If it is *uncertain* whether a regulatory asset or a regulatory liability exists, an entity shall recognise the regulatory asset or regulatory liability if it is **more likely than not** that it exists.

Consider all relevant facts and circumstances to determine existence, for example:

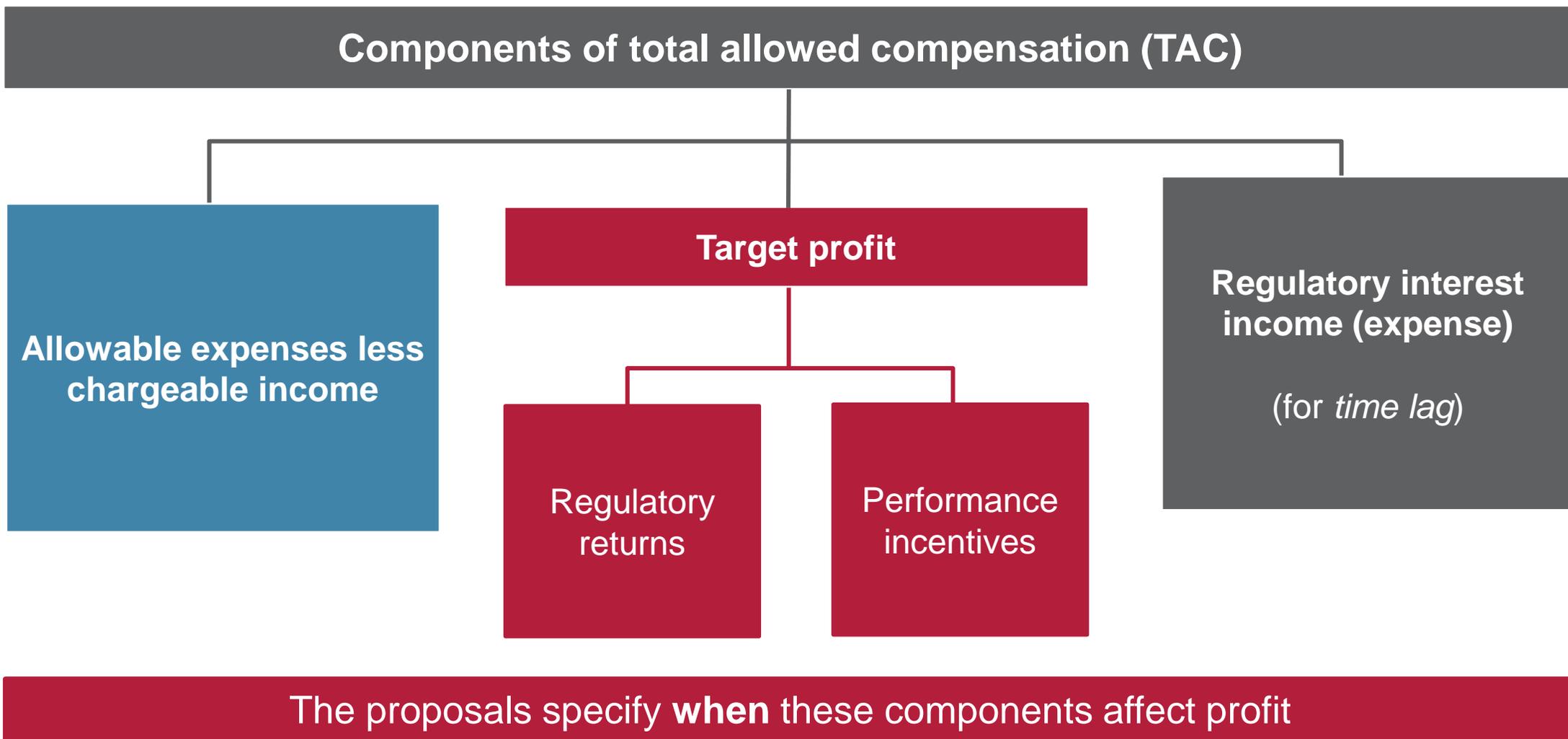
- Confirmation from the regulator
- Regulatory decisions or court rulings interpreting regulatory agreement
- Entity's experience with regulator's interpretation of the regulatory agreement in similar circumstances
- Experience of other entities regulated by the same regulator
- Preliminary views expressed by the regulator...



Proposals

Total Allowed Compensation

Total allowed compensation (TAC)



When components of TAC affect profit

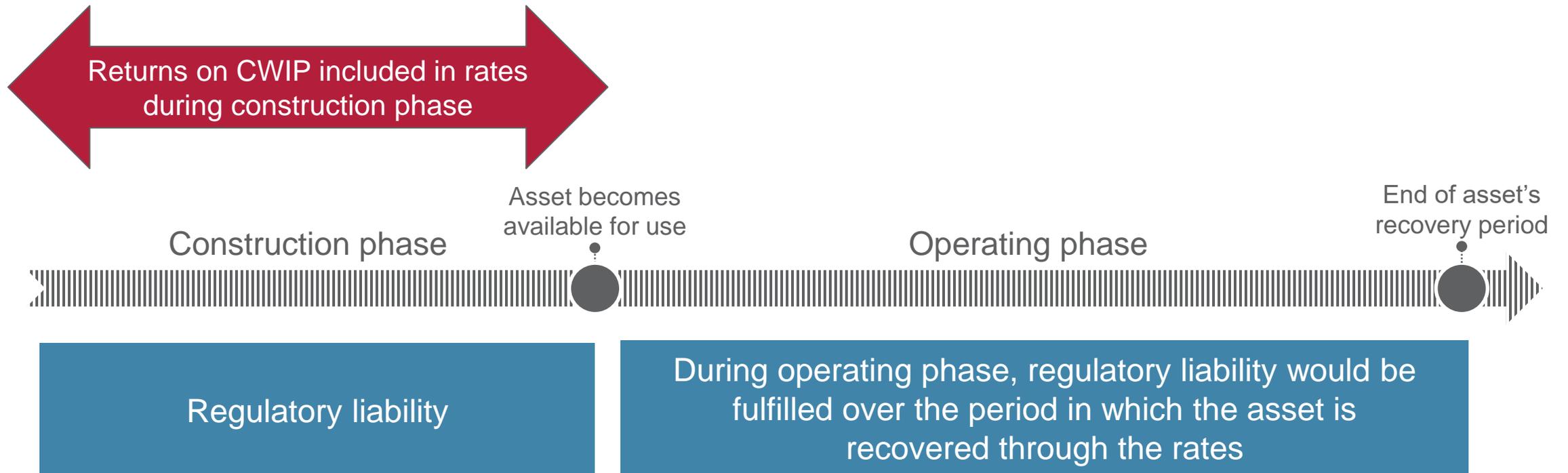
Allowable expenses less chargeable income	Target profit		Regulatory interest income (expense) (for <i>time lag</i>)
	Regulatory returns*	Performance incentives	
When a company recognises the expense or income by applying IFRS Standards	When the regulatory agreement entitles a company to add these in determining a regulated rate	In the period in which a company's performance gives rise to the incentive bonus or penalty	As the discount unwinds until recovery of the regulatory asset (or fulfilment of the regulatory liability)

* Regulatory returns on an asset not available for use affect profit:

- only once the asset is available for use; and
- then over the remaining periods in which the asset is recovered through the regulated rates

Regulatory returns on assets not yet available for use (1/2)

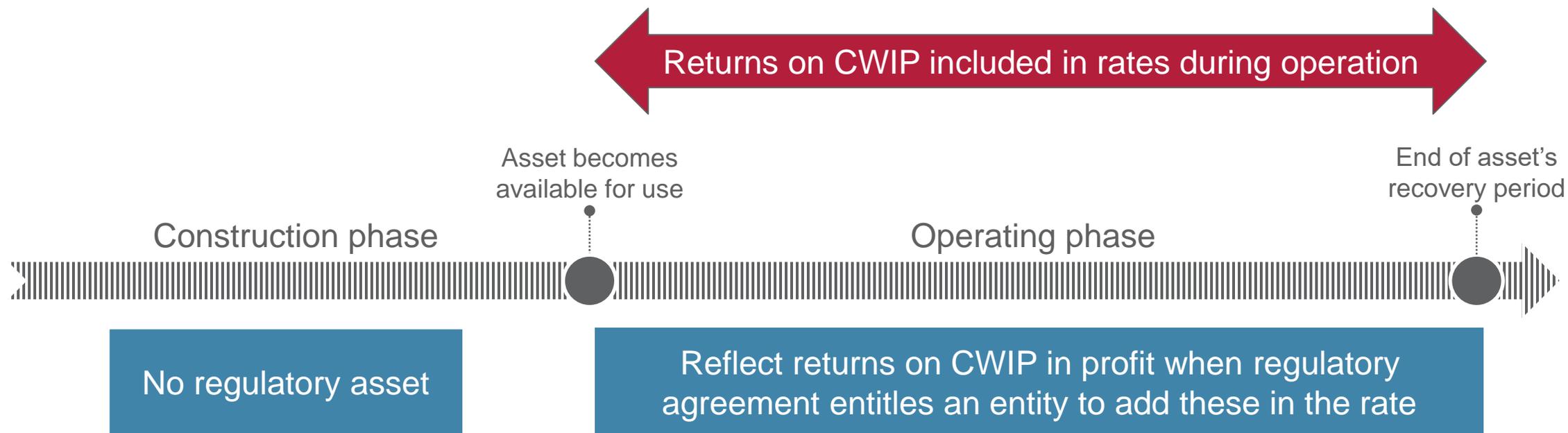
Regulatory returns on an asset not yet available for use (returns on CWIP*) affect profit ONLY during the operating phase of that asset



* CWIP: construction work in progress

Regulatory returns on assets not yet available for use (2/2)

Regulatory returns on an asset not yet available for use (returns on CWIP*) affect profit ONLY during the operating phase of that asset



* CWIP: construction work in progress

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Proposals

Measurement

Cash-flow-based measurement

	Future cash flows	Discount rate
Initial measurement	<p>Include all future cash flows</p> <ul style="list-style-type: none">• if uncertain, estimate using ‘most likely amount’ method or ‘expected value’ method• the cash flows include those from regulatory interest	<p>Discount estimated future cash flows</p> <ul style="list-style-type: none">• using the <i>regulatory interest rate</i>• unless this rate for a regulatory asset is insufficient*
Subsequent measurement	<p>Update estimates of future cash flows</p> <ul style="list-style-type: none">• to reflect recovery of regulatory asset or fulfilment of regulatory liability• for changes in estimates	<p>Continue to use discount rate</p> <ul style="list-style-type: none">• as determined at initial recognition• unless regulatory agreement changes the regulatory interest rate

* For a regulatory asset only, if the regulatory interest rate compensates an entity insufficiently for the time value of money and uncertainty, the discount rate would instead be the **(minimum) rate** that would be sufficient to provide that compensation.

Discount rate—the minimum interest rate

For **regulatory assets**:

If there is an **indication** the **regulatory interest rate is insufficient** to compensate the company for:

- the time value of money; and
- for the uncertainty in the amount or timing of future cash flows arising from a regulatory asset



Estimate **minimum rate**



If the regulatory interest rate is $<$ the minimum rate, discount the estimated future cash flows at the **minimum rate**



Use the **minimum rate** to:

- (a) **discount** the estimated future cash flows; and
- (b) **recognise regulatory interest income** as the discount unwinds **over time**



Proposals

Presentation and disclosure

Presentation

Present as **separate line items**:

- in the **statement of financial position**, **regulatory assets and regulatory liabilities**
- in the **statement(s) of financial performance**, the net movement between the opening and closing carrying amounts of regulatory assets and regulatory liabilities—**immediately below the revenue line item**
The ED uses the label **regulatory income minus regulatory expense** for this line item

Disclosure objective

Disclose information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities

This information together with all other information provided in the company's financial statements will enable users of financial statements:

- to understand how regulatory assets and regulatory liabilities affected the company's financial performance and financial position; and
- to assess the amount, timing and uncertainty of the company's future cash flows.

Proposed disclosure requirements

Breakdown of regulatory income (expense)

Additions

Recovery/
fulfilment

Regulatory interest
income (expense)

Changes in
estimates

Maturity analysis and risks

Maturity profile of
recovery/ fulfilment

How risks and
uncertainty affect
recovery/ fulfilment

Discount rates

Discount rates (or
range) used

Regulatory interest
rate IF minimum
interest rate used

Reconciliation of regulatory asset (liability) balances

Changes for
reasons other than
regulatory income
(expense)

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Next steps

Next steps



Quick links



For more information, please refer to the following materials on www.ifrs.org:

- [Webinar](#): Explaining the Exposure Draft Regulatory Assets and Regulatory Liabilities
- [Exposure Draft *Regulatory Assets and Regulatory Liabilities*](#)
- [Illustrative Examples](#) on *Regulatory Assets and Regulatory Liabilities*
- [Basis for Conclusions](#) on Exposure Draft *Regulatory Assets and Regulatory Liabilities*
- [Snapshot](#): *Regulatory Assets and Regulatory Liabilities*

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