



IFRS® Foundation

# Exposure Draft *Regulatory Assets and Regulatory Liabilities*

OIC Webinar  
6 May 2021

# Agenda

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IASB Perspective

Proposals

Next steps

A grayscale world map is the background, showing continents and a grid of latitude and longitude lines. Overlaid on the left side are several concentric, semi-transparent curved bands that sweep across the map from the bottom left towards the top right. The text 'IASB Perspective' is positioned on the right side of the map.

# 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

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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

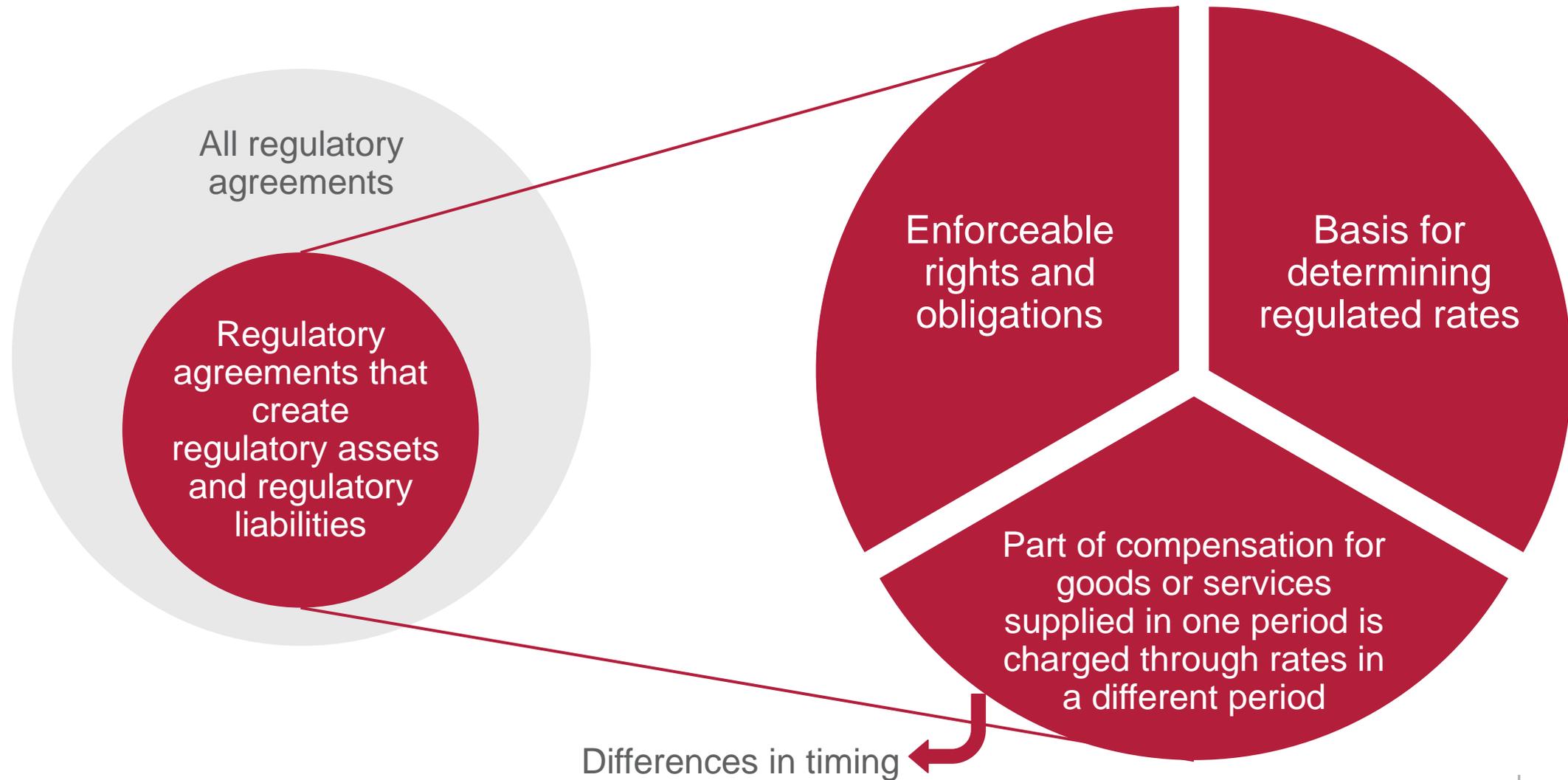


Proposals

Scope

# Scope

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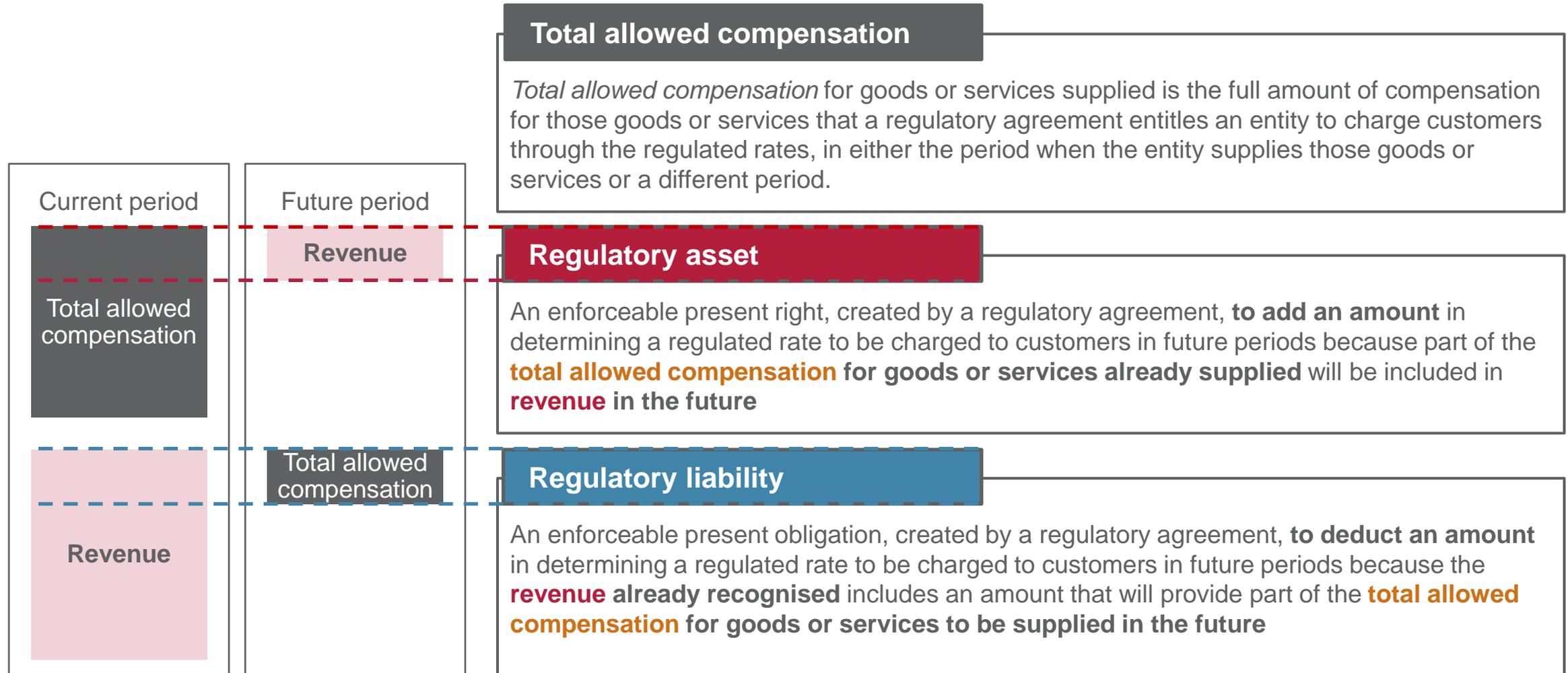




Proposals

Recognition

# Regulatory assets and regulatory liabilities and total allowed compensation



# Recognition

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## 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:

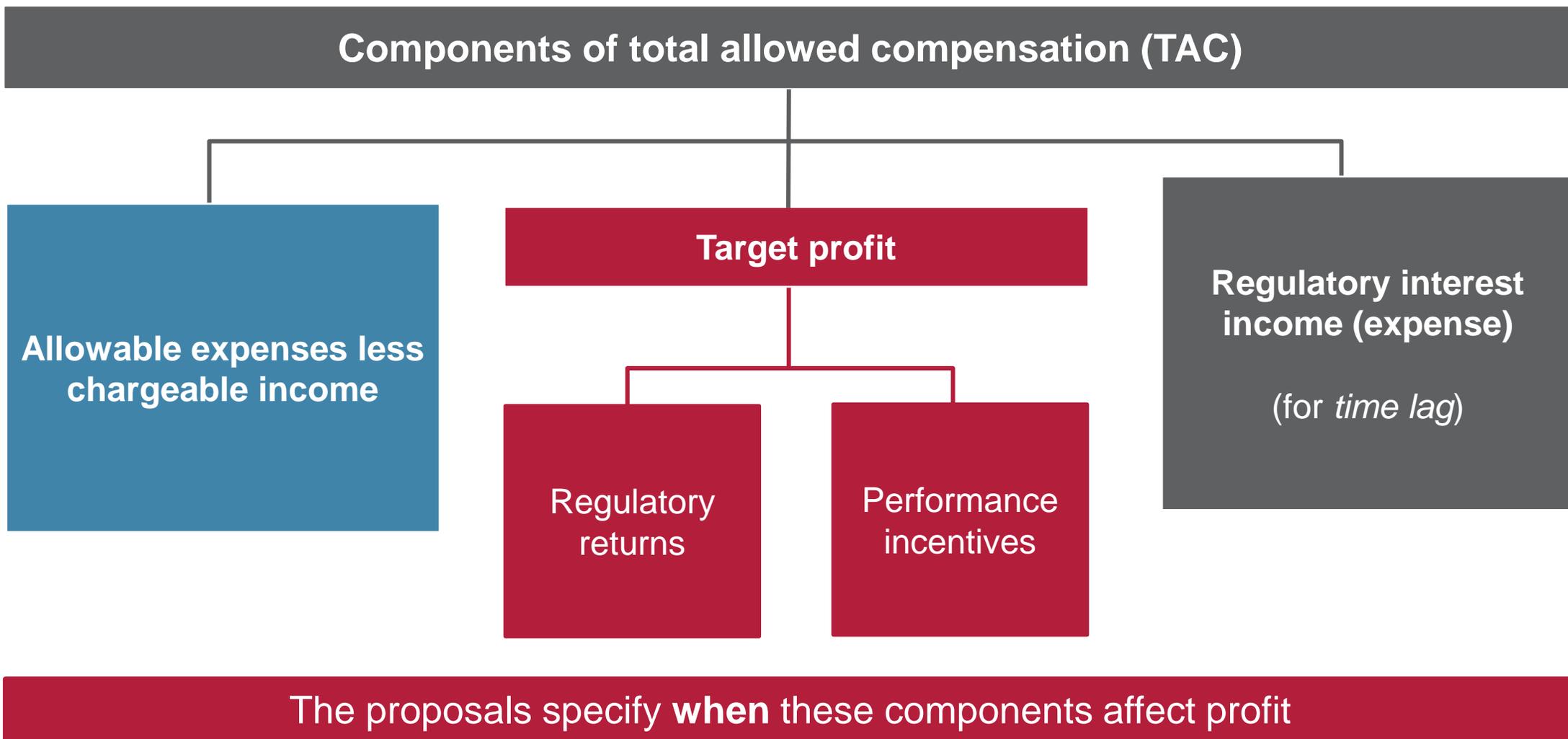
- Confirmation from the regulator
- Regulatory decisions or court rulings interpreting regulatory agreement
- Entity's experience with regulator's interpretation of the regulatory agreement in similar circumstances
- Experience of other entities regulated by the same regulator
- Preliminary views expressed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



Proposals

Total Allowed Compensation

# Total allowed compensation (TAC)



# When components of TAC affect profit

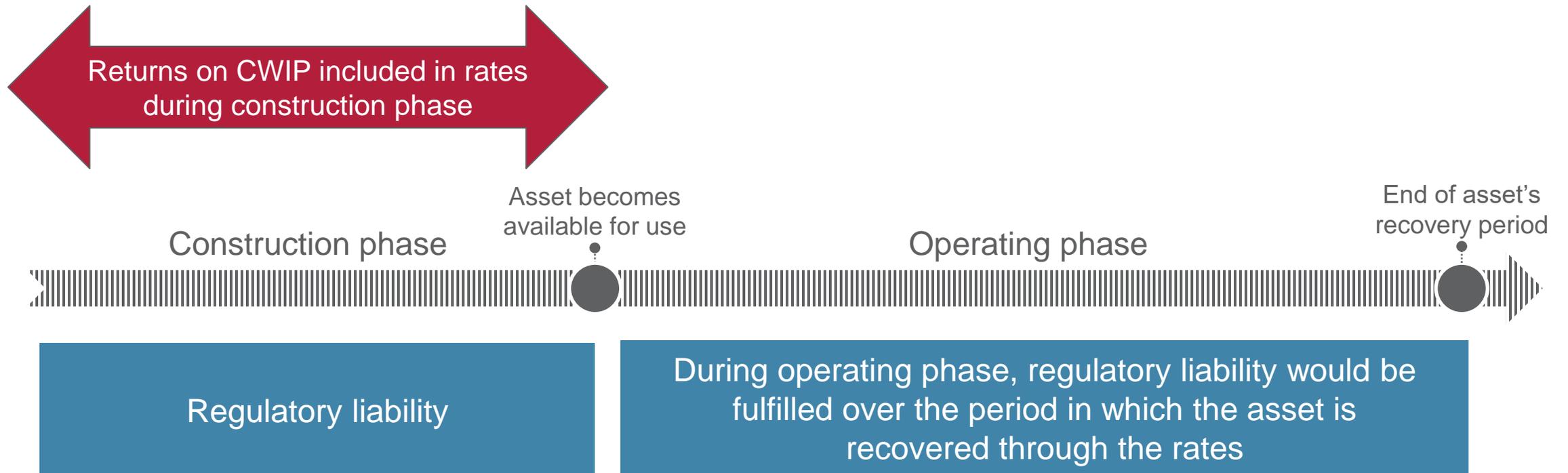
Allowable expenses less chargeable income	Target profit		Regulatory interest income (expense) (for <i>time lag</i> )
	Regulatory returns*	Performance incentives	
When a company recognises the expense or income by applying IFRS Standards	When the regulatory agreement entitles a company to add these in 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)

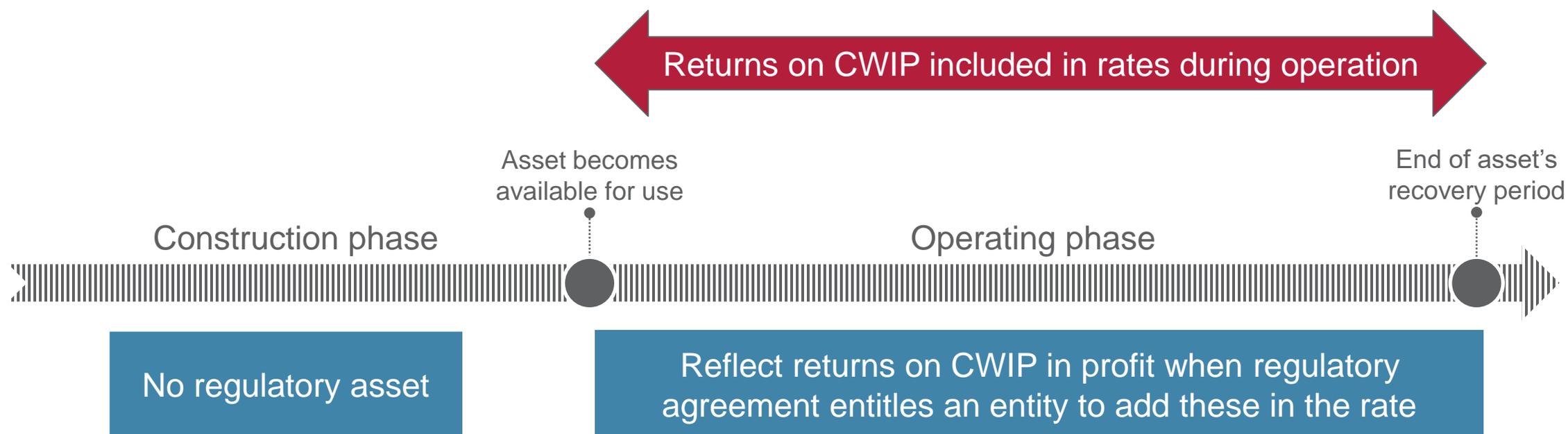
Regulatory returns on an asset not yet available for use (returns on CWIP\*) affect profit ONLY during the operating phase of that asset



\* 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

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

# Proposals

## Measurement

# Cash-flow-based measurement

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

\* 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

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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

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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

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## 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)

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

Next steps

# Next steps



# Quick links

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For more information, please refer to the following materials on [www.ifrs.org](http://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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