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## **IASB's Rate-regulated Activities project - Measurement of regulatory assets**

### **Cover Note**

#### **Objectives**

- 1 The objectives of this session are to:
  - (a) Seek input from EFRAG TEG and EFRAG CFSS on a measurement basis for regulatory assets to be included in the new accounting model being developed by the IASB for 'defined rate regulation'. The discussion is in preparation for the September 2017 ASAF meeting.
  - (b) Introduce an inquiry through EFRAG CFSS and EFRAG TEG to collect details of regulations in Europe that might fall within the scope of the IASB project on rate-regulated activities. This is explained in more detail below.

#### **Background**

- 2 The IASB rate-regulated activities project defines a type of economic regulation referred to as 'defined rate regulation' which:
  - (a) imposes limitations on entry into an industry (and on exit from it);
  - (b) is binding on both the entity and the rate regulator; and
  - (c) establishes a basis for setting the regulated rate (price) chargeable by the entity to its customers for the transfer of specified goods and/or services that comply with minimum quality levels or other service requirements.
- 3 The regulated rate is set by a rate-adjustment mechanism which allows rate-regulated entities to be compensated for temporary differences arising from specified activities carried out before the related amount is included in the rate or for differences between planned and actual provision of goods or services. Consequently, there is a direct relationship between an entity's past fulfilment of regulatory requirements and its (present) right to charge a higher (or lower) rate than would have otherwise been determined by the rate regulator which gives rise to a regulatory asset.
- 4 Agenda papers 12-03 and 12-05, provided for background information, provide a detailed description of the new accounting model. Agenda paper 12-03 was considered by EFRAG TEG and EFRAG CFSS at its joint meeting in June 2017.

### **Inquiry into scope of rate-regulated activities**

- 5 During 2017, the IASB has intensively discussed its project on rate-regulated activities. The IASB expects to publish a second discussion paper or an exposure draft in the first half of 2018.
- 6 In preparation for this second consultation document, the EFRAG Secretariat is planning to launch a 'request for information' with the objective of gathering information about the types of activities (and industries in which they operate) across Europe which could potentially meet the characteristics of 'defined rate regulation'. We are also seeking information about the legislation that creates the rate regulation.
- 7 Although the EFRAG Secretariat has a well-informed understanding of the effects of 'defined rate regulation' on regulated activities such as water, gas and electricity in some jurisdictions within the European Union, we are less certain of how the scope of the IASB project might impact regulated activities outside the 'utility sector'. We have performed limited research on regulated airport services, postal services and railway services in Europe to explore whether they might be in or out of scope.
- 8 In particular, we seek information on activities within Europe that are subject to regulation that might appear similar to 'defined rate regulation'. In some cases there will be little or no doubt which activities will be in the scope of the IASB project. Similarly, significant different features or characteristics within the legislation (regulation) might clearly indicate which activities are out of scope. However, there are likely to be 'borderline' cases for which it might not be entirely clear when activities are in or out of the scope of 'defined rate regulation'.
- 9 To summarise, we are seeking answers to the following questions for each jurisdiction in the EU:
  - (a) Which activities are potentially within the scope of the IASB's rate-regulation project?
  - (b) Can you provide the legislation (or a link to that legislation) that creates the potential for including the identified activities within the scope of the IASB's rate-regulation project?

#### **Questions for EFRAG TEG-CFSS**

- 10 Do you think that it would be feasible to provide the information outlined in paragraph 9? If not, how should we explain the request for information?
- 11 **Questions on the measurement of regulatory assets are included in agenda paper 12-02.**

### **Agenda Papers**

- 12 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 12-02 – Issues paper on Measurement of regulatory assets;
  - (b) Agenda paper 12-03 – Issues paper – Building an accounting model for rate-regulated activities issues paper (for background only);
  - (c) Agenda paper 12-04 – ASAF Paper 6 - Rate-regulated activities cover note (for background only);
  - (d) Agenda paper 12-05 – ASAF Paper 6A – Update on the IASB's discussion on rate-regulated activities (for background only); and
  - (e) Agenda paper 12-05 – ASAF Paper 6B – Rate-regulated activities – measurement of regulatory assets (for background only).