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Rate-regulated Activities Cover Note

Objective

- 1 The objective of this session is to obtain preliminary views from EFRAG TEG members on the IASB tentative decisions on its project on Rate-regulated Activities (RRA project). This session will focus to the following aspects of the accounting model for regulatory assets and regulatory liabilities (the model):
 - (a) scope and definition of regulatory assets and liabilities;
 - (b) recognition and derecognition (including regulatory agreement boundary); and
 - (c) measurement of regulatory assets and regulatory liabilities.

Background

- 2 The model will apply to activities subject to 'defined rate regulation' established through a formal regulatory framework that is binding on both the entity and the regulator and establishes a basis for setting the rate to be charged to the entity's customers for goods or services that give rise to enforceable rights and obligations. It is therefore necessary that a tripartite relationship exists (regulator, entity and customer) for an activity to be within the scope of the model.
- 3 The aim of the model is to provide users of financial statements of those entities within its scope with a more complete set of information regarding the entity's statement of financial performance and financial position by recognising rights and obligations stemming from the regulatory agreement that are currently not recognised under IFRS Standards.
- 4 The model is a 'supplementary approach', which will supplement the requirements of existing IFRS Standards. The model focuses on the incremental set of rights and obligations arising from 'defined rate regulation', which are currently not reflected in the IFRS financial statements. An entity will therefore apply the requirements of other IFRS Standards without modification, such as IFRS 15 *Revenue from Contracts with Customers*, IFRIC 12 *Service Concession Arrangements* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, when applicable, before applying the model being developed.

Next steps

- 5 The IASB has completed its discussions on developing the model and expects to publish an exposure draft in the second quarter of 2020. The comment period is expected to be 120 days.

- 6 The EFRAG project team plans to ask EFRAG TEG members for views on the remaining aspects of the model at a future EFRAG TEG meeting. These additional aspects of the model relate to:
- (a) interaction with IFRS Standards;
 - (b) presentation and disclosures; and
 - (c) transition requirements.

The EFRAG Rate-regulated Working Group (RRAWG) met on 23 October 2019 to discuss the various aspects of the model and how it might be applied in practice. Agenda Papers

- 7 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 08-02 – Issues paper – Scope and definition of regulatory assets and liabilities;
 - (b) Agenda paper 08-03 – Issues paper – Recognition and derecognition (including regulatory agreement boundary);
 - (c) Agenda paper 08-04 – Issues paper – Measurement of regulatory assets and regulatory liabilities, and
 - (d) Agenda paper 08-05 – Issues paper – Measurement – discounting estimated cash flows.