

Presentation and disclosure requirements

Issues Paper

Objective

- 1 The purpose of this paper is to obtain preliminary views of EFRAG TEG members on the IASB proposals on:
 - a) Presentation of regulatory assets and regulatory liabilities and related regulatory income and regulatory expense items; and
 - b) Disclosure objectives and related disclosure requirements for defined rate regulation.

Presentation

- 2 The IASB discussed presentation at its meeting in November 2018; details from that discussion can be found at the link [here](#). The model requires presentation of regulatory balances as **separate line items**.
- 3 The IASB tentatively decided at its meeting in June 2019 (details can be found at link [here](#)) that an entity is not prohibited from disaggregating the required line items and presenting additional line items or subtotals in the primary financial statements, when such presentation would be relevant to an understanding of the entity's financial position and/or financial performance, as required by IAS 1 *Presentation of Financial Statements*.

Statement of financial position

- 4 There should be a separate presentation of regulatory balances, because they do not fit neatly into any of the defined categories of assets and liabilities used in existing IFRS Standards.
- 5 As a result, the entity should:
 - (a) present regulatory assets and regulatory liabilities as separate line items in addition to the line items required by IAS 1 *Presentation of Financial Statements*;
 - (b) applying IAS 1, classify regulatory assets and regulatory liabilities as current or noncurrent, except when a presentation based on liquidity is used; and
 - (c) offset regulatory assets and regulatory liabilities¹ only if they are expected to lead to adjustments to the same future rate(s) charged to customers and, consequently:
 - (i) they have the same pattern and timing of reversal;
 - (ii) they arise in the same regulatory regime; and
 - (iii) the entity has a legally enforceable right to offset them.

Statement of comprehensive income

- 6 The IASB tentative decided that an entity should:

¹ Although offsetting would be permitted when the conditions in subparagraphs (c) (i) - (iii) are met, it should not be required

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- (a) present all regulatory income and regulatory expense in profit or loss, except as indicated in (d);
- (b) present regulatory income and regulatory expense netted as a separate line item (regulatory income or regulatory expense line item immediately below the revenue line item(s) required by IAS 1;
- (c) include regulatory interest income and regulatory interest expense within the regulatory income or regulatory expense line item; and
- (d) present in other comprehensive income (OCI) regulatory income or regulatory expense that is related to items of expense or income presented in OCI, and present that regulatory income or regulatory expense immediately above or immediately below the related expense or income.

Other comprehensive income

- 7 At its June 2019 meeting, the IASB discussed (details can be found at the link [here](#)) the presentation of regulatory income and regulatory expense in OCI and tentatively decided that:
- (a) an entity should present in OCI all regulatory income or regulatory expense related to items of expense or income presented in OCI, and present them immediately above or immediately below the related expense or income; and
 - (b) an entity should present in profit or loss all other regulatory income or regulatory expense, immediately below the line item(s) for revenue (as discussed in paragraph 6).
- 8 Six IASB members disagreed with the decision to present in OCI all regulatory income or regulatory expense related to items of expense or income presented in OCI. These IASB members argued that the net amount of regulatory income or regulatory expense reported immediately below revenue includes amounts related to expenses or income reported in different parts of the statement of profit or loss, including the taxation line item. Consequently, there is no compelling reason to treat differently regulatory income or regulatory expense that results from expense or income presented in OCI.
- 9 Both approaches have been illustrated by the IASB staff example using a common fact pattern at the IASB meeting in June 2019 (details can be found at the link [here](#)) and included in Appendix 1 to this paper.

Feedback from EFRAG RRAWG

- 10 EFRAG RRAWG members generally agreed that there should be a separate presentation of regulatory balances in other comprehensive income (OCI) for the regulatory income or regulatory expense that is related to items of expense or income presented in OCI and in profit or loss for all other regulatory income or regulatory expenses, immediately below the line item for revenue.

Questions for EFRAG TEG members

- 11 Do you agree with the IASB tentative decisions on the presentation of regulatory balances in the statement of financial position (paragraph 5) and the statement of comprehensive income (paragraph 6)? If you do not agree, please explain why.
- 12 Specifically, do you agree with the IASB tentative decision to present in other comprehensive income (OCI) regulatory income or regulatory expense that is related to items of expense or income presented in OCI, rather than in profit or loss (paragraph 7)? Do you consider that this form of presentation will provide useful information to users of financial statements?

Disclosure principles and requirements

Disclosure principle

- 13 In November 2018, the IASB tentatively decided that the overall disclosure objective for defined rate regulation should be focused on the effects that regulatory rights and obligations have on an entity's financial performance and financial position.
- 14 The model identifies an overall disclosure objective, supported by more granular specific disclosure objectives and disclosure requirements supporting the specific disclosure objectives.
- 15 The overall disclosure objective does not focus on reporting all effects of defined rate regulation but is instead linked tightly with the purpose of the model, i.e. to recognise regulatory assets, regulatory liabilities and movements in their balances. Consequently, the overall disclosure objective of the model focuses on providing financial information that will help users of financial statements to understand how the origination and subsequent recovery/fulfilment of regulatory assets and regulatory liabilities has affected the entity's financial performance and financial position.
- 16 The specific disclosure objectives focus on the following areas:
 - (a) financial performance;
 - (b) amount, timing and uncertainty of future cash flows from regulatory assets and regulatory liabilities; and
 - (c) changes in the carrying amounts of regulatory assets and regulatory liabilities.

Disclosure requirements

- 17 The IASB tentatively decided at its meeting in November 2018 that an entity should disclose:
 - (a) a breakdown of the regulatory income or regulatory expense line item in profit or loss into the following components:
 - (i) originations of regulatory assets, together with qualitative and quantitative information about the reasons for their amounts;
 - (ii) originations of regulatory liabilities, together with qualitative and quantitative information about the reasons for their amounts;
 - (iii) recovery of regulatory assets;
 - (iv) fulfilment of regulatory liabilities; and
 - (v) changes in the carrying amount of regulatory assets and regulatory liabilities due to changes in estimates, together with qualitative and quantitative information about the reasons for those changes;
 - (b) a maturity analysis of the carrying amounts of regulatory assets and of regulatory liabilities at the end of the period, and an explanation of how the future recovery of regulatory assets or the future fulfilment of regulatory liabilities is affected by risks and uncertainty;
 - (c) the discount rate or ranges of discount rates used to discount the estimated cash flows reflected in the carrying amounts of regulatory assets and of regulatory liabilities at the end of the period and, if different, the related regulatory interest or return rate(s) approved by the regulator, together with qualitative and quantitative information about the reasons for those differences; and
 - (d) a reconciliation of the opening and closing carrying amount of regulatory assets and of regulatory liabilities from the beginning to the end of the period;

- 18 In June 2019, the IASB tentatively decided that any regulatory interest or regulatory return arising on regulatory assets or regulatory liabilities should be disclosed as a separate caption in:
- (a) the breakdown of regulatory income or regulatory expense for the period; or
 - (b) the reconciliation of the carrying amounts of regulatory assets and of regulatory liabilities from the beginning to the end of the period.
- 19 The IASB also tentatively decided that an entity should assess whether the information provided through the disclosure requirements is sufficient to meet the overall disclosure objective. If not, the entity should disclose any additional information needed to meet that objective.

Feedback from EFRAG RRAWG

- 20 EFRAG RRAWG members generally agree with the disclosure requirements that entities currently applying IFRS 14 already apply to provide that data, and always considering the underlying risks and materiality regarding qualitative information. However, some EFRAG RRAWG members emphasised that sometimes it is not easy to disaggregate the CGU and disclose the numbers. For that reason, they stressed the importance to keep the requirements simple so it would be easier for companies to meet the requirement.

Questions for EFRAG TEG members

- 21 Do you consider that the disclosure requirements are clear, complete and balanced (i.e. would result in useful information to users and would not result in disclosure overload)?

Appendix 1: IASB Illustrative Example

Fact pattern:

- 22 The regulatory agreement specifies that:
- (a) pension costs are an allowable expense;
 - (b) Entity A is not allowed to include these costs in the rates charged to customers until after it makes the related cash disbursements; and
 - (c) such costs – with a 0% margin – are included in the rates charged to customers in the first year after cash disbursement.
- 23 Entity A maintains a defined benefit plan for its employees, which is accounted for in accordance with IAS 19 Employee Benefits.
- 24 During the years X0–X2, Entity A recognises:
- (a) in profit or loss
 - (i) service cost (i.e. CU98 in X1); and
 - (ii) net interest on the net defined benefit liability (i.e. CU9 in X1).
 - (b) in other comprehensive income
 - (i) re-measurements of the net defined benefit liability (i.e. CU53 loss in X1).
- 25 The employees' service terms end in X2. Entity A pays CU340 for employees' benefits in X2, fulfilling its defined benefit obligation.

Application of the model:

- 26 The regulatory compensation for services already supplied over the lives of the plan members includes the cost of pension payments that are ultimately determined to be allowable.
- 27 The regulatory compensation in years X0–X2 for services already supplied (i.e. CU160 in X1) exceeds the amount already charged to customers (nil).
- 28 As a result, Entity A recognises a regulatory asset reflecting its present right to add the amount of the pension costs in determining the rates to be charged to customers in year X3.

Approach 1 — present in OCI the regulatory income/ (expense) related to the pension expense or income presented in OCI

In CU	X0	X1	X2	X3	Total
Revenue	-	-	-	340	340
Regulatory income / (expense) ¹	90	107	128	(340)	(15)
Defined benefit plan:					
Service costs	(90)	(98)	(108)	-	(296)
Net interest on the net defined benefit liability	-	(9)	(20)	-	(29)
Profit / (loss)	-	-	-	-	-
Remeasurements of the net defined benefit liability	-	(53)	38	-	(15)
Remeasurement of related regulatory asset	-	53	(38)	-	15
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
Regulatory asset	90	250	340	-	-
Defined benefit obligation	90	250	-	-	-

Approach 2—present all regulatory income/ (regulatory expense) in profit or loss, immediately below revenue

In CU	X0	X1	X2	X3	Total
Revenue	-	-	-	340	340
Regulatory income / (expense) ¹	90	160	90	(340)	-
Defined benefit plan:					
Service costs	(90)	(98)	(108)	-	(296)
Net interest on the net defined benefit liability	-	(9)	(20)	-	(29)
Profit / (loss)	-	53	(38)	-	15
Remeasurements of the net defined benefit liability	-	(53)	38	-	(15)
Other comprehensive income	-	(53)	38	-	(15)
Total comprehensive income	-	-	-	-	-
Regulatory asset	90	250	340	-	-
Defined benefit obligation	90	250	-	-	-