EFRAG
European Financial Reporting Advisory Group

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Summary of outreach feedback on the IASB ED *Regulatory Assets and Regulatory Liabilities* Issues Paper

Objective

1 The purpose of this paper is to provide feedback received during EFRAG's outreach activities on the IASB's Exposure Draft *ED/2021/1 Regulatory Assets and Regulatory Liabilities* ('the ED').

2 The feedback received has been used to inform and develop the EFRAG position in its Final Comment Letter ('FCL') on the ED's proposals.

Background

3 The IASB published its ED in January 2021. The ED proposes an accounting model for regulatory assets, regulatory liabilities, regulatory income and regulatory expense. The objective of the model is to provide relevant information that together with the information provided under existing IFRS Standards will enable users of financial statements to understand how rate regulation affects the entity's financial performance, financial position and prospects for future cash flows.

4 EFRAG published its draft comment letter ('DCL') on the ED in April 2021. In its DCL, EFRAG broadly supports the approach proposed by the IASB and poses several questions to constituents on specific areas, which include the three areas on which EFRAG did not reach a conclusive view: the proposed accounting treatment for regulatory returns on Construction Work-in-Progress ('CWIP'), discounting of regulatory assets and regulatory liabilities and application of the exception to IFRS 3 *Business Combinations* measurement for acquired regulatory assets and assumed regulatory liabilities.

Additional information on outreach activities

5 EFRAG participated in a number of outreach events on the proposals included in the IASB's ED on regulatory assets and regulatory liabilities. The events were jointly organised with the IASB, national standard setters or professional associations and members of the EFRAG Rate-regulated Activities Working Group. Appendix 1 provides a detailed list of events.

6 Furthermore, in July 2021, EFRAG held a webinar targeting the user's perspective on improving reporting requirements for rate-regulated entities. The webinar was jointly organised with the European Federation of Financial Analysts Societies (EFFAS), ABAF/BVFA Belgium and the IASB.

7 In addition to the general outreach on the proposed accounting model, EFRAG participated in several consultations focused on discussing and assessing the

impact of the ED's scope on entities operating in different sectors: utilities, airport, railroad and telecom services. The project's scope was also discussed with the EFRAG FIWG and EFRAG IAWG to assess whether financial institutions would be affected by the ED's proposals. In June 2021, EFRAG published an EFRAG Secretariat Briefing *Regulatory Assets and Regulatory Liabilities – Practical Implications of Project Scope* to further stimulate debate on the scope of the ED and assess whether the ED's scope would affect entities that are not subject to rate regulation or conversely, will not capture entities which are subject to a certain type of rate regulation. The Briefing was discussed in the consultations on the scope of the proposed Standard. Appendix 2 includes a list of consultations focused on the scope definition in the ED.

8 In addition, EFRAG published separate surveys for preparers and users of financial statements to assess the potential effects of applying the proposals. The findings of the effects analysis are presented in agenda paper 05-06.

9 The feedback received from all outreach events has been summarised considering the sections included in the IASB's ED.

Summary of feedback received

General comments

10 The ED's proposals and the IASB's efforts to develop an accounting model for regulatory assets and regulatory liabilities were welcomed by both users and preparers of financial statements.

11 Furthermore, a positive effect for the market was expected based on the ED's proposals to require entities to recognise and measure regulatory assets and regulatory liabilities. The proposed accounting model would increase awareness and enhance precision when setting aspects of the regulatory tariff plans by authorities which was necessary to support corporate reporting.

12 It was considered useful to verify the interactions with other standards, for example, IFRS 15, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 36, IAS 16, IFRS 3 *Business Combinations*, IFRIC 12 *Service Concession Arrangements*, particularly when the same regulatory agreement in scope of the future standard resulted also in rights and obligations in scope of the other IFRS standards. It would be fundamental for consistent application of all the standards applicable by companies included in the scope of the ED. It was also suggested that in the implementation phase, the establishment of a Transition Resource Group could be useful.

13 Regulatory regimes differed across countries and different economic sectors. Often, regulatory regimes had one or more of the scope criteria defined in the ED (paragraph 6 of the ED), however, not all of the required scope criteria were present for the entity to fall within the scope of the ED. The variety of regulatory systems included:

(a) in the utilities sector in one jurisdiction, the regulatory system was incentive-based and considered the efficient costs of each company compared to the efficiency of the sector as a whole and considering adjustments to tariffs that are based on EU benchmark. All operators were considered together when the level of efficient costs was set. The regulatory system did not allow regulated rates to be adjusted for volume variances which in practice were usually insignificant;

(b) in the aviation sector, the regulatory regime is a cost-plus risk-free model. In one country, the regulatory regime was established through an aviation act which set the regulatory expenses and how the regulatory differences were

reported. Although there was no obligation for the airport to be cost-efficient, higher input costs that were not volume-driven would not be included in the rate set to customers. The airport regulator checked whether the aviation act was complied with, however, the regulator did not approve the charges to customers. It was the airport that decided on the regulated rate;

(c) in the railway sector, the entity operated with a main concession and regional concessions. The tariffs for second class tickets are regulated in the sense that the National Railways' charges are capped at an amount agreed with the Government (the National Railways in The Netherlands are Government owned and the services are provided by a Government-owned entity). There was no price-adjusting mechanism to recover (settle) any differences between the amounts charged to customers and the costs incurred by the entity. Occasionally, when exceptional circumstances occurred that resulted in a decrease in the demand for railway services, the Government would assist the entity through Government grants and subsidies;

(d) in the telecom sector, the regulatory regime in one jurisdiction established tariffs for customers. However, these tariffs were not based on the recovery of input costs and there were no differences in timing in place.

Objective and scope

14 In general, the objective and scope of the model were considered appropriate, however, some concerns were expressed regarding:

(a) Total Allowed Compensation ('TAC') proposals - it was considered that applying the TAC proposals would not make it possible to achieve the objective of the project. The following issues related to TAC were identified:

(i) misalignment with regulatory results - the principle of TAC lead to a shift of profits across periods that was not in line with the actual regulatory results. This would require users of financial statements to be provided with additional information in order to explain the reported performance of the company;

(ii) permanent differences – applying the proposals on TAC, differences might arise due to the application of IFRS Standards as the measurement basis for the TAC-allowable expense instead of applying the regulatory guidance for such amounts. The ED was not explicit about how such permanent differences would be treated and whether they would be outside of the scope of the proposed Standard.

(b) clarity on scope – it was considered necessary to clarify the scope as in some regulatory regimes, the regulated rates set by the regulator could also be modified by the company depending on demand or seasonality.

(c) differences in timing – in some regulatory regimes, existing timing differences did not form an enforceable present right to recognise a regulatory asset. While there were timing differences, these differences were hard to estimate because the measurement depended on the performance of the competitors and the sector as a whole. The regulatory period after which the performance of the sector was released was usually a long-term period (5 years).

15 The proposals on scope might be more complex to apply in practice compared to the simplistic examples provided in the ED. In some jurisdictions, there would be very few companies with the type of rate regulation described in the ED.

16 For financial institutions, the applicability of the proposals on the scope was less obvious and did not create regulatory assets and liabilities for the following reasons:

(a) scope criteria - although price control mechanisms were not uncommon in the financial sector, not all of the required scope criteria (paragraph 6 of the ED) were present. For instance, it was questionable whether differences in timing existed e.g., interest mechanism under IFRS 9 *Financial Instruments* used effective interest rate which was spread over the statement of profit or loss; it was also questionable if money lending constituted a service;

(b) regulator - when differences in timing existed, there was no third party to regulate the price;

(c) regulatory agreement - it was not clear whether there was a regulatory agreement in place in situations where the obligation arose from general regulation;

(d) supplementary model – the ED was not explicit enough that the proposed accounting model for regulatory assets and regulatory liabilities was supplementary to existing IFRS Standards. This should be made clearer and it would be helpful to have examples illustrating the interaction of the proposed Standard with other IFRS Standards in addition to IFRS 15.

17 There was no need for specific guidance on defining the regulator.

Regulatory assets and regulatory liabilities

18 The ED's proposals require the existence of enforceable rights and obligations as a condition for recognition of regulatory assets and regulatory liabilities. In some jurisdictions, the enforceability of the rights and obligations created by the regulatory agreement was questioned based on:

(a) measurement uncertainty - an entity had a right or obligation, created by the regulatory agreement, to add or reduce an amount in determining the future tariffs. However, due to the process of setting up the tariffs, there was significant uncertainty about these amounts. The tariffs were based on the performance of the sector as a whole and determined after the publication of the financial statements of the entity.

(b) regulatory period – in another jurisdiction, the regulatory period was long-term and the regulator would only determine how the benchmark tariff is calculated after the passage of this period. Therefore, there was a lot of uncertainty as to whether these entities would get back the compensation for the investment included in the regulated rates. Currently, many regulatory settlements were involved in court cases. Companies were not informed what the benchmark tariff was – this meant they would not know whether costs incurred above the benchmark calculated by the regulatory would be recovered. This was a regulatory system used to incentivise companies to be effective.

(c) maturity of regulatory system – it was commented that more mature regulatory systems created a level of certainty when measuring future cash flow which was proportional to the strength of the framework.

Total allowed compensation (TAC)

19 Constituents welcomed the approach taken and the components included in TAC that is laid out in respective paragraphs.

20 But it was also stated that the definition of TAC might create uncertainties (e.g. when compensation is based on industry averages) and differences in timing might be subject to interpretations. For the utility sector, it is also an issue whether the incentives are considered in the target profit or are part of the allowable expenses (e.g. compensation based on the average cost of the industry; allowed compensation or incentive).

21 One constituent also wondered when to include amounts – and which amounts - into TAC as in their jurisdiction amounts were considered in TAC with a time delay (e.g. based on cost two years before). They thought that there was a need for further investigation and clarification.

22 One constituent opposed the approach taken and especially the treatment of components (e.g., allowable expense) under TAC. Those stated that the approach taken would contradict the objective of the project to align the accounting with the regulatory regime.

Construction work-in-progress ('CWIP')

23 The ED's proposals require regulatory returns on CWIP to be recognised when the asset is available for use (paragraph B15 of the ED). The proposed approach was questioned by various constituents.

24 The following concerns were expressed:

(a) The deferred revenue on CWIP did not give rise to a regulatory liability because – in some jurisdictions - there was no obligation to refund the investment in future periods even if it was not completed. These preparers (two constituents] have stated that the regulatory return is a component of return on the capital invested even if the investment, defined and approved by the regulator, is not continued in the future.

(b) One constituent noted that a high level of investment would lead to a deferral of a significant portion of the regulatory return, earned for construction work, into the future. This would impact financial statement user analysis because the financial statements would not faithfully reflect the effects of regulation. As a result, preparers also noted that the proposed guidance could negatively impact their attractiveness to investors. This could prevent significant future investments in required infrastructure as the information provided would not be understood without full knowledge of the complexities of the proposed guidance.

(c) Other opponents of the approach explained that the revenue charged to the customers for regulatory returns on CWIP during construction compensate for a different obligation. Those argued that such entities with regulatory assets and regulatory liabilities are obliged to continuously provide a useable infrastructure or to strengthen the infrastructure, which could also be interpreted as a certain kind of service. In those cases applying B15, deferring the regulatory return until the asset is available for use, would distort the EBITDA patterns.

(d) One constituent stated that achieving comparability between different regulatory regimes as suggested in paragraph BC98(b) by applying the same accounting treatment is not appropriate. So different regulatory agreements should be treated differently.

(e) Other constituents noted that having a right to charge the customer based on regulatory returns during the construction phase would create a positive signal for users as those typically look for cash flows. Consequently, having such a right to charge the customer and create cash flows should not result in a regulatory liability.

(f) Similar, another constituent suggested that performance should reflect cash inflows. The entity has revenue receipts during construction and therefore performance should reflect this economic reality.

(g) Two constituents noted that investments are usually followed as a group of assets and not on a stand-alone basis. Also, the compensation would be

allocated to the group of assets as a whole, so it would be operationally difficult to distinguish regulatory returns for different assets, assets under construction and assets that are completed as in most cases CWIP is not tracked for regulatory purposes. These difficulties and associated costs may exceed the users' benefits.

25 Other constituents supported the IASB approach or didn`t see any contradiction with the local regulatory regime. Those stated that including regulatory returns during construction would result in a mismatch as depreciation starts when the asset is in use.

26 Constituents also argued that profit in the construction phase could be overstated if potential borrowing costs would be capitalised in accordance with IAS 23 *Borrowing Costs* because those costs would be capitalized and depreciated over the useful life of the asset at the point of time when it is available for use. Some argue that this situation could be overcome if regulatory returns – as long as it reflects equity and borrowing costs - would be matched with the depreciation on borrowing cost.

27 One constituent pointed out that the deferral of regulatory returns on CWIP with regard to their inclusion in TAC could be seen as an incentive for the entities to complete those assets and bring them faster into operation. The same could be achieved with a degrading The recognition of such regulatory returns as regulated rates charged to the customer during the construction period would be counterproductive to the regulation's goals. The proposed accounting by the ED could make the regulators rethink the appropriateness of the regulatory treatment. This could help to prevent the early distribution of dividends from an individual statement perspective and the reduction of capital for future investment projects.

Recognition

28 Some participants noted that the facts and circumstances, listed in paragraph 27 of the ED (applied when exercising judgement in assessing the existence and recognising regulatory assets and liabilities), appear to question the enforceability of the rights and obligations in the regulatory agreement (paragraph 9 of the ED). Further guidance was needed on the interaction between paragraph 9 of the ED (enforceability of a regulatory agreement) and the factors to assess the existence of regulatory assets and regulatory liabilities listed in paragraph 27 of the ED.

29 The following concerns were noted with assessing the existence of regulatory assets and regulatory liabilities which in turn would affect recognition:

(a) One participant added that the requirement to have enforceable rights and obligations, as a condition for recognition and measurement of regulatory assets and regulatory liabilities. For example, in Italy, particularly in the electricity utility sector, the entity has the right or obligation, created by a regulatory agreement, to add or reduce an amount in determining the future tariffs, but due to the process of setting up the tariffs, there is significant uncertainty about these amounts. What happens is that the Authority communicates the tariffs only when the Authority has collected (and approved) the investments made by all the entities of a specific sector, so the single entity knows future tariffs only after the publication of the financial statements. These regulatory assets may not qualify for recognition.

(b) Participants from one jurisdiction noted there could be situations in their jurisdiction where there is uncertainty regarding the existence of an enforceable right or enforceable obligation under a regulatory agreement. These participants suggested that a 'reliability' criterion be introduced in recognition. The participants highlighted the specific regulatory environment in the Netherlands does not allow recovery of an entity's own cost base; it is based on the average cost base of the sector which entities are not allowed

to share with one another. For Regional Grip Operators (RGO's) in the Netherlands, the regulatory agreement does not give rise to stable and predictable cash flows for recoveries and settlements arising from timing differences. This is because entities are not provided with this information and the TAC and the regulated rates are determined based on the performance of all RGO's in the Netherlands.

Measurement

30 Measurement of the regulatory assets and liabilities was considered a critical aspect of the ED.

31 One participant observed that it may sometimes be challenging to reliably estimate the future cashflows of a regulatory asset or regulatory liability, either using "the expected value method" or "the most likely amount method". This could be difficult to achieve due to unexpected events (such as COVID-19) or the challenging task to define the risks, in particular the credit risk. This happens for example in the railway sector: the entity that manages the railway infrastructure does not know, at initial recognition, which companies will use a railway in the future.

32 Participants in one jurisdiction noted that there were no challenges related to the "more likely than not" as there is no uncertainty regarding recoverability as investments are closely aligned/ approved by the regulator.

33 Some participants asked for clarification on how often credit risk would be reflected in measurement. Furthermore, some asked whether demand risk be considered as well. Participants from RGO's in the Netherlands also questioned how regulatory assets and regulatory liabilities could be measured given the specific regulation (benchmarking to the sector cost base) in the Netherlands. These participants also questioned how the interaction with the revaluation model in IAS 16 should be considered.

Regulatory boundary (within measurement)

34 Several participants commented that the proposed guidance on determining the regulatory boundary was not clear. There are cases in which the entities operate when the conclusion of the new tender is pending. It is not clear if these entities would fall within the regulatory boundary and should apply the model or not.

35 In some situations, the regulation was based on overarching legislation, without any guidance about renewal or cancellation. The tariff was set by the regulator for a long-term period and revised regularly within shorter time frames. More guidance on the concept of the boundary of the regulatory agreement was needed in situations where there was no 'formal' limit for the regulation to be applicable. The question was whether the regulatory boundary was the longer period or the shorter timeframe which was used mainly to revise the tariffs.

Discounting

General comments

36 Most participants supported applying the regulatory interest rate. Using the regulatory interest rate met the regulatory objective and was much easier for preparers to apply and for users to understand (as it was an objective rate). The users that supported using the regulatory interest rate noted that:

(a) if users of financial statements want to standardise and enhance consistency across regulated entities then it is preferable to use the regulatory interest rate – currently, the WACC was used for discounting. However, using different WACC's for different entities would affect comparability.

(b) in the regulatory agreement, the right to the return is when the expense is made and not when the asset is used. Therefore, they could not support the IASB proposal as the proposal did not reflect economics.

37 However, one user did not support using the regulatory interest rate for discounting regulatory assets and regulatory liabilities. In the current analysis discounting was already performed, and the objective was to reflect the time value of money. The regulatory interest rate was usually below the market rate for long-term investment. Therefore, applying the regulatory rate would not be a good thing.

When effects of discounting are insignificant

38 Some participants expressed concerns with discounting of regulatory assets and regulatory liabilities especially when the effects of discounting were insignificant. Furthermore, they expressed that it was not clear what discounting of regulatory assets and regulatory liabilities aimed to achieve. They noted the following:

(a) It would be helpful to introduce a practical expedient to exempt entities from discounting if the effects of discounting were not significant.

(b) The objective of discounting in the ED was not clear (time value of money and potentially risk similar to IAS 37 and other IFRS Standards or reflect what was in the regulatory agreement). The regulatory interest rate could follow various objectives.

Applying the minimum interest rate concept

39 Most participants did not support the IASB proposal of using the minimum interest rate for regulatory assets when the regulatory interest rate provided for a regulatory asset was insufficient. The objective of the proposed requirement was not clear and did not reflect existing regulatory practice. In some regulatory regimes, the regulatory discount rate compensated for the equity and financing component (so it was compensating for more than the time value of money). Specific concerns included:

(a) One participant observed that from an auditor's perspective \evaluating the fairness of a rate can become a highly discretionary exercise. Generally, the regulatory interest rate will be the discount rate in circumstances where a risk premium is added to the time value of money (i.e., WACC). However, it is unclear if, to apply the proposals in the ED, an entity should unbundle the time value component from this unique rate of return. Furthermore, this participant observed that unbundling the time value component from the single rate to assess its sufficiency could be overly complex and may require additional effort to track items that may not be separately monitored under the regulatory agreement and would result in applying a rate that is unrelated to the regulatory agreement; similarly, the accounting outcomes would presumably not correspond to the regulatory agreement.

(b) Discounting cash flows by applying a minimum interest rate, would lead to a day-one loss. This loss would be counter-intuitive under US GAAP where regulation is based on the 'cost-plus' model, as long as the incurred expenses were allowable. A loss should be recognised only if an expenditure is not allowed/not recoverable.

(c) In some jurisdictions (for example the US where some European companies have significant operations) the fair rate of return was significantly higher than the market rate. Applying IFRS principles (using the lower rate) would result in a significant gain when discounting regulatory assets. This would not result in useful information for users of financial statements. Therefore, the regulatory rate should always be used as the discount rate.

(d) The regulatory interest rates for operating expenses and capex can be different. For example, the Norwegian regulatory regime uses a local LIBOR (+30 BPs) interest rate to compensate for overbilling or underbilling (billing vs. local allowed compensation) as defined by the regulator. The regulatory rate for capital employed is based on WACC (5.2 %). The was a question about which rate to use when assessing whether the regulatory rate was sufficient.

40 If there were cases when the regulatory rate was considered inappropriate, the suggestion would be to define a specific rate, which ought to be applied symmetrically for regulatory assets and regulatory liabilities. Furthermore, there should be a clear understanding of why the regulator does not allow a return (expected to hold for limited circumstances). If the IASB decided to keep the proposal for determining a minimum interest rate, it would need to develop objective criteria on setting the 'minimum' rate to prevent judgemental/subjective discussions.

Effective interest rate when interests are ''uneven''

41 One participant (IEAF – France] noted that a further concern was determining the effective interest rate as required by the ED was the interest rate was ''uneven''. Regulatory assets can take between 6 months and 2 years until they are included in the rates. The company was not entitled to a regulatory return during this period. Effective regulatory rates of return will have to be computed in these recurring situations. This would be a costly and burdensome exercise because some companies had a significant portion of individual regulatory assets and regulatory liabilities are measured by using effective regulatory rates. Consequently, the effective regulatory rates of return will have to be updated, and the individual regulatory assets and regulatory liabilities will have to be regularly re-measured.

Presentation in the financial statements

42 Users agreed with a presentation of regulatory income minus regulatory expense as a separate line item in the operating section, provided that the detailed information would be disclosed in the notes.

43 A preparer found the title of the separate line item for regulatory income (expense) just below the revenue line item confusing. It was not clear whether this line item included all regulatory income and expense or only the timing differences described by the ED.

44 A standard setter found the conditions for offsetting the regulatory assets and liabilities too strict due to the requirement to assess that the amounts offset are expected to be settled in the same period. It suggested applying the same offsetting rules as for deferred tax assets and liabilities where the timing of settlement was not important.

Disclosure

45 The proposed disclosure requirements were considered useful for providing users of financial statements with information that along with the information required by other IFRS Standards would enable them to understand the effects of rate regulation over an entity's financial performance, financial position and its prospects to generate future cash flows.

46 However, there were some concerns expressed with regards to the level of detail required to meet the overall disclosure objective set in the ED. In particular:

(a) CWIP disclosures - the application of paragraph B15 of the ED (regulatory returns on assets not yet available for use) would result in unnecessarily complex disclosures. Entities would need to explain to users the effects of such accounting treatment. The CWIP proposals could also lead to generating

artificial alternative performance measures in order to show the effect of regulatory returns;

(b) quantitative variances - the information about allowable expenses for depreciation differences or regulatory returns on CWIP was not currently available;

(c) IT costs - IT systems needed to be tailored to enable tracking of different components forming regulatory assets. These components had to be tracked individually due to different reversal periods;

(d) additional disclosures - alternative KPIs and additional disclosures had to be added to explain the impacts caused by applying the TAC proposals;

(e) interim financial reporting – there were no material changes within a six-month period that would justify the high operational burden of preparing disclosures for the interim financial reporting.

47 Fulfilling the disclosure requirements in the ED could only use a limited amount of the information from the regulatory accounts because the TAC proposals followed its own rules, which in the majority of cases were not in line with the natural regulatory system.

48 With respect to disclosure requirements, users of financial statements considered that providing a breakdown of regulatory income and regulatory expense was very important. Furthermore, the following disclosures were seen as helpful for users and at the same time would not add cost for preparers as some jurisdictions already provided this information:

(a) a breakdown of regulatory interest income on regulatory assets and regulatory liabilities;

(b) a maturity breakdown of relevant balances;

(c) reconciliation of regulatory assets and regulatory liabilities in the balance sheet;

(d) information about rewards and penalties giving rise to regulatory assets and regulatory liabilities.

Transition

49 It was noted that a first-time application might be very difficult leading to undue costs and efforts, as companies did not have all the information required by the ED. This was particularly the case for the retrospective application requirements regarding regulatory returns on assets not yet available for use (paragraph B15 of the ED). It was suggested to provide a modified retrospective approach with exemptions for assets with a long useful life (which could be based on regulatory rules taking into account for example one regulatory period).

Interaction with Other IFRS Standards

IFRIC 12

50 A standard setter noted a general fear of double counting and that they also were still looking for a real-life example of interaction with IFRIC 12.

IFRS 3

51 One standard setter commented that the discount rate for the acquirer could be different from the regulatory rate, and can be WACC or another rate. License on concession can create a big intangible on acquisition, as well as important goodwill balances in their jurisdiction (for grid infrastructure).

52 One standard setter commented that the day 2 gains or losses should not be considered in isolation and noted that from a conceptual perspective it is almost impossible to determine the fair value on acquisition in a monopoly situation. The cash flows are entity-specific and therefore fair value measurement does not make sense in such situations, and hence he supported the IFRS 3 exception. The standard setter also agreed that it would be useful to ask how the price for an acquisition of an entity subject to rate regulation was determined.

IAS 36

53 One participant noted that it was not clear whether CGUs should include regulatory assets and regulatory liabilities. He noted that the Basis for Conclusions clarifies that the corresponding cash flows are highly independent and consequently regulatory assets are inherently measured using future cash flows; however, those cash flows are ultimately arising from contracts with customers and therefore are also used to estimate the recoverable amount of other assets in a CGU.

IAS 16 revaluation model and IFRS 3 purchase price allocation (PPA)

54 A standard setter raised an issue of how a measurement of PP&E at fair value (either under IAS 16 – revaluation model or as a result of a PPA under IFRS 3) would interact, if any, with the recognition of regulatory assets and liabilities. In its opinion, the difference in valuation between original book value and fair value could create timing differences which might result in double counting.

Likely effects of the proposals

55 Some participants observed that the impact of the new standard on the market should be positive, considering that analysts usually give relevance to regulatory assets and liabilities. Currently, there was a divergence in practice (some entities recognised regulatory assets and liabilities, others – did not). The new standard will improve the comparability between entities that operate in rate-regulated sectors and this should help users of financial statements. Other preparer and users participants agreed.

56 One participant specifically noted that a further positive effect for the market could be that a new accounting standard that requires entities to measure regulatory assets and liabilities, will bring greater awareness and precision in the definition of tariff plans by the authorities. It was expected that the regulatory agreements and tariff plans would have to be enhanced, where they are currently not precise on some aspects that are needed to support the accounting.

Other comments

57 Some participants from one jurisdiction noted that the proposals in the ED overlaid the treatment required under existing regulatory regimes. A suggestion was made to show regulatory numbers in line with regulatory guidance instead of calculating IFRS figures which would not fit with the actual compensation from the regulator. The accounting model proposed in the ED would create significant regulatory assets which would not be covered by the regulator.

Appendix 1: List of outreach consultations on the various aspects of the ED (other than scope)

Events and organisations	**Country**	**Date**
Open outreach event with OIC	Italy	6 May 2021
Closed outreach event with ASCG	Germany	2 June 2021
Closed meetings with IEAF	France	8 and 23 June 2021
Closed outreach event with DASB	Netherlands	24 June 2021
Closed meeting with NASB	Norway	1 July 2021
Closed user outreach with EFFAS ABAF/BVFA	Europe	12 July 2021

Appendix 2: List of consultations focused on the scope definition in the IASB's exposure draft

Amsterdam Airport Schiphol	Airport	The Netherlands	30 June 2021
Closed consultation with EFRAG FIWG	Finance	Europe	1 July 2021
Closed consultation with EFRAG IAWG	Finance	Europe	8 July 2021
National Railways NS	Railway	The Netherlands	20 July 2021
KNP	Telecom	The Netherlands	21 July 2021