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Rate-regulated Activities Cover Note

Objective

- 1 The purpose of the session is to ask for EFRAG TEG's comments on the technical content of EFRAG Secretariat Briefing *Regulatory Assets and Regulatory Liabilities* (the Briefing). The Briefing is designed to stimulate debate on the practical application of the proposals on scope in the IASB Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* (ED).
- 2 The views expressed in the Briefing are tentative and reflect the EFRAG Secretariat's understanding of how the proposals in the ED might be applied. The draft Briefing is provided in Agenda paper 12-02. The EFRAG Secretariat is planning to publish the Briefing in May 2021 or latest in early June as part of educational material to help constituents assess the scope implications during the outreach period which will run into early July 2021.

Background

- 3 The IASB published its ED in January 2021 with comments requested by 31 July 2021. In the ED, the IASB proposes an accounting model for regulatory assets and regulatory liabilities to supplement the information already provide by applying existing IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers*. The ED's objective is to provide relevant information that faithfully represents how regulatory balances affect an entity's financial performance and financial position.
- 4 In April 2021, EFRAG published its draft comment letter (DCL) on the ED. In the DCL, EFRAG broadly supports the approach proposed by the IASB albeit seeking to identify if/where there may be unintended consequences of the scope. The DCL has posed several questions to constituents on specific areas such as scope, measurement, disclosure requirements of the proposed IFRS Standard and on its interaction with some of the existing IFRS Standards.

Summary of EFRAG concerns on scope in its DCL

- 5 In its DCL EFRAG supports the IASB's overall objective to develop an accounting model for regulatory assets and regulatory liabilities.
- 6 However, EFRAG expresses concerns that the scope as defined in the ED might be too broad and capture a wider set of activities primarily outside the utilities sector. Some of these activities might be intended to be within the scope as they share similar features to those described in the ED and would therefore meet the definition of regulatory assets and regulatory liabilities. However, other activities might be captured within the scope as a result of interpreting the ED's proposals in a different way than intended by the IASB.

- 7 Therefore, EFRAG considers that more specific guidance and examples on what constitutes a **regulatory agreement** would be helpful to appropriately identify activities within the scope of the proposed Standard.
- 8 Furthermore, EFRAG notes that it would be helpful to describe the characteristics of a **regulator** to avoid unintended consequences including situations arising where structuring is done such that inter-company arrangements or self-regulation would fall within the scope of the proposed Standard.

Purpose of the Briefing

- 9 EFRAG Secretariat developed the Briefing on scope of the ED to assess the outcome of the IASB's proposals with respect to identify situations in which the proposed requirements would affect activities which are unintendedly captured within the scope. The Briefing will be used during EFRAG outreach on the project to stimulate debate on the topic. This will help EFRAG to better assess the impact of the IASB proposals when applied to different sectors and the likely effects on financial reporting.
- 10 The Briefing assesses difference types of scenarios against the elements of the scope as defined in the IASB's ED. The examples have been provided by EFRAG TEG members during previous discussions when the IASB was developing the ED and by consulting external parties. So far, EFRAG Secretariat has not been able to obtain examples on potential interaction of the accounting model for regulatory assets and regulatory liabilities and IFRIC 12 *Service Concession Arrangements*. The Briefing does not provide an exhaustive analysis of what activities could be affected by the scope of proposals and its proposed requirements. Its role is to draw attention to the definition of scope as described in the ED and provide an initial assessment of the types of fact patterns that could potentially be affected by the scope.
- 11 Specifically, the Briefing examines the following fact patterns:
 - (a) Transfer pricing agreement between a parent company and its subsidiary;
 - (b) Pricing mechanism agreement between a water Cooperative and its customers;
 - (c) Concession agreement between a municipality and its school cafeteria; and
 - (d) Arrangements/agreements for rate-regulated goods or services in a monopolistic environment.

Question for EFRAG TEG

- 12 Does EFRAG TEG have any comments/suggestions for improving the EFRAG Secretariat Briefing *Regulatory Assets and Regulatory Liabilities*?

Agenda Papers

- 13 In addition to this cover note, agenda paper 12-02 – EFRAG Secretariat Briefing *Regulatory Assets and Regulatory Liabilities* – has been provided for the session.