

Regulatory Assets and Regulatory Liabilities Early-Stage Effects Analysis – Preparer Outreach Feedback

Objective

- 1 The objective of the session is to update the EFRAG TEG on the feedback received from the outreach to preparers related to Early-Stage Effects Analysis on the IASB's Exposure Draft (ED) *Regulatory assets and Regulatory Liabilities*.

Overview

- 2 On 10 November 2020, EFRAG launched an online survey inviting preparers of financial statements of rate regulated entities to participate in an outreach by completing a survey questionnaire with a response deadline of 8 January 2021.
- 3 EFRAG received 15 preparer responses. The respondents were from eight jurisdictions with most (73%) being from utilities sector and the rest from telecommunications, energy, and other sectors. Most of their operations were in the European Economic Area and the UK. See the **Appendix** for details on the preparer respondents' background.
- 4 The respondents have a variety of regulatory agreements with hybrid agreements being more common than cost of service and incentive-based including revenue-cap agreements.
- 5 In this paper, we use the following terminology to describe the extent to which respondents provided particular feedback:

Term	Extent of response
Most	A large majority
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

- 6 The rest of this paper is structured as follows:
 - (a) Executive Summary;
 - (b) Detailed Findings; and
 - (c) Appendix with a detailed profile of preparer respondents.

Executive Summary

Application of scope of the proposed model

- 7 Most respondents were clear on who within the scope of the proposed model can be considered to be the regulator that governs rate-regulated activities within their jurisdictions. This finding could reflect that most respondents were from well-known regulated sectors (utilities, telecommunication, and energy) and not from sectors where there are activities that may be within scope but there is lack of clarity on the identity of the regulator.
- 8 With regards to the scope of the proposed model, many respondents were clear on the scope of the model but some respondents highlighted activities that they were uncertain fell within scope.
- 9 Most respondents were not aware of cases where there are regulatory agreements with rate-regulated enforceable rights (obligations) that are recovered (fulfilled) by third parties on behalf of customers.
- 10 Some respondents were aware of rate adjustments to concession arrangements where there was uncertainty on if these would fall within the scope of the proposed model instead of falling under IFRIC 12 *Service Concession Arrangements*. However, they did not provide elaborating comments and related fact patterns. Hence, there will be a need to follow-up on this aspect during the extended EFRAG outreach.

Effects on financial statements and contractual arrangements

- 11 Most respondents expected either a significant or moderate impact of the proposed model on the statement of financial position largely because: a) they have regulatory assets and regulatory liabilities that are not recognised in their IFRS financial statements; and b) there are differences between their respective local GAAP and proposed model requirements.
- 12 Most respondents expected a moderate impact on the statement of financial performance mainly because their local GAAP already requires the recognition regulatory assets and regulatory liabilities.
- 13 Most respondents also noted that loan covenants will not be significantly impacted by the proposed model as these covenants are normally based on local GAAP information.

Implementation challenges, economic consequences, and cost-benefit analysis

- 14 Many of the respondents considered it feasible to implement the disclosures but some did not. Those that did not highlighted several factors that will make it difficult to implement the disclosures, for instance, due to difficulties in determining the maturities and due to the detailed nature of the disclosure requirements.
- 15 Many respondents indicated that they have information (not included in IFRS financial statements) on regulatory assets and regulatory liabilities, and the information is based on local GAAP. A respondent noted that the information could be adapted for IFRS reporting. However, another respondent noted the IFRS disclosure requirements were more demanding than those of US GAAP.
- 16 Many respondents considered that exempting acquired regulatory assets and regulatory liabilities from the scope of IFRS 3 *Business Combination* will have unintended consequences.
- 17 Some respondents indicated they were aware of possible economic consequences (e.g., possible impact of EU sustainable action plan on rate-regulated pricing

resulting in regulatory assets and regulatory liabilities) but they did not elaborate on these consequences based on circumstances that are specific to their companies.

- 18 A few respondents made a general observation that investment decisions have already or will take into account the public policy objectives and that the useful life of infrastructure may change.
- 19 Many respondents anticipated challenges with initial implementation of the proposed model. They identified some issues that may arise with the measurement requirements including assessing regulatory effects and choice of discount rate, and on determining the regulatory boundary.
- 20 Many respondents expected minimal to moderate level of costs to implement the proposed model, while a few expected significant costs. They enumerated at a high-level on the nature of costs (e.g., IT, systems, staff) and aspects of the model that will have cost implications (e.g., proposed model requirements for Construction work in progress, disclosures, and measurement including discounting).
- 21 Many respondents expected a positive cost-benefit relationship and highlighted the benefits of the proposed model including a more faithful representation of the economics of rate-regulated entities, reduced volatility of profit or loss, and enhanced comparability across local GAAP and IFRS reporting. One respondent expected a negative cost-benefit relationship due to the measurement requirements, and some respondents could not make the cost-benefit assessment as their impact assessment was still ongoing.

Detailed Findings

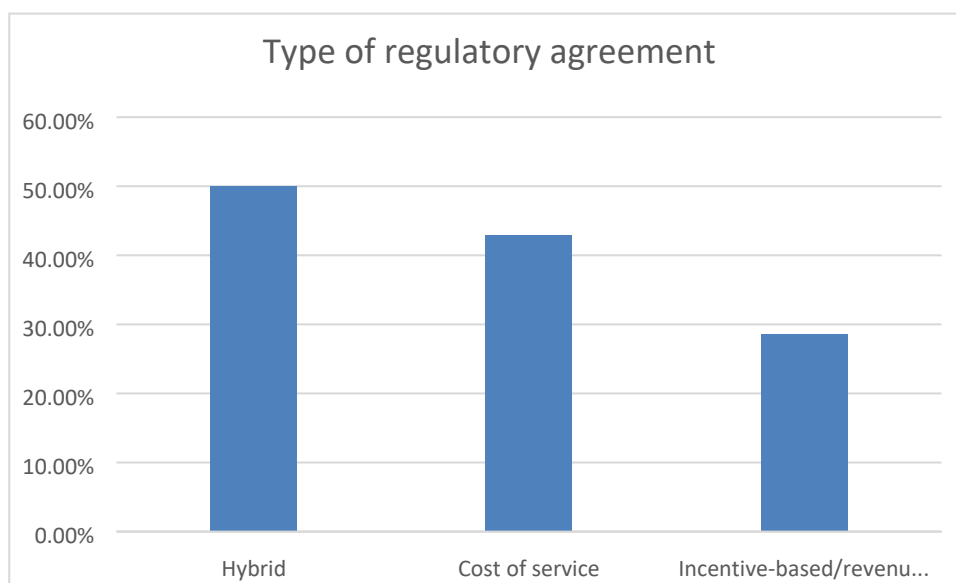
- 22 The feedback received has been presented based on questions posed in the survey questionnaire and contains five main sections:
- (a) Type of regulatory agreements;
 - (b) Scope of the model;
 - (c) Likely effects on financial statements and contractual arrangements (e.g., covenants);
 - (d) High-level assessment of possible implementation challenges and economic consequences; and
 - (e) Anticipated cost-benefit analysis.

Type of regulatory agreement

Related survey question- Please describe the type of regulatory agreement(s) you have in place (hybrid, cost of service, incentives, etc.)

- 23 As shown in **Figure 1** below, the respondents have a variety of regulatory agreements with hybrid agreements being more common than cost of service and incentive-based including revenue cap agreements. Most respondents (14) highlighted the type of regulatory agreement with seven respondents (50%) having hybrid agreements, six respondents (42.9%) having cost-of-service agreements, and four respondents (28.6%) having incentive-based agreements.

Figure 1: Type of regulatory agreement¹



¹ Several preparer respondents had more than one type of regulatory agreements. Hence, the total of percentages attributed to each of the three types of regulatory agreements is greater than 100%.

Scope of the model

Clarity on regulatory authority

Related survey question- Are you clear on what type of authority would be eligible to be considered as a regulator governing rate-regulated activity within the scope of the IASB project?

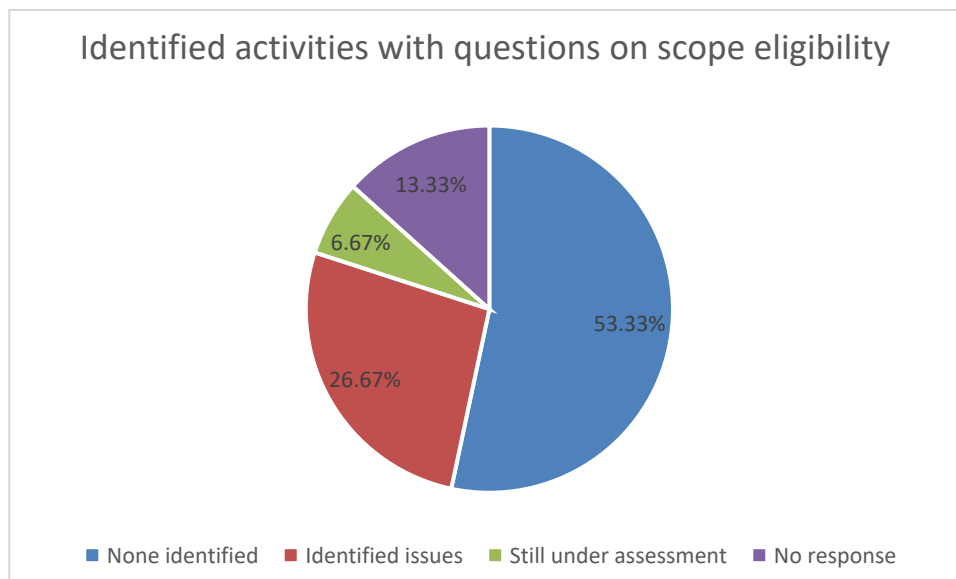
- 24 The survey findings show that amongst most respondents (12 or 80%), there was clarity on the type of authority eligible to be considered as a regulator within the scope of the project. However, one respondent indicated that the forthcoming exposure draft does not provide a precise definition of the regulator and the IFRS 14 *Regulatory Deferral Accounts* definition is too broad due to related parties.
- 25 The finding of clarity on the regulator by most respondents could reflect that they are from well-known regulated sectors (utilities, telecommunication, and energy) and not from sectors where there are activities that may be within scope but there is lack of clarity on the identity of the regulator.
- 26 Respondents highlighted that they were under the purview of the following regulators within their jurisdictions:
- (a) E-Control - regulating the Austrian electricity and gas market.
 - (b) Netherlands: Authority for Consumers and Markets (ACM);
 - (c) Germany: Bundesnetzagentur (Federal Network Agency)
 - (d) ANACOM - Autoridade Nacional de Comunicações
 - (e) The Norwegian Energy Regulatory Authority
 - (f) UK Business, Ofgem for UK gas and electric transmission.
 - (g) US Business, NY Public Service Commission, MA Department of Public Utilities, RI Public Utility Commission
 - (h) Federal Energy Regulatory Commission
 - (i) Commission de Régulation de l'Energie (CRE) for the 4 regulatory agreements
 - (j) The French Commission de régulation de l'énergie (Energy Regulation Commission – CRE)
 - (k) In the US: Federal Energy Regulatory Commission (FERC), State public utility commissions
 - (l) Public Utility Commissions - USA; Italian Authority For Energy, Network and The environment (ARERA); municipalities (concession arrangements in France, Spain etc); SuperIntendencia de Servicios Sanitarios (Chili) etc.
 - (m) Austria: Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft, Bulgaria: Energy and Water Regulatory Commission, North Macedonia: Energy and Water Services Regulatory Commission
 - (n) VERT - National Energy Regulatory Council
 - (o) e-Control Austria but only for UGB
 - (p) Governo Regional da Madeira

Clarity on the scope

Related survey question- Can you identify any activities that are subject to rate-regulation in which the proposed requirements would result in activities within the scope of the model that you believe should not be within the scope? Or activities that are subject to rate-regulation that are not within the scope of the model that you believe should be.

27 As shown in **Figure 2**, many respondents (eight or 53.3%) had not identified activities where they were uncertain on if these fell in or out of scope of the proposed Standard. Some respondents (four or 26.7%) had identified activities where there was uncertainty on if these were in scope.

Figure 2: Activities unexpectedly in or out of scope



28 The respondents that had activities which they were unsure were in scope had the following elaborating comments:

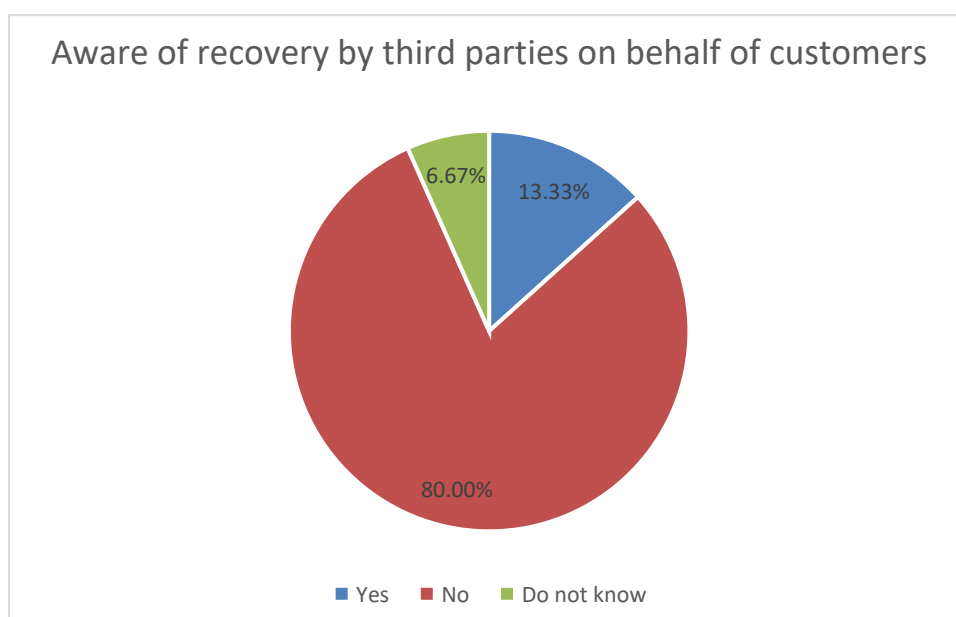
- (a) One utilities-entity respondent noted that in the regulation model in their jurisdiction focused on total allowed compensation rather than on the rates charged to customers (as per model). The entity determines the rates it charges to customers and not regulator. The regulator is more focused on the gap between price*volume and the income cap, and not on the price charged.
- (b) Another utilities-entity respondent noted that contracts with a less direct adjustment mechanism (i.e., where the adjustment is not directly linked to the regulatory rate charged) were initially considered out of scope but are still under analysis.
- (c) A third utilities-entity respondent noted that the scope does not completely clarify if costs that are reimbursed with a subsequent-period (t+2) offset would classify as regulatory asset. The respondent was also unsure whether the definition of the regulatory liabilities according to the scope comprises liabilities from auction receipts generated (i.e., proceeds received from auctioning cross- border transmission capacity). The respondent noted that based on an agreement with the regulator, the auction receipts used for the construction are released over 20 years and consequently reduce future tariffs.

Enforceable rights (obligations) that recovered (fulfilled) by third parties

Related survey question- Based on the nature of regulatory agreements that you have experience with, are you aware of cases where the enforceable rights (obligations) are recovered (fulfilled) by third parties including a regulator and government on behalf of customers?

- 29 Stakeholders from some jurisdictions had questioned whether regulatory agreements with rate-regulation enforceable rights (obligations) that were recovered (fulfilled) by third parties on behalf of customers were within the scope of the model. The survey sought to obtain more information on this type of agreements.
- 30 **Figure 3** below shows that most respondents (12 or 80%) were not aware of cases where the enforceable rights (obligations) are recovered (fulfilled) by third parties on behalf of customers.

Figure 3: Respondents aware of recovery by third parties on behalf of customers



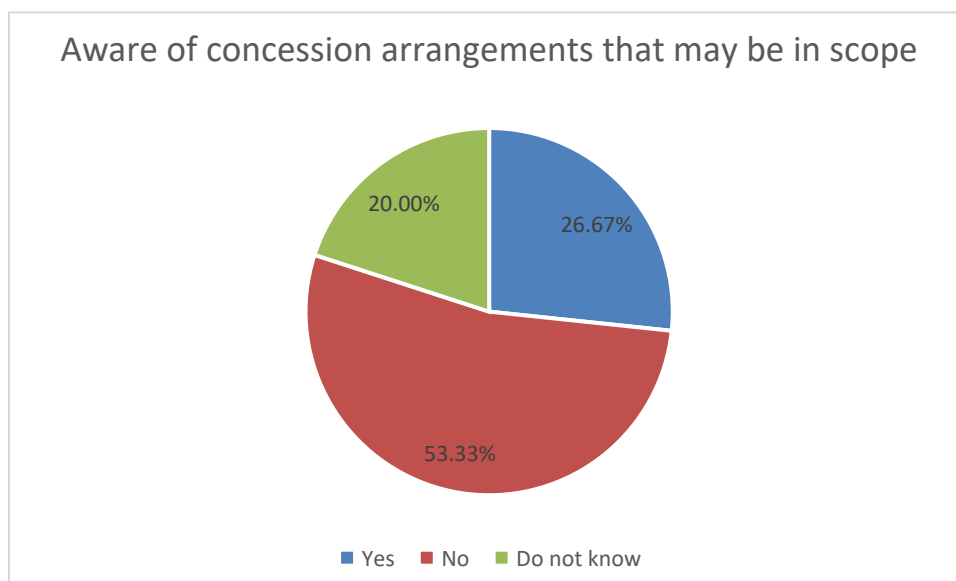
- 31 Two respondents indicated that they are aware of cases where the enforceable rights (obligations) are recovered (fulfilled) by third parties on behalf of customers. They provided the following elaborating comments highlighting the related circumstances faced by their companies:
- Certain low-income assistance programs provide funding to alleviate customer bills if certain criteria are met. Hence, this funding is not recovered from the customer. Additionally, some construction expenditures under certain programs may be recovered from the city or state rather than the customer.
 - The regulation related to the operation of public distribution networks in certain areas includes a specific mechanism to measure and offset differences between the actual figures and the forecasts on which tariffs are based not directly included in tariff. Therefore, in some cases the price could not be directly linked to tariffs and a certain portion of the pricing could not be directly recovered by customers.

Concessions that may fall within scope of the proposed model

Related survey question- Are you aware of rate adjustments related to concession arrangements result in enforceable rights and obligations but do not fall within the scope of IFRIC 12 and could be within the scope of the proposed model?

32 **Figure 4** below shows that some respondents (four or 27%) were aware of rate adjustments related to concession arrangements that may fall within the scope of the proposed model but eight (57%) were not. However, the respondents did not provide elaborating comments on the fact patterns and potential interaction between IFRIC 12 and the proposed model, and this will be a point of further follow up during EFRAG's extended outreach on the draft comment letter to the ED.

Figure 4: Awareness of concession arrangements that may fall within the scope of the proposed model



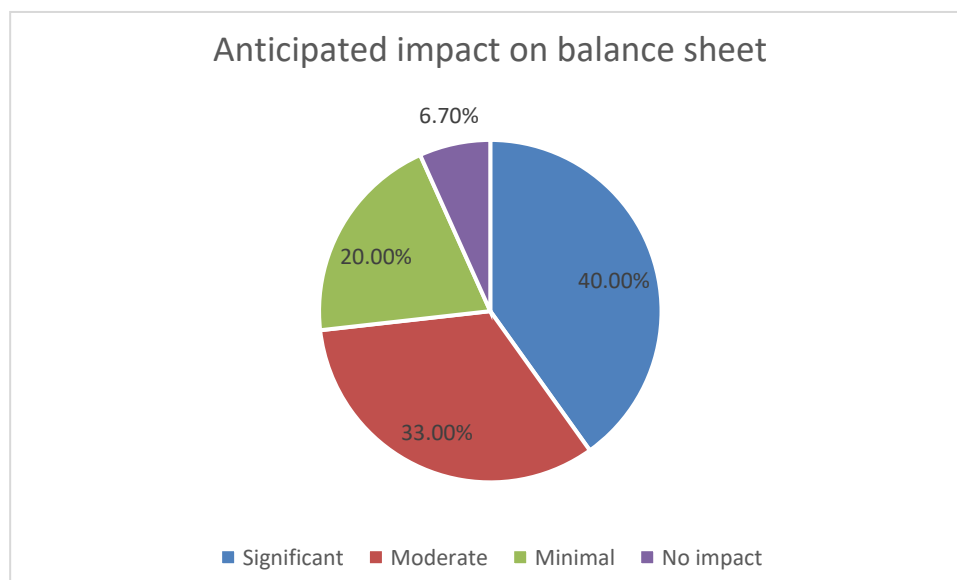
Likely effects on financial statements and contractual arrangements

Balance sheet impact

Related survey question- What do you anticipate will be the impact of the proposed model on the 2019 balance sheet (i.e., incremental amount of regulatory assets and regulatory liabilities recognised as at 31 December 2019)?

- 33 As illustrated in **Figure 5** below, respondents had varied expectations on the impact of the proposed model on their 2019 balance sheet. Many respondents (six or 40%) expect a significant impact, five (33.3%) expect a moderate impact, three (20%) expect minimal impact, and one (6.7%) expects no impact.

Figure 5: Anticipated impact on balance sheet



- 34 The following comments were made for the different levels of anticipated impact:
- (a) *Significant impact* –
 - (i) Currently the differences between local GAAP and IFRS are significant;
 - (ii) A significant portion of business is rate-regulated; and
 - (iii) A respondent noted that the anticipated impact should be significant for the reportable segment and standalone financial statements under IFRS. However, the impact is expected to be moderate at the group level.
 - (b) *Moderate impact* –
 - (i) According to internal analysis, liabilities would increase compared to consolidated IFRS figures in 2019 but the effects would be volatile;
 - (ii) Income and expense adjustment account for Distribution can be quite volatile and is difficult to estimate at closing date; and
 - (iii) There will be some restatements in the accounts of US regulated business, but the size of this business is limited. There may be limited restatements as far as IFRIC 12 concession arrangements are concerned.
 - (c) *Minimal impact* – One respondent noted that the change will be 0.2% of the total assets and another indicated that the change will be less than 1% of total assets.

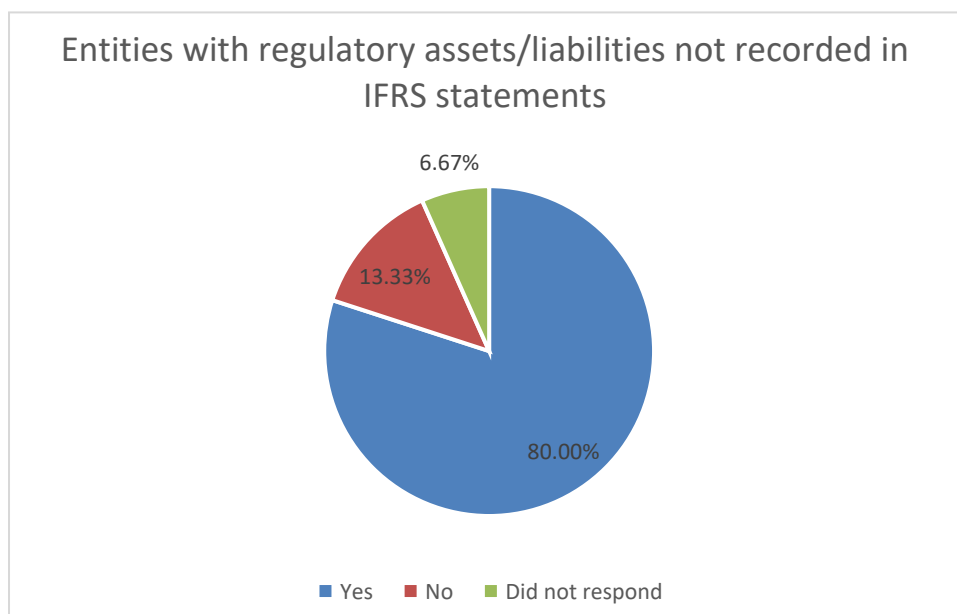
Entities with unrecognised regulatory assets and regulatory liabilities under IFRS

Related survey question- Do you currently have information either for internal or external purposes, which recognise regulatory assets/liabilities (which are not recorded under IFRS)?

If your answer to the above question is yes, would you expect that the outcome of the proposed model would be materially different from the current information, and why?

- 35 The proposed model would be expected to impact entities that have regulatory assets and regulatory liabilities that are not currently recognised in their IFRS financial statements. As reflected in **Figure 6** below, most respondents (12 or 80%) indicated that they have regulatory assets/liabilities that are not recognised under IFRS.

Figure 6: Entities with regulatory assets/liabilities not recorded in IFRS statements



- 36 The preparers who indicated that they had regulatory assets and liabilities that were not currently recorded under IFRS, provided the elaborating comments on whether or not the proposed model would have an impact. These comments mainly highlighted that impacts could in some situations arise due to differences between their respective local GAAP and the proposed model requirements. Below are the elaborating comments:
- A respondent noted that some of the regulatory assets and regulatory liabilities are disclosed but not accounted for under IFRS whilst it is accounted for under local GAAP. Another respondent noted that the valuation and the timing for regulatory assets and regulatory liabilities are not the same as they would be under the proposed model.
 - A respondent noted that under their local GAAP, unlike for the proposed model, the regulatory assets and liabilities does not consider some of the compensation and incentives as being part of total allowed compensation.
 - Some respondents (three) noted impacts that could arise due to differences between US GAAP and the proposed model.
 - Under US GAAP, regulatory assets are booked at cost. Under the new IFRS model, they will mostly be measured using discounted cash flows.

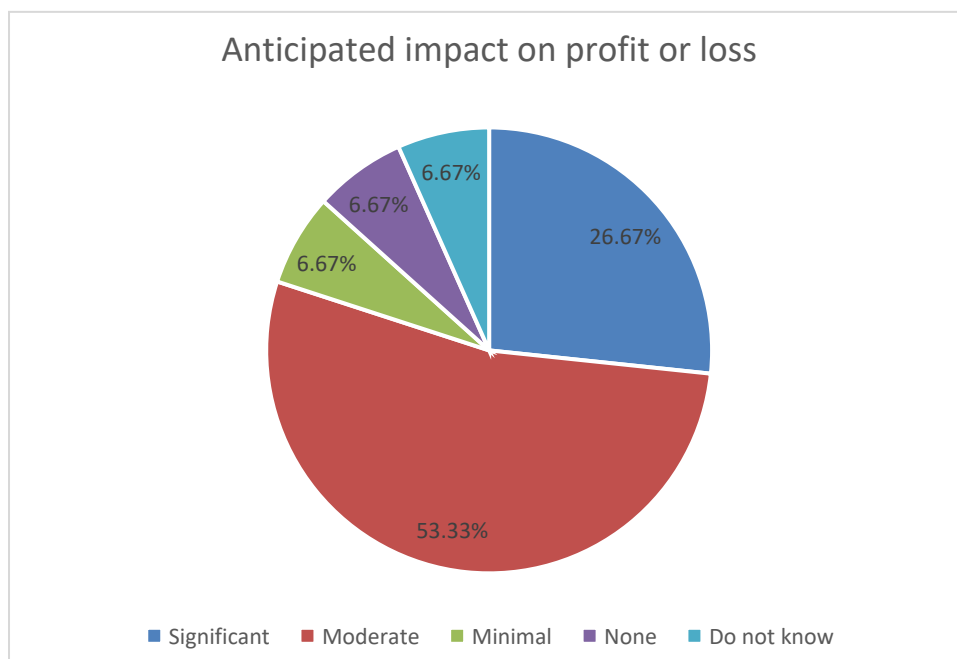
- (ii) Under US GAAP, significant regulatory items are embedded in Property, Plant and Equipment whereas under IFRS they will be separately disclosed.
- (iii) Under US GAAP, the Allowances for Funds Under Construction is recognised as regulatory asset but this is not the case under the IFRS model.
- (iv) The impact of regulatory interest income or regulatory interest expense may create a difference in the information reported under US GAAP and IFRS.
- (v) A respondent noted that they currently prepare financial statements for US subsidiaries under US GAAP and expect that there will be differences, including classification as well recognition in some instances, between what is currently reported.

Profit or loss impact

Related survey question- What do you anticipate will be the impact of the proposed model on your companies 2019 profit or loss and performance (i.e., incremental impact of regulatory income and expenses on the net income (loss))?

- 37 Respondents' expectations of the impact on profit or loss for 2019 are depicted in **Figure 7** below. The findings show that many respondents (eight or 53.3%) expect a moderate impact, four (26.7%) expect a significant impact, and two respondents (13.4%) expect either minimal or no impact.

Figure 7: Anticipated impact on profit or loss



- 38 Respondents provided the following elaborating comments on the expected impact:
- (a) *Significant impact*
 - (i) A respondent noted that according to their internal analysis, Earnings Before Interest and Tax (EBIT) would decrease by approximately 29% but they expected that the profit or loss effects would be volatile over time.

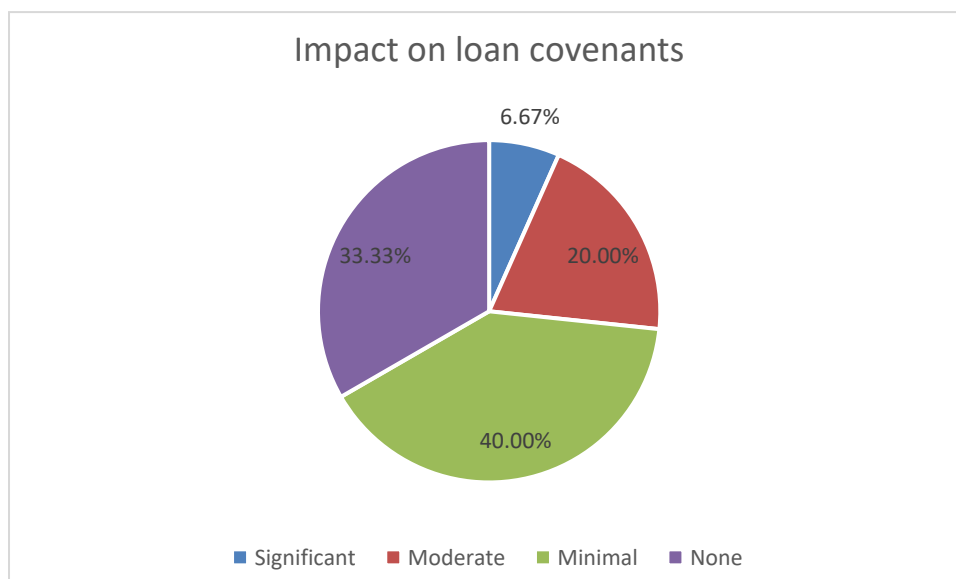
- (ii) Another respondent expected a significant impact as they currently recognise regulatory assets and regulatory liabilities under local GAAP but not so under IFRS.
- (b) *Moderate impact*
 - (i) The anticipated impact is based on local GAAP.
 - (ii) A respondent expected that the impact would be 5-10% of operating profit on a consolidated level. However, the respondent also expected the reduced volatility of operating profit.
 - (iii) A respondent expected the net impact would be moderate but more closely aligned with how external parties evaluate their performance.
 - (iv) A respondent noted that the anticipated impact should be moderate for the reportable segment but minimal on a group level.
 - (v) A respondent noted that the net income difference under US GAAP versus IFRS amounted to USD 150 million if the effect of the purchase price allocation impacts, following the acquisition of the US subsidiaries is eliminated.
 - (vi) A respondent noted that it is too early to precisely assess the impact.

Impact on loan covenants or other similar contractual arrangements

Related survey question- What do you anticipate will be the impact of the proposed model on existing loan covenants or other similar contractual arrangements whose terms are based on information reported under local GAAP or other GAAP? (Please elaborate on your selection of the anticipated impact.)

39 As shown by **Figure 8** below, many respondents (11 or 73.3%) expect the proposed model to either have a minimal (40%) or no (33.3%) impact on their loan covenants.

Figure 8: Impact on loan covenants



- 40 The following elaborating comments were given for the expected impact:
- (a) *Moderate* expected impact–
 - (i) A respondent noted that it is too early to assess the impact.
 - (ii) A respondent estimated the impact on their entity as 3.5 % of EBIT.
 - (b) *Minimal expected impact* –
 - (i) The loan covenants are already based on IFRS figures which is adjusted by regulatory deferred income. Therefore, the effect of regulatory assets and regulatory liabilities is eliminated.
 - (ii) The existing covenant in many instances are calculated on a basis that incorporates balances contemplated in the proposals of the ED.
 - (c) *No impact* - Regulatory assets and regulatory liabilities are reported under local GAAP, which is used for loan covenants.

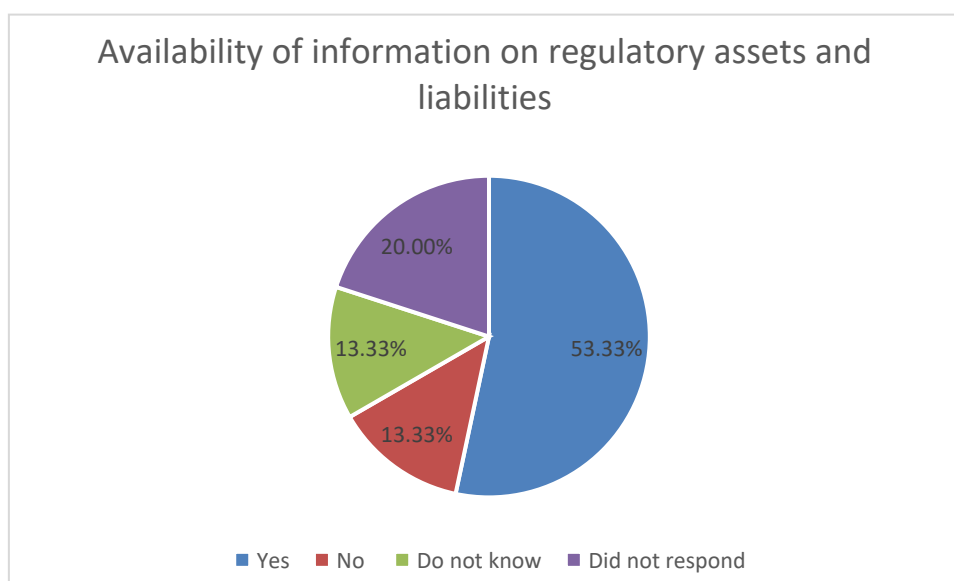
High-level assessment of possible implementation challenges and consequences

Availability of information on regulatory assets and regulatory liabilities

Related survey question- Do you currently have information either for internal or external purposes which provides disclosures on regulatory assets and regulatory liabilities (which are not included in the IFRS financial statements)?

- 41 As shown in Figure 9, many respondents (8 or 53.3%) indicated that they have information (not included in IFRS financial statements) on regulatory assets and regulatory liabilities. A few respondents (two or 13.3%) did not have such information.
- 42 Those that had the information indicated it was based on local GAAP. One respondent noted the information could be adapted for IFRS reporting. However, another respondent noted that the IFRS model will have more demanding disclosures than US GAAP, which has limited disclosure requirements.

Figure 9: Availability of information on regulatory assets and regulatory liabilities

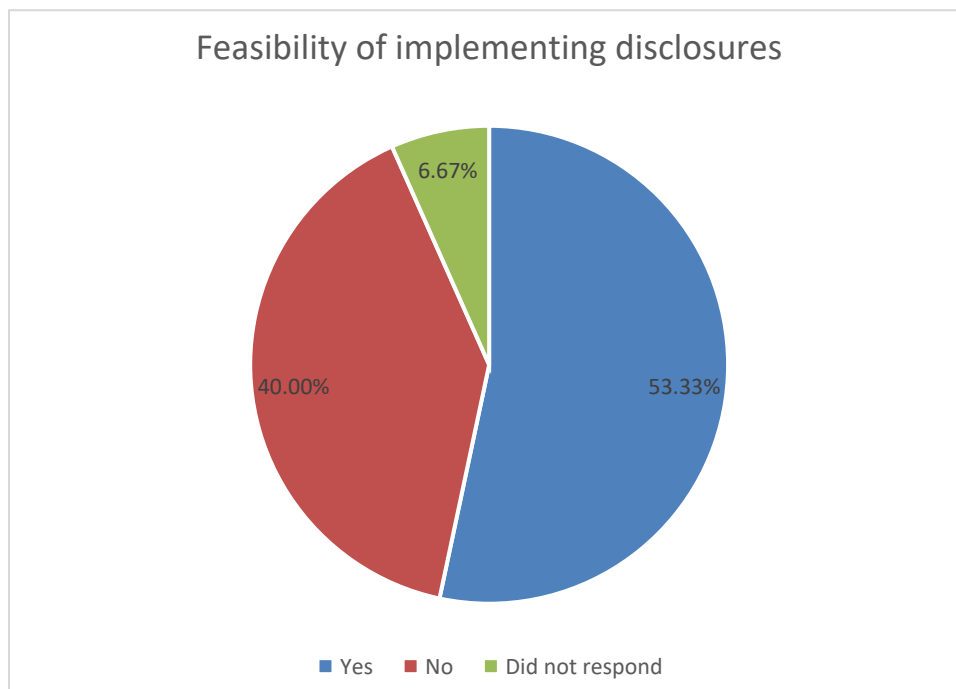


Feasibility of implementing disclosures

Related survey question- Do you anticipate that the disclosures required by the model will be feasible to implement?

- 43 As portrayed in **Figure 10**, many respondents (eight or 53.3%) noted that it would be feasible to implement the disclosure requirements. However, some respondents (six or 40%) considered that it would not be feasible to implement the disclosure requirements.

Figure 10: Feasibility of implementing disclosure



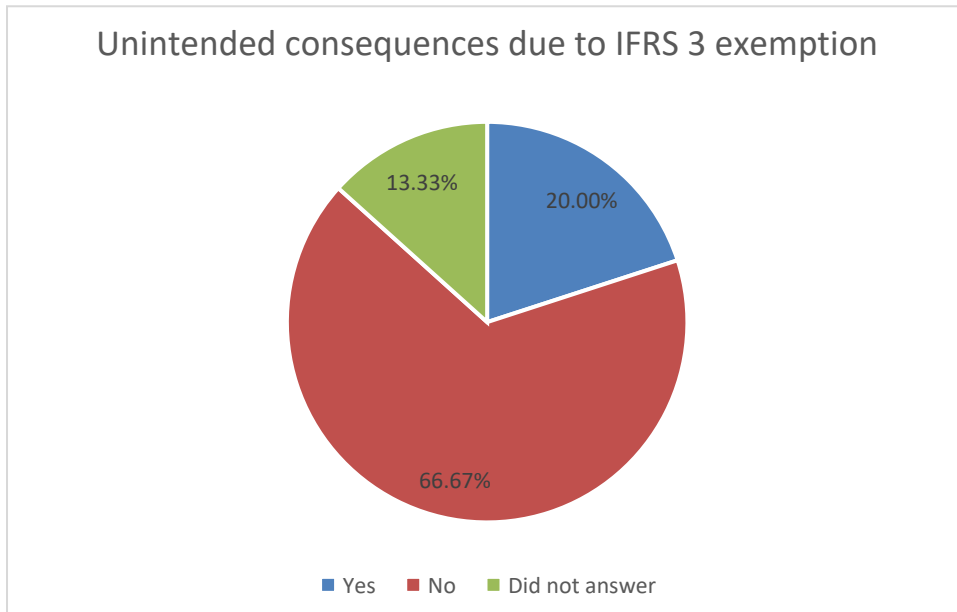
- 44 Those that considered it would be not feasible to implement the disclosure requirements provided the following elaborating comments:
- (a) Three respondents considered the requirements to be too detailed, would require a huge effort and be of limited benefits to users. One respondent particularly observed that details of origination, recovery of assets and fulfilment of liabilities will not provide relevant information to users of financial statements.
 - (b) One respondent noted that there would be difficulties to disclose the maturities of the regulatory assets and regulatory liabilities.

Unintended consequences due to the exemption from IFRS 3 requirements

Related survey question- Do you anticipate that there could be unintended consequences because of the exemption from the recognition and measurement principles in IFRS 3 Business Combinations for acquired regulatory assets and regulatory liabilities assumed in a business combination?

- 45 As shown in **Figure 11**, many respondents (10 or 66.7%) foresee that the exemption of acquired regulatory assets and regulatory liabilities from the IFRS 3 requirements will have unintended consequences.
- 46 One respondent noted the exemption from IFRS 3 could influence the recognised goodwill. Another respondent indicated that the IASB should develop specific requirements for rate regulated business combinations.

Figure 11: Unintended consequences due to IFRS 3 exemption

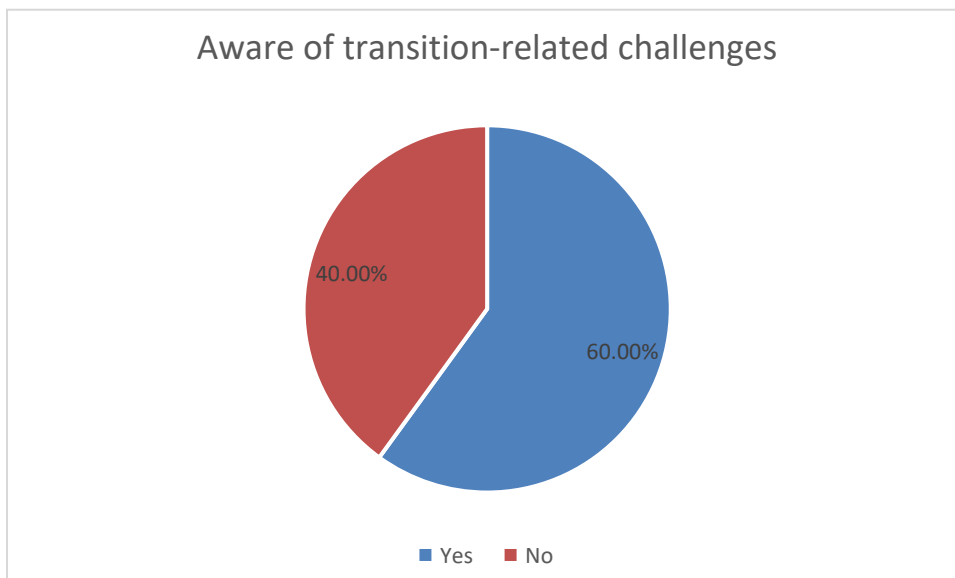


Implementation challenges on transition

Related survey question- Are you aware of any implementation challenges and other initial application issues that may arise on transition and whether these should play a role in defining the effective date?

- 47 As shown in **Figure 12**, many respondents (nine or 60%) indicated the presence of implementation challenges and other initial application issues on transition.

Figure 12: Aware of transition-related challenges



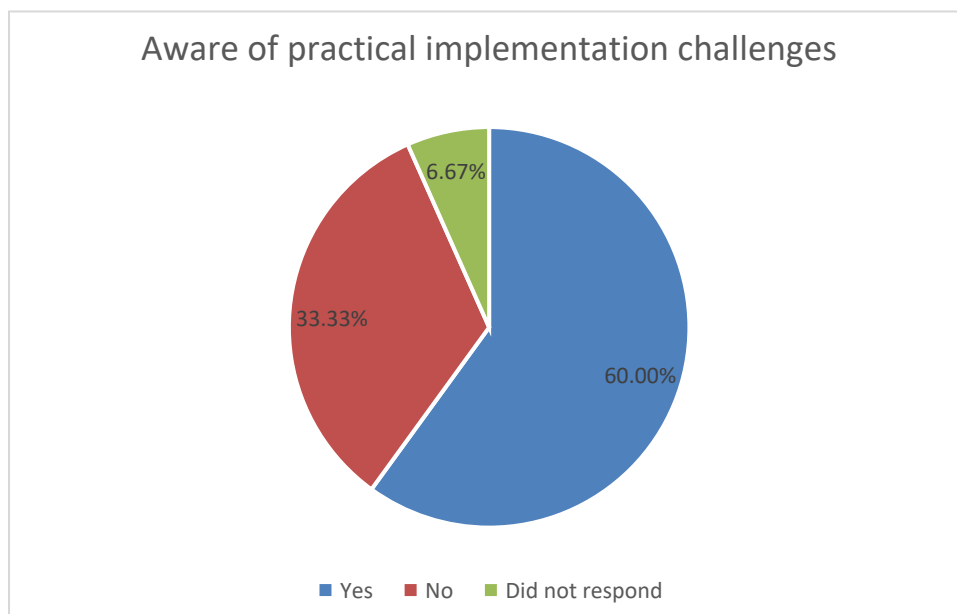
- 48 The respondents made the following observations on envisioned implementation challenges:
- (a) The rolling up of historical business combinations could be problematic.
 - (b) The difference in accounting for construction work which is in some cases only recognised over the operating phase for IFRS would result in significant one-off implementation and ongoing administrative costs.
 - (c) Difficulties can be foreseen for companies not currently apply a local standard that currently track and recognise regulatory assets and liabilities.
 - (d) IT systems will require an overhaul.
 - (e) The measuring of discounting cash flows will be very challenging and a simplified retroactive impact at transition date would be welcome.

Other implementation challenges and consequences of the proposed model

Related survey question - Are you aware of any practical implementation challenges that may arise from any other aspects of the proposed model (e.g., choice of discount rates or any other aspect not mentioned)?

- 49 As shown in **Figure 13** below, many respondents (Nine or 60%) foresee practical challenges in implementing the proposed model while five respondents (33.3%) did not.

Figure 13: Practical implementation challenges



- 50 Respondents identified the following implementation challenges:
- (a) A respondent noted that the combination of applying the proposed model with a new/updated regulatory agreement can be cumbersome.
 - (b) A respondent noted that using estimates will be pervasive in the interim financial statements.
 - (c) A respondent noted that the definition of the regulatory boundary is critical as contracts change every four years.
 - (d) Four respondents highlighted challenges with measurement requirements including the discount rate:
 - (i) One respondent noted that no discount rate is included in their regulatory agreements.
 - (ii) One respondent stated that the notion of adequate discount rate will pose a challenge.
 - (iii) One respondent noted that the choice of discount rates might be challenging and might lead to discussions with auditors as they are not aligned with other IFRS.
 - (iv) One respondent noted that determining the weighted cost-of-capital and estimating the future regulatory effects can be challenging.
 - (e) A respondent noted that the recognition of a separate line in the face of the profit or loss will be challenging.

Related survey question - In thinking about potential second-order economic consequences, are you aware of whether the EU sustainable action plan including measures for transitioning to a green economy or any other factors that may have an impact on rate-regulated pricing and the extent to which you will need to recognise regulatory assets and regulatory liabilities?

- 51 Only four respondents (26.7%) indicated that they were aware of impacts on rate-regulated pricing that could arise from the EU sustainable action plan, and the extent to which regulatory assets and regulatory liabilities will be recognised as a result. However, they did not elaborate on these based on circumstances that are specific to their companies. A few respondents made a general observation that investment decisions have already or will take into account the public policy objectives (e.g. investments in electric mobility), and that the useful life of infrastructure may change.

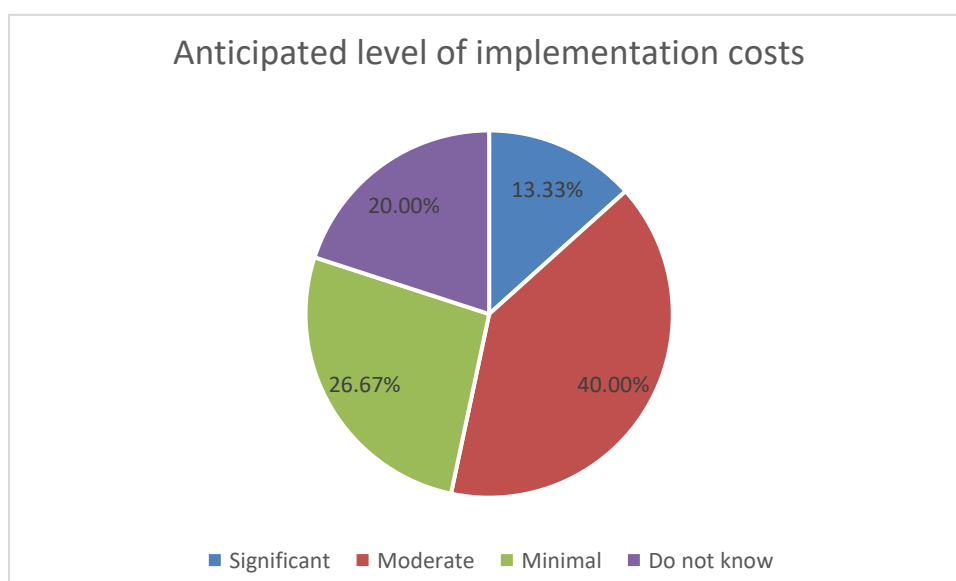
Anticipated cost-benefit

Anticipated level of implementation costs

Related survey question - What do you anticipate will be the level of costs (either one-off or ongoing) that you will incur to implement the proposed model for accounting for regulatory assets and regulatory liabilities?

- 52 As shown in **Figure 14** below, many respondents (10 or 66.7%) expect moderate to minimal level of costs to implement the model and only two (13.3%) expect significant implementation costs.

Figure 14: Anticipated level of implementation costs



- 53 Respondents had the following comments on the expected costs:
- The cost factor will depend on whether the standard has to be applied retrospectively (rolling up of business combinations).
 - Significant one-off implementation costs for construction work in progress is foreseen due to the difference in the accounting. However, one-off implementation costs should be limited.
 - The majority of the costs would be one-off for the initial application to areas of the business that currently solely apply IFRS.
 - The IT costs should be moderate or minimal.

*Regulatory Assets and Regulatory Liabilities - Issues Paper
Early-stage Effects Analysis Preparer Outreach*

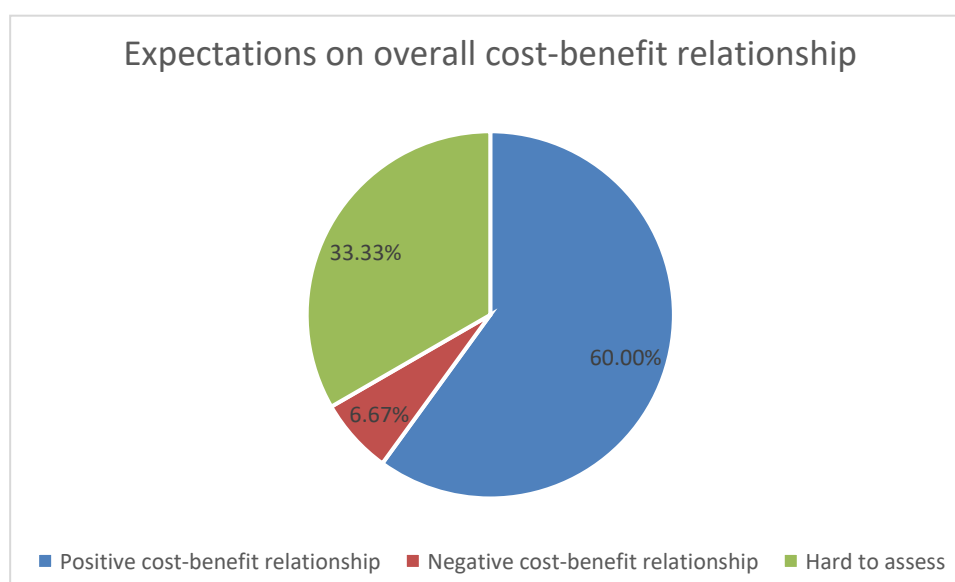
- (e) Costs related to internal control process, IT tools to enable the respect of deadlines because of detailed monitoring of temporary differences.
- (f) Higher costs can be incurred to adapt systems to track all changes in regulatory assets and liabilities.
- (g) A high-risk factor is employee training costs.
- (h) Discounting cash flows can lead to greater costs due to determining the implicit rates of return.

Overall cost-benefit

Related survey question - What is your initial assessment of the overall cost-benefit (i.e., incremental costs versus expected improvements in information for users of financial statements) resulting from your company's application of proposed model?

- 54 As shown in **Figure 15** below, nine respondents (60%) noted that their initial cost-benefit relationship will be positive, five (33.3%) indicated that it is hard to determine, and one (6.7%) expected a negative cost-benefit relationship.

Figure 15: Overall cost-benefit



- 55 Respondents that expected a positive cost-benefit relationship had the following comments:
- (a) The capital market information would be much more comparable with the harmonisation between local GAAP and IFRS rate regulatory accounting.
 - (b) The proposed model would eliminate significant fluctuations of the year-on-year results.
 - (c) The information provided will be improved and aligned for users among different geographies and increase comparability with peers.
 - (d) Users of the financial statements should be able to better understand the impact of the regulation.
 - (e) The overall standard will more accurately reflect the underlying economics and harmonise aspects of reporting between IFRS and internal reporting.
 - (f) There will be reduced volatility in operating profit, in accordance with actual business risk.
 - (g) The proposed model will be more demanding than the "stand alone" IFRS 15 solution but it will be outweighed by benefits.

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- (h) Benefits will outweigh costs as long as the accounting better reflects the economic and regulatory reality.
- 56 The respondent that expected a negative cost-benefit relationship indicated that the measurement principles may not be completely adapted to some regulatory activities (e.g., water regulation).
- 57 Respondents that noted that the cost-benefit relationship is hard to determine mentioned that the assessment is still ongoing. One respondent had concerns on the level of information required for disclosures, valuation considerations and the notion of "regulatory boundary".

Appendix: Profile of preparer respondents

Introduction

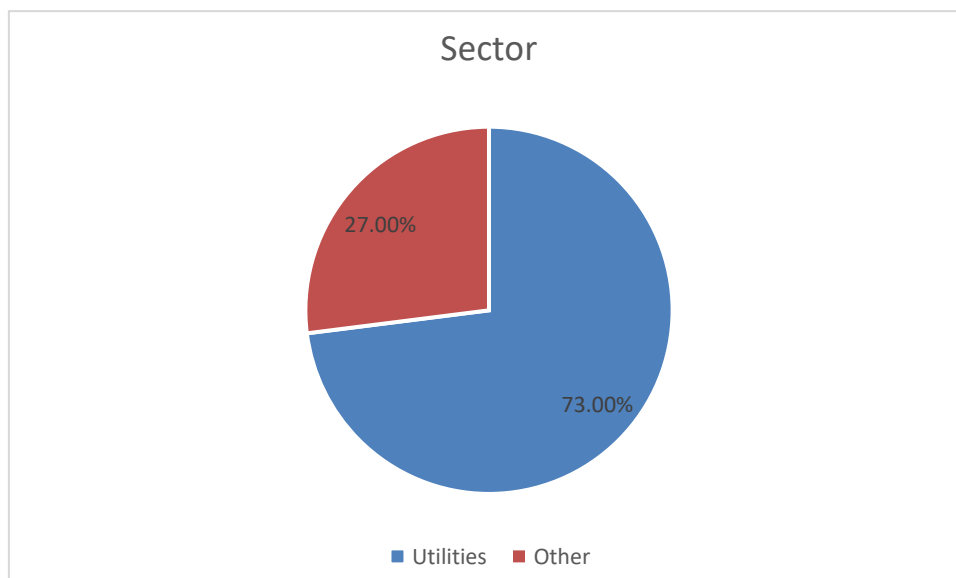
- 1 This appendix gives an overview of the general information of the respondents to the preparer questionnaire.
- 2 Most respondents are from the utilities sector. It has been noted that they are in different locations but most of them operate in the European Economic Area and the UK.
- 3 All respondents are preparing their financial statements under IFRS and their total assets ranging from €15m and €303bn.

General information

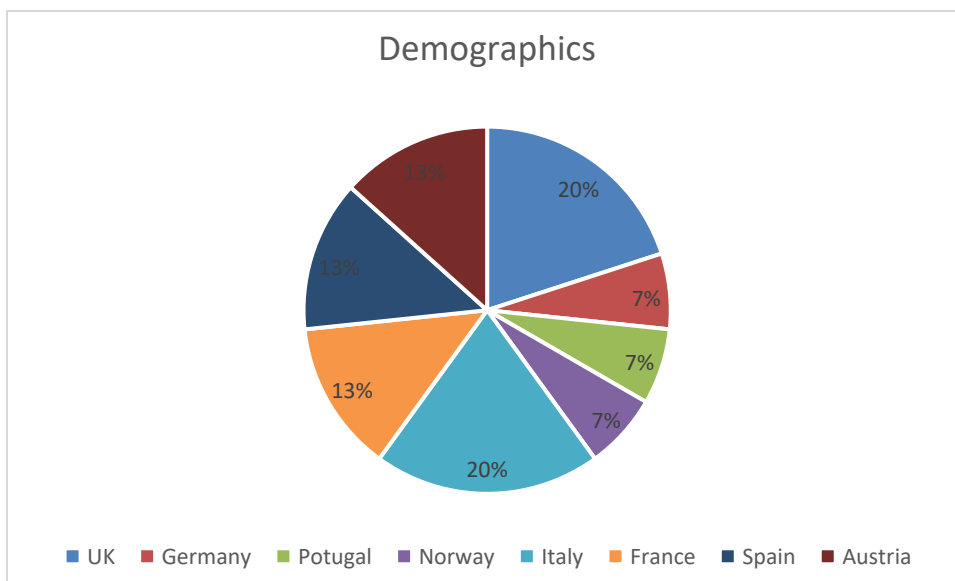
In which sector are you?

- 4 As shown in the below diagram, most respondents (11 or 73%) are from the utilities sector.
- 5 Other respondents (4 or 27%) were from the following sectors:
 - (a) Telecommunications - Postal Company;
 - (b) Other-Energy; and
 - (c) Advisory

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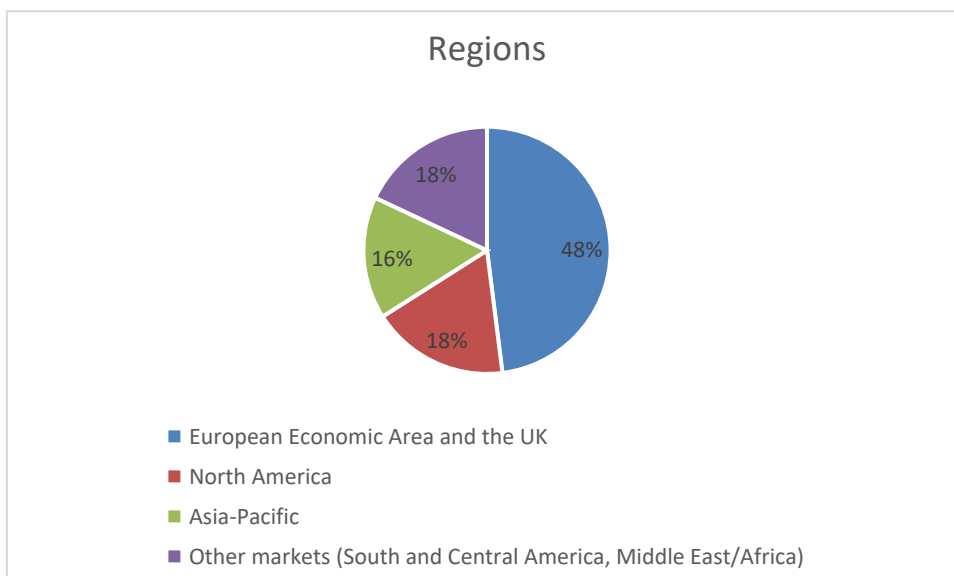


7 Respondents country profile is represented below.



In which regions do you operate?

8 Respondents normally operate in the European Economic Area and the UK but those with multinational operations also indicated other regions as can be illustrated below:



Please specify whether your financial reporting is in accordance with IFRS Standards

9 All respondents indicated that they prepare their financial statements under IFRS. However, some respondents with multinational operations also prepare financial statements under US GAAP, Austrian GAAP and other GAAPs for local financial reporting purposes.

What is the amount of your total consolidated assets as per latest reporting period?

10 The amount of consolidated total assets as per latest reporting period varied between respondents and ranged from €15m to €303bn.