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Regulatory Assets and Regulatory Liabilities Cover Note

Introduction

- 1 On 28 January 2021, the IASB published Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* (the ED) with a comment period of 180 days and a comment deadline of 30 July 2021.
- 2 EFRAG published its [final comment letter](#) on the ED on 10 September 2021 and a [Feedback Statement](#) in October 2021.

Objective of this session

- 3 The objective of the session is to update EFRAG FR TEG members on the IASB redeliberation on the ED and obtain members' preliminary views on the following topics that were identified in the feedback to the ED as being of significant concern:
 - (a) Scope of the proposed Standard- addressed in agenda paper 05-02;
 - (b) Total allowed compensation (TAC) - Regulatory returns on capital work-in-progress (CWIP)- addressed in agenda paper 05-03;
 - (c) TAC – Regulatory assets and regulatory liabilities arising from differences between regulatory recovery pace and assets' useful lives- addressed in agenda paper 05-04.

IASB steps so far

- 4 The IASB has taken the following steps so far:
 - (a) discussed respondents' feedback on the ED at its October and November 2021 meetings.
 - (b) discussed and [approved a plan for redeliberating the proposals](#) at its meeting in December 2021. Based on the feedback received, the IASB will redeliberate the proposals based on the following workstreams (in order of priority):
 - (i) Topics that raised significant concerns (proposed scope, total allowed compensation and the discount rate)
 - (ii) Topics that were well received (recognition, measurement, presentation and disclosure); and
 - (iii) Other topics. These include transition and effective date, effects analysis and due process steps.
 - (c) conducted targeted outreach to stakeholders in a selection of jurisdictions (e.g., the UK and Australia) where concerns were raised on the applicability of the proposals due to the type and diversity of their prevailing regulatory regimes. In early March 2022, observed by EFRAG Secretariat, the IASB met with UK (power sector, water, air traffic) regulators, and preparers, users, and

auditors of entities within the scope of the proposed Standard. At this meeting, different approaches to the determination of RAB were highlighted, in addition, to highlighting how RAB did not depend on the IFRS reported PPE.

- (d) made tentative decisions on determining whether a regulatory agreement is within the scope of the proposed Standard and the role of a regulator during its meeting in February 2022.
- (e) made tentative decisions in May 2022 to clarify that regulatory assets or regulatory liabilities arise even in cases when the entity charges the regulated rates to its customers indirectly through another party and the origination and reversal of differences in timing occur in different revenue streams through regulated rates charged to different groups of customers.
- (f) made a tentative decision in May 2022 not to exclude from the scope of the proposed Standard regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS 9.
- (g) held a meeting with the IASB Consultative Group for Rate Regulation (Consultative Group) on 4 March 2022 to discuss the ED's proposals on the accounting for regulatory returns on capital work in progress (CWIP), which is a component of the total allowed compensation.
- (h) on 28 March 2022, the IASB met with the Consultative Group to discuss possible courses of action related to when regulatory assets and regulatory liabilities arise due to differences between the regulatory pace of recovery and assets' useful lives.
- (i) consulted ASAF members on its redeliberation plans and tentative decisions on the scope of the proposed Standard at the 31 March 2022 ASAF meeting.

Next steps

- 5 IASB will redeliberate its proposals on the ED in 2022 and part of 2023.
- 6 The IASB staff plan to undertake further work on the interaction with IFRIC 12 *Service Concession Arrangements* before discussing the topic with the IASB.
- 7 The EFRAG Secretariat plans to hold another RRAWG meeting in September/October 2022 to discuss the progress made on the project.
- 8 The EFRAG Secretariat will monitor developments and update EFRAG FR TEG and the EFRAG FR Board as well as the EFRAG RRAWG on a regular basis and as appropriate will conduct targeted outreach with preparers to test the proposals.

Agenda Papers

- 9 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 05-02 – Scope of the proposed Standard;
 - (b) Agenda paper 05-03 – Total allowed compensation - Regulatory returns on capital work-in-progress (CWIP);
 - (c) Agenda paper 05-04 – Differences between regulatory recovery pace and assets' useful lives;
 - (d) Agenda paper 05-05 – AP9A Features of different regulatory schemes – for background only.