
Accounting Standards Advisory Forum meeting

Date	March 2023
Project	Rate-regulated Activities
Topic	Scope and total allowed compensation
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Purpose of this session

- Provide an update on the redeliberations of the *Exposure Draft: Regulatory Assets and Regulatory Liabilities* (Exposure Draft).
- Seek your views on whether the tentative decisions in Q3 and Q4 2022 on scope and total allowed compensation help address stakeholders' concerns about the proposals.

Question for ASAF members

- Slide 11 includes a question for ASAF members.

Agenda

IASB's tentative decisions made in Q3 and Q4 2022

Appendix—Topics still to be redeliberated and summary of tentative decisions to date

IASB's tentative decisions Q3 and Q4 2022



Tentative decisions—Scope

Interaction with IFRIC 12 [AP9A September 2022](#)

- **Purpose:** discuss stakeholders' concerns that the interaction between the proposals in the Exposure Draft and IFRIC 12 *Service Concession Arrangements* is unclear.
 - **Tentative decision:** the Standard will:
 - a) clarify the intended interaction between the Standard and IFRIC 12. That is, an entity would apply IFRIC 12 first and then apply the requirements of the Standard to any remaining rights and obligations to determine if the entity has regulatory assets or regulatory liabilities.
 - b) include examples to illustrate that interaction.
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Tentative decisions—Total Allowed Compensation

Proposed definition of allowable expense and benchmark expenses AP9A October 2022

- **Purpose:** discuss stakeholders' concerns about the proposed definition of allowable expense and the treatment of allowable expenses based on benchmarks.
 - **Tentative decision:** the Standard will:
 - a) retain the proposed definition of allowable expense;
 - b) clarify that a regulatory agreement may determine the amount that compensates an entity for an allowable expense using a basis different from the basis the entity uses to measure the expense in accordance with IFRS Accounting Standards; and
 - c) clarify the treatment of allowable expenses based on benchmarks and include examples to help entities to identify differences in timing in those cases.
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Tentative decisions—Total Allowed Compensation

Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives AP9B October 2022

- **Purpose:** discuss stakeholders' concerns about the proposed treatment of regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives.
- **Tentative decision:** the Standard will:
 - a) provide guidance to help an entity determine whether its regulatory capital base and its property, plant and equipment have a direct relationship;¹
 - b) retain the proposals for an entity to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives if the entity has concluded that there is a direct relationship between its regulatory capital base and its property, plant and equipment; and
 - c) require an entity that has concluded that its regulatory capital base and its property, plant and equipment have no direct relationship to provide disclosures to enable users of financial statements to understand the reasons for its conclusion.

1. The staff have asked ASAF members assistance in identifying entities in their jurisdictions or regions that would be interested in participating in a survey. The input from that survey will be used to develop application guidance on the direct (no direct) relationship concept.

Tentative decisions—Total Allowed Compensation

Capitalised borrowing costs AP9A and AP9C November 2022

- **Purpose:** discuss the accounting for regulatory returns on an asset not yet available for use when an entity capitalises borrowing costs to construct that asset.
- **Tentative decision:** the IASB decided that when an entity's regulatory capital base and its property, plant and equipment have a direct relationship and the entity capitalises its borrowing costs:
 - a) if the regulatory agreement provides the entity with both a debt and an equity return on an asset not yet available for use—to require the entity to reflect only those returns in excess of the entity's capitalised borrowing costs in the statement of financial performance during the construction period; and
 - b) if the regulatory agreement provides the entity with only a debt return on such an asset—to prohibit the entity from reflecting the return in the statement of financial performance during the construction period.

Inflation adjustment to the regulatory capital base AP9A December 2022

- **Purpose:** discuss the proposals in the Exposure Draft for dealing with inflation adjustments to an entity's regulatory capital base.
 - **Tentative decision:** the Standard will specify that an entity is neither required nor permitted to recognise as a regulatory asset inflation adjustments to the regulatory capital base.
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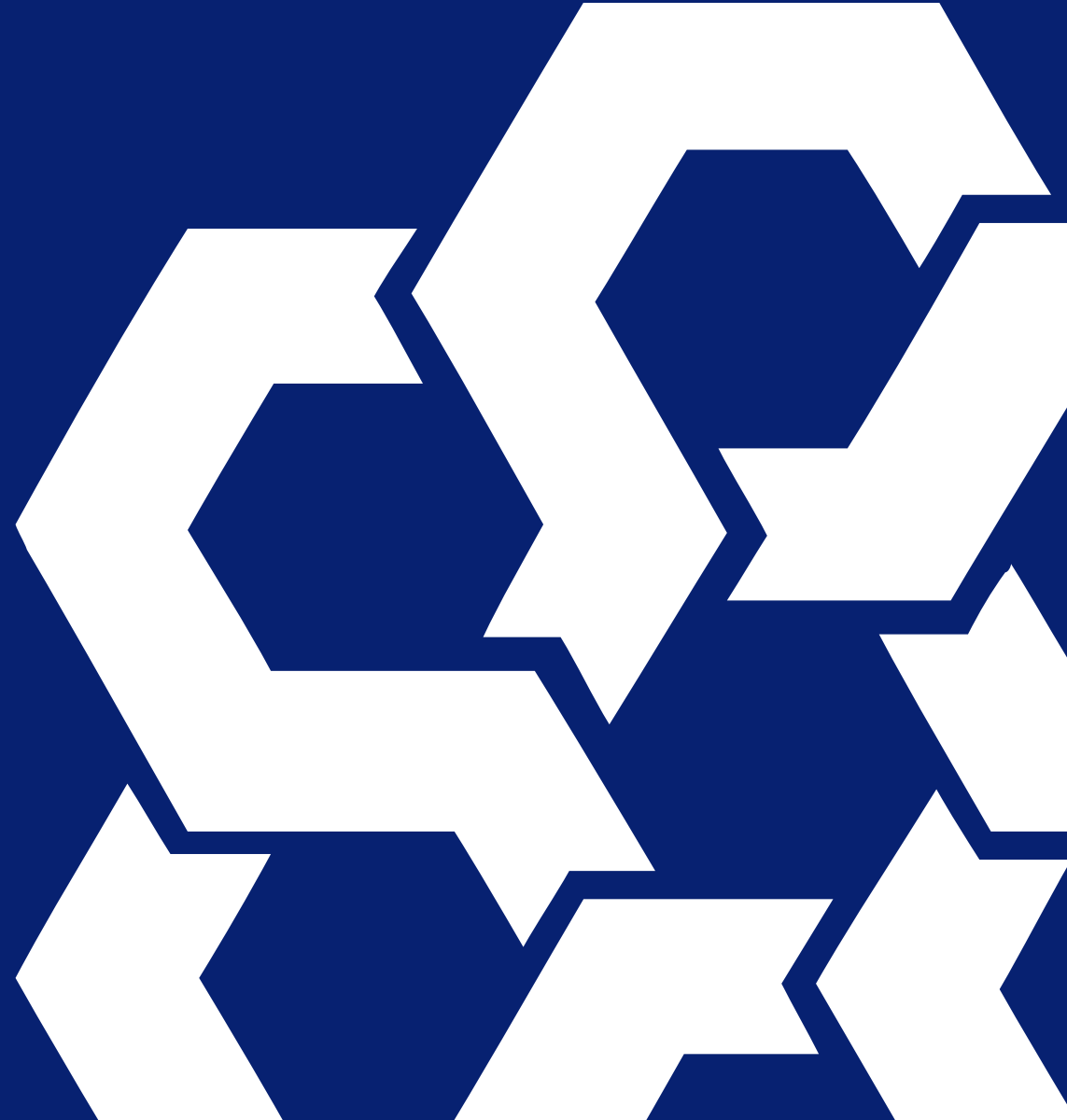
Tentative decisions—Total Allowed Compensation

Other items included in the regulatory capital base

AP9C December 2022

- **Purpose:** discuss the proposals in the Exposure Draft for the accounting for allowable expenses or performance incentives included in an entity's regulatory capital base.
 - **Tentative decision:** the Standard will specify that:
 - a) an entity is required to recognise a regulatory asset or a regulatory liability relating to an allowable expense or performance incentive included in its regulatory capital base when:
 - i. the entity's regulatory capital base and its property, plant and equipment have a direct relationship; and
 - ii. the entity has an enforceable present right (obligation) to add (deduct) the allowable expense or performance incentive to (from) future regulated rates.
 - b) an entity is neither required nor permitted to recognise a regulatory asset or a regulatory liability relating to an allowable expense or performance incentive included in its regulatory capital base when the entity's regulatory capital base and its property, plant and equipment have no direct relationship.
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Question for ASAF members



Question for ASAF members

Do the tentative decisions on the following topics help address the concerns raised by stakeholders in your jurisdiction:

- scope (slide 5)?
- total allowed compensation (slides 6–9)?

Appendix

Topics to be discussed next

Scope

- Interaction with IFRS 17 *Insurance Contracts*.
- Enforceability of rights and obligations—to be discussed when redeliberating recognition and measurement.

Total allowed compensation

- Allowable expenses—Expenses becoming allowable by reference to local GAAP.
- Performance incentives.

Recognition and measurement

Total Allowed Compensation—tentative decisions discussed at September 2022 ASAF meeting

Components of total allowed compensation AP9A July 2022

- **Purpose:** discuss stakeholders' concerns that the proposed components of total allowed compensation in paragraph B2 of the Exposure Draft did not reflect the economics of incentive-based schemes.
- **Tentative decision:** the application guidance will focus on helping entities to identify differences in timing instead of specifying the components of total allowed compensation. To do so, the application guidance will focus on the most common differences in timing that could arise from various types of regulatory schemes.

Regulatory returns on an asset not yet available for use AP9B and AP9C July 2022

- **Purpose:** discuss stakeholders' concerns about the proposed treatment of returns on assets not yet available for use (paragraph B15 of the Exposure Draft).
 - **Tentative decision:** the Standard will specify that when an entity has an enforceable present right to regulatory returns on an asset not yet available for use, those returns should form part of the total allowed compensation for goods or services supplied during the construction period of that asset. The Standard will provide guidance for entities to assess whether their rights to these regulatory returns are enforceable.
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Scope—tentative decisions discussed at September 2022 ASAF meeting

Customers

AP9D May 2022

- **Purpose:** to address application questions raised by stakeholders relating to the term ‘customers’ in the Exposure Draft.
- **Tentative decision:** the IASB decided that for a regulatory asset or a regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*.

This would imply that the term ‘customers in the Exposure Draft should be understood as defined in IFRS 15.

Financial instruments within the scope of IFRS 9

AP9E May 2022

- **Purpose:** to clarify the interaction between the model and IFRS 9 *Financial Instruments*.
 - **Tentative decision:** the expectation is that regulatory assets or regulatory liabilities would not arise from financial instruments within the scope of IFRS 9. Because of this, the IASB decided not to exclude from the scope of the Standard regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS9. Instead the Basis for Conclusions will explain that the regulation of interest rates is typically limited to setting a cap or floor on interest rates. This type of regulation is not expected to give rise to differences in timing.
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Scope—tentative decisions discussed at March 2022 ASAF meeting

Determining whether a regulatory agreement is within the scope of the proposals AP9B February 2022

- **Purpose:** to reconfirm specific aspects of the proposals on the scope and address concerns raised about the difficulty of determining whether a regulatory agreement is within the scope of the Standard.
 - **Tentative decision:**
 - a) The IASB decided:
 - i. an entity applies the Standard to all regulatory assets and regulatory liabilities;
 - ii. the Standard applies to all regulatory agreements and not only to those that have a particular legal form; and
 - iii. the conditions necessary for a regulatory asset and regulatory liability to exist.
 - b) The IASB decided:
 - i. not explicitly to specify in the Standard which regulatory schemes would be within or outside its scope.
 - ii. the Standard will clarify the relevance of features of some regulatory agreements for entities to determine whether they are in its scope.
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Scope—tentative decisions discussed at March 2022 ASAF meeting

Definition of a regulator AP9C February 2022

- **Purpose:** to address concerns on the lack of clarity of whether a regulator is required for a regulatory asset or regulatory liability to exist.
 - **Tentative decision:** the IASB decided the Standard will:
 - a) include the existence of a regulator as part of the conditions necessary for a regulatory asset or a regulatory liability to exist.
 - b) define a regulator as ‘a body that is empowered by law or regulation to determine the regulated rate or a range of regulated rates’.
 - c) include guidance to clarify self-regulation.
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