EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

Mr. Andreas Barckow
IASB Chairman
Columbus Building, 7, Westferry Circus,
Canary Wharf, London E14 4HD, UK

abarckow@ifrs.org

Re: Comments on ED *Regulatory Assets and Regulatory Liabilities*

Sophienstraße 44 DE – 60487
Frankfurt am Main, Germany
Direct number: +49 69 98959519
Fax number: +49 69 98957529
E-mail: office@effas.com
Internet: www.effas.com

Contact: Ms. Raquel Zaragoza

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Dear Andreas,

EFFAS' Commission on Financial Reporting ("Commission", "we") would like to share with you its views on the Exposure Draft ED/2021/1 on *Regulatory Assets and Regulatory Liabilities*.

EFFAS continues to support the IASB's high quality documents. Albeit we also continue underlining the importance of preparing documents avoiding density and complexity while emphasizing clarity and direct terminology. Also, we think that reducing cross-checking references and drafting more inclusive documents would facilitate an easier reading and clearer understanding of the concepts.

The Commission has reviewed the ED and decided to focus on what it considers key points, as follows:

1.- General comments

The ED addresses issues related to regulatory agreements affecting companies ("regulated entities") particularly focusing on (1) *how much* and (2) *when* companies can obtain a compensation through regulated rates. We think that the proposed approach will allow users to understand better how much "regulated" return reverts to companies.

We think that the information provided in the financial statements by regulated entities should be improved. Currently, there is no reporting uniformity between companies even within the same sector. Additionally different regulators and jurisdictions have their own requirements. Hence, a principles based overall approach is needed.

Companies should clearly report and explain the regulatory framework that is applicable to them, i.e., their regulated activities. Users must rely too often on non-financial information which lacks consistency and is difficult to compare.

2.- Allowed compensation and regulatory returns on construction work in progress (CWIP)

Companies should be able to report work-in-progress for regulated-assets. We deem it necessary that companies also report the cash flows from these assets, if any, and the reconciliation with the profit and loss statement. For users the timeliness of the returns generated on and reported from these assets are important.

Also, regulated entities should disaggregate when reporting amounts are related to new investments and when amounts are related to maintenance.

3.- Measuring and discounting rates

Regarding what might be the appropriate discount rate to apply when analyzing regulatory cash flows, the Commission by and large considers that a regulatory rate should be applied to measure the regulatory assets. However, the question that arises is what the minimum interest rate should be to compensate the regulated entities' investments. The possibility of using a specific WACC for each individual company will not facilitate comparability and will be confusing. Also, to calculate the future value of money used to finance the regulated rates in every country will not support the minimum interest rates that provide an acceptable return.

Therefore, the Commission considers that using the regulated rate is the most adequate rate to be applied. The more jurisdictions that use comparable return rates, the more effective the new Standard will be.

4.- Presentation and disclosures

Companies should present a clear distinction between regulatory and non-regulatory assets and between regulatory and non-regulatory liabilities. Also, in terms of revenues a separate line should differentiate which revenues are originated from regulatory assets. Additionally, in the Notes, a clear reconciliation of regulatory assets and regulatory liabilities should be disclosed.

We think that companies should disclose a breakdown of income and expenses related to regulatory assets and how many years it will take to recover the investments.

If you would like to further discuss the views expressed in this letter, please do not hesitate to contact us.

Yours sincerely,

Javier de Frutos, Chairman
On behalf of EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 15-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany) and Andreas Schenone (SFAA, Switzerland).