



Brussels, 30th July 2021

EACB Comments on the IASB's Exposure Draft ED/2021/1

"Regulatory Assets and Regulatory Liabilities"

The members of the EACB gladly take the opportunity to comment on the IASB's exposure draft on regulatory assets and regulatory liabilities.

The EACB welcomes the proposed objective of the ED for an entity subject to rate regulation to provide investors with relevant information about their financial performance.

In particular, we support the IASB's intention to address the issue of differences in timing, depending on when an entity can include the total allowed compensation in the regulated rates charged.

In relation to the scope of the ED, the EACB believes that further adjustments should be introduced. In accordance with the definition in paragraph 7 of the ED, a regulatory agreement determines a regulated rate that an entity charges "in contracts with customers". We would encourage the IASB to introduce more clarity on whether the term "contracts with customers" explicitly restricts the scope of the ED to the scope of IFRS 15 "Revenue from Contracts with Customers", or whether there is the need to carry out the analysis beyond this scope, especially concerning the application of IFRS 9 "Financial instruments". In this regard, the EACB supports restriction of the scope of the proposed ED to the scope of IFRS 15 accounting standard.

The EACB members are of the view that, as to revenue recognised in a period, the application of IFRS 9 already provides users of financial statements with relevant information that helps understanding whether differences in an entity's revenue and expenses are caused by differences in timing. More specifically, financial assets accounted for at fair value through other comprehensive income or at fair value through profit or loss already contain updated estimates of future cash flows. As for financial assets measured under IFRS 9 at amortised cost, the effective interest rate method is used. This method allows bypassing differences in the amount of revenue in a period and the total allowed compensation for the goods and services supplied in that period that arise due to differences in timing.

Therefore, we propose an explicit reference in the definition of a regulatory agreement to restrict the scope of the ED to that of IFRS 15, and a careful assessment that the proposed requirements do not create any distortion in their interactions with other IFRS and especially with the requirements for accounting for financial instruments under IFRS 9.

Further to that, paragraphs BC78-BC86 of the ED's Basis for Conclusions outline that the ED does not specify a particular legal form of the regulatory agreements or that the regulatory agreements should be "enforced by a regulator with particular attributes". In EACB's view, the fact that the regulatory agreement may take various forms or that a regulator is not defined may lead to distortions in the contracts with customers. Despite paragraph BC86,



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enforceability of the rights and obligations created by a regulatory agreement, an intercompany agreement or a master service agreement may result in differences in timing with a defined rate. This may in turn lead to the recognition of regulatory assets and regulatory liabilities that are created with itself or with other entities under common control.

Therefore, we believe that the legal form of the regulatory agreement as well as the need for a regulator to enforce the regulatory agreement have to be explicitly stated in the ED.

Contacts:

For further information or questions on this paper, please contact:

- Mr. Volker Heegemann, Head of Department (volker.heegemann@eacb.coop)
- Ms. Maryia Sulik, Adviser (maryia.sulik@eacb.coop)