



IFRS® Foundation

Regulatory Assets and Regulatory Liabilities

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 1
December 2020

Contents

Agenda ref 1

Purpose of this session	3
Summary of proposals	5–12
— What is the problem?	5–6
— How do the proposals solve the problem?	7–9
— Which companies would be affected?	10–11
— How would companies be affected?	12
Appendix	14–18

Purpose of this session

Agenda ref 1

Background

- Exposure Draft *Regulatory Assets and Regulatory Liabilities* expected to be published in January 2021
- Comment period of 150 days

Questions for ASAF members

- The staff are seeking suggestions from ASAF members on:
 - 1 – what sort of outreach activities the Board should undertake
 - 2 – how ASAF members could help with the Board's outreach activities
 - 3 – how the Board could support ASAF members outreach activities



Summary of proposals

What is the problem? (1/2)

A rate-regulated company supplies goods or services to customers at rates (prices) determined by regulatory agreement. Amount of revenue recognised depends on those rates.

Rates for goods or services supplied in a period are set in such a way that part of the compensation for goods or services supplied in one period is included in the rates charged in a different period. This causes differences in timing.

If differences in timing occur, revenue in a period does not include all the compensation for the goods or services supplied in that period or includes amounts that relate to compensation for goods or services supplied in a different period. As a result, a company's reported financial performance is incomplete.

Differences in timing arise because of rights to increase or obligations to decrease the rates in the future. As a result, the company's reported financial position is incomplete.

Without information about the differences in timing, investors would not understand the effects of differences in timing on a company's financial performance, financial position and its prospects for future cashflows.

What is the problem? (2/2)

The following simplified example helps illustrate the problem:

- Company A charges a regulated rate for goods or services supplied in 20X1 that has been set based on estimated input costs of CU100. But the actual input costs for 20X1 were CU120. Estimated and actual input costs for 20X2 were CU100.
- Company A has a right given by the regulatory agreement to add the under-recovery of CU20 of those input costs in the regulated rate for goods or services to be supplied in 20X2.
- Company A's Statement of profit or loss would include the following amounts:

	20X1 CU	20X2 CU
Revenue	100	120
Input costs	(120)	(100)

- In the absence of information about the difference in timing of CU20, investors would not understand:
 - what the relationship is between revenue and expenses in 20X1 and 20X2;
 - how the difference in timing of CU20 caused the relationship between revenue and expenses to fluctuate from one period to another; and
 - whether the fluctuation is only because of the difference in timing of CU20 or other factors.

How do the proposals solve the problem? (1/3)

Agenda ref 1

Investors have an insufficient basis for understanding the relationship between a company's revenue and its expenses and insufficient insight into the company's prospects for future cash flows.

The Exposure Draft proposes that a company should provide information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities. That information would supplement the information that companies already provide by applying IFRS 15 and other IFRS Standards.

To account for differences in timing, the Exposure Draft adopts the principle that a company should reflect the compensation for goods or services supplied as part of its reported financial performance for the period in which those goods or services are supplied.

How do the proposals solve the problem? (2/3)

- Applying the proposals, Company A's Statement of profit or loss would include the following amounts:

	20X1 CU	20X2 CU	
Revenue	100	120	<ul style="list-style-type: none"> Mostly includes compensation for goods or services supplied in the year, but: <ul style="list-style-type: none"> may not include part of compensation, for goods or services supplied in the year, that is charged in other years (past or future)—CU20 of 20X1 compensation charged in 20X2; or can also include compensation for goods or services supplied in other years (past or future)—CU20 of 20X1 compensation included in revenue for 20X2.
Regulatory income (regulatory expense) [note X (page 9)]	20	(20)	<ul style="list-style-type: none"> Compensation included in revenue of other years (past or future)—for goods or services supplied in the year; less Compensation included in revenue for the year for goods or services supplied in other years (past or future)
Input costs	(120)	(100)	Input costs recognised in the year for goods or services supplied in that year

The total allowed compensation for the goods or services supplied in 20X1 includes compensation of CU120 for the actual input costs.
 The total allowed compensation for the goods or services supplied in 20X2 includes compensation of CU100 for the actual input costs.

How do the proposals solve the problem? (3/3)

Agenda ref 1

Disclosure—Note X Regulatory Income (regulatory expense)	20X1 CU	20X2 CU	
Amounts for goods or services supplied in current year: —to be included in revenue in future years	20	xx	Addition to regulatory assets
—already included in revenue in prior years	xx	xx	Fulfilment of regulatory liabilities
Amounts included in revenue in current year: —for future goods or services	xx	xx	Addition to regulatory liabilities
—for goods or services in prior years	xx	(20)	Recovery of regulatory assets
Regulatory interest income on regulatory assets less regulatory interest expense on regulatory liabilities	xx	xx	
Changes in estimates	xx	xx	
Regulatory income (regulatory expense) [page 8]	20	(20)	

Which companies would be affected? (1/2)

Agenda ref 1

The proposals in the Exposure Draft shall be applied to all of a company's **regulatory assets** and **regulatory liabilities**.

Regulatory assets and regulatory liabilities can only exist if:

**Enforceable
regulatory
agreement**

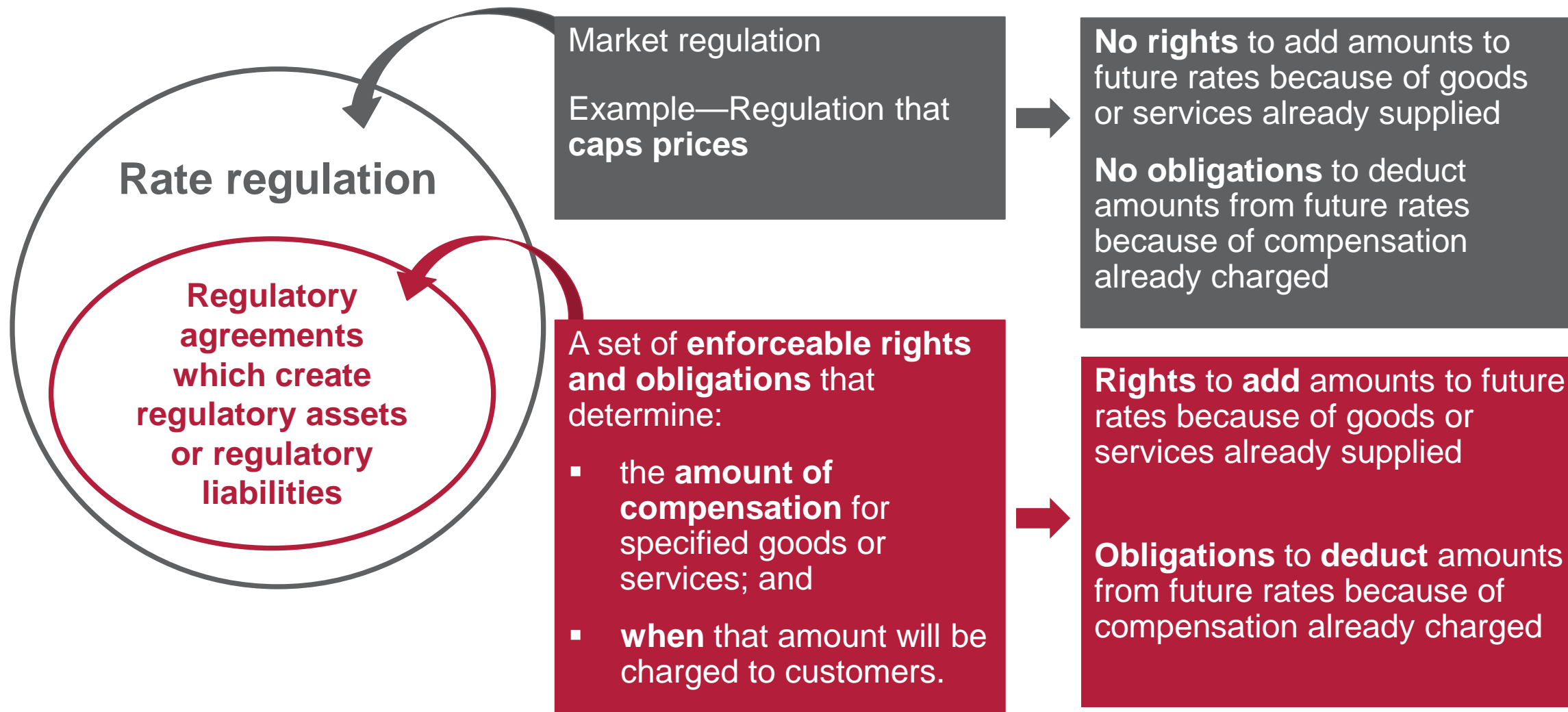
+

**Regulatory
agreement
determines the
regulated rate**

+

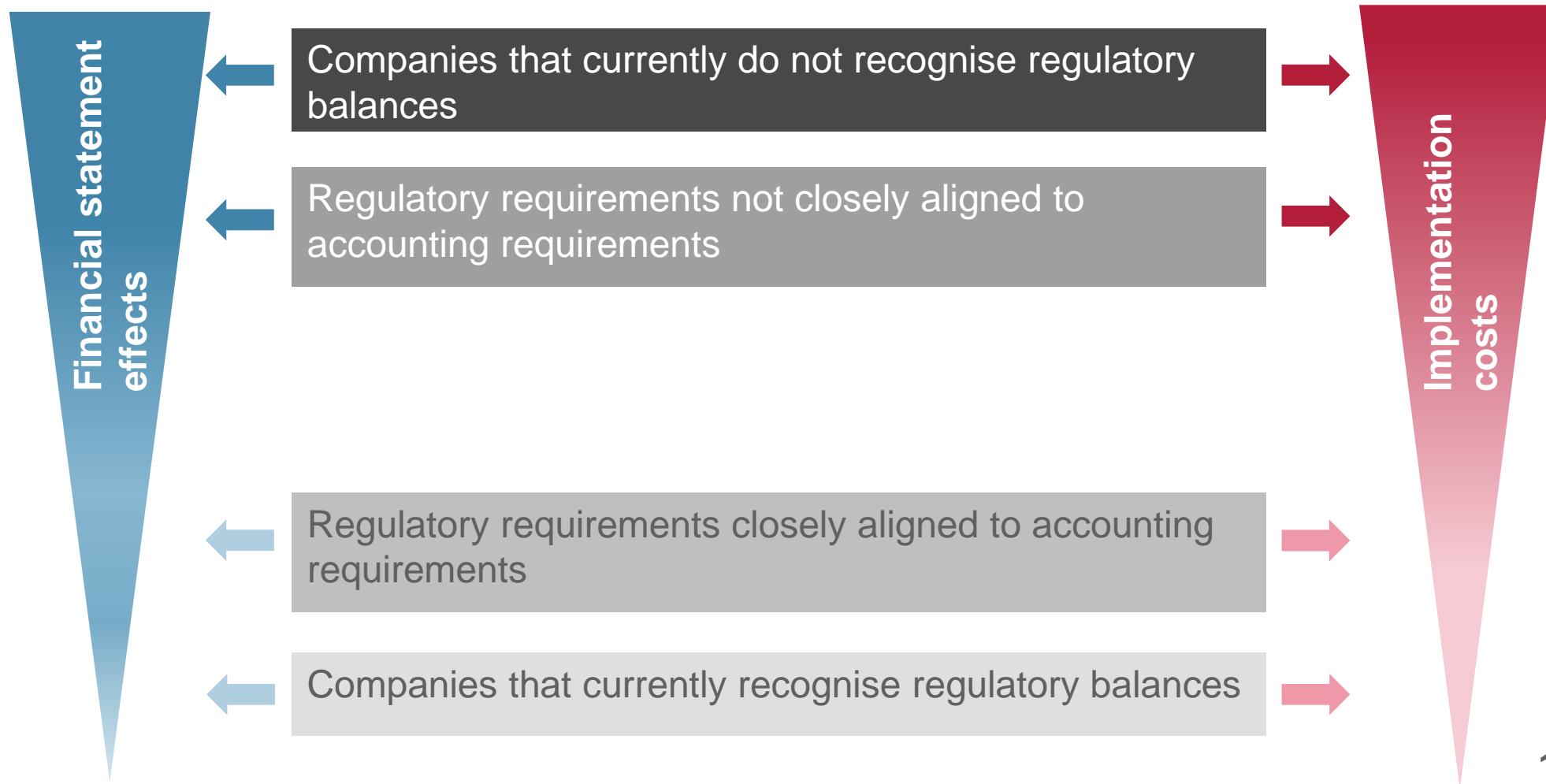
**Part of the
compensation for
goods or services
supplied in one
period is charged
to customers in a
different (past or
future) period**

Which companies would be affected? (2/2)



How would companies be affected?

The Exposure Draft will not impact all companies within its scope in the same way.

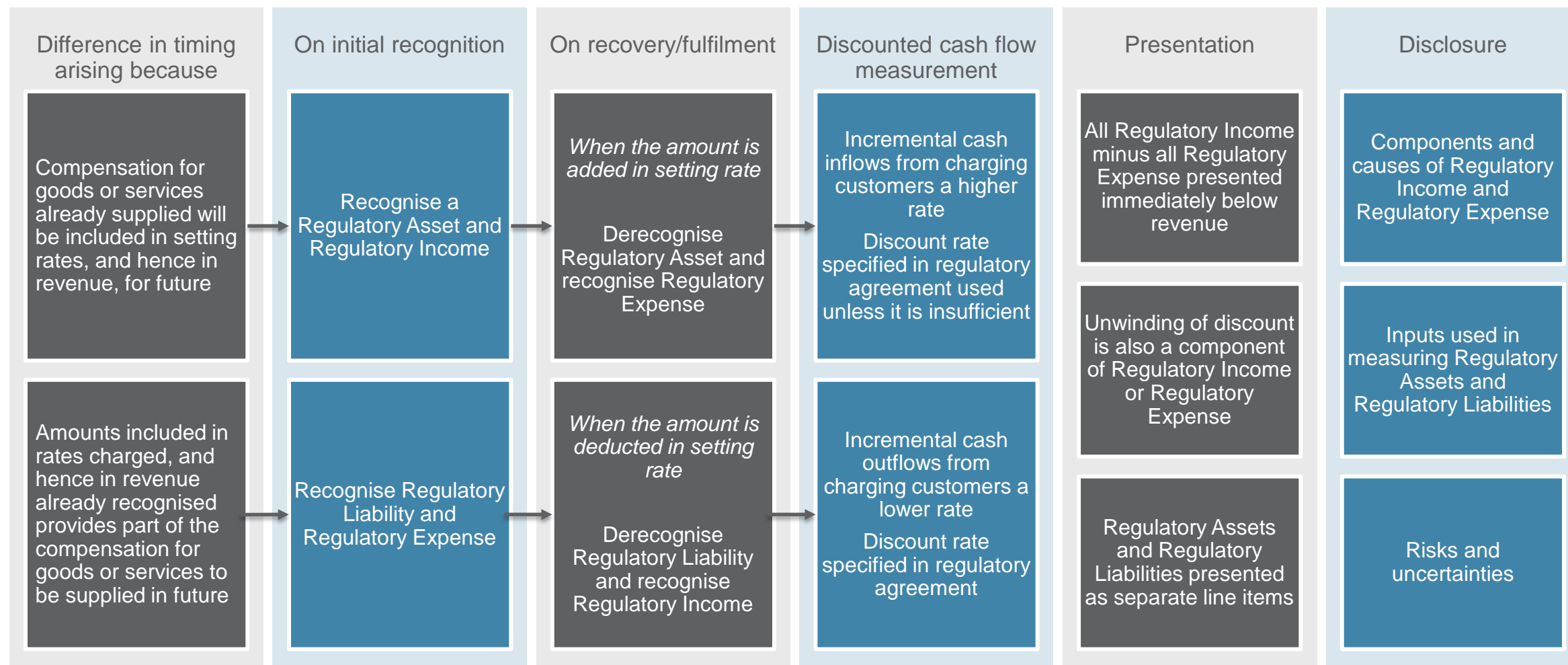


A grayscale world map is the background for the top half of the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted lines is also visible, connecting various points across the map.

Appendix

Proposals in detail

Summary of the model



Differences in timing

Total allowed compensation (TAC)

The full amount of compensation for goods or services supplied that a regulatory agreement entitles a company to charge customers through the regulated rates in **either the period when the company supplies those goods or services, or a different period.**

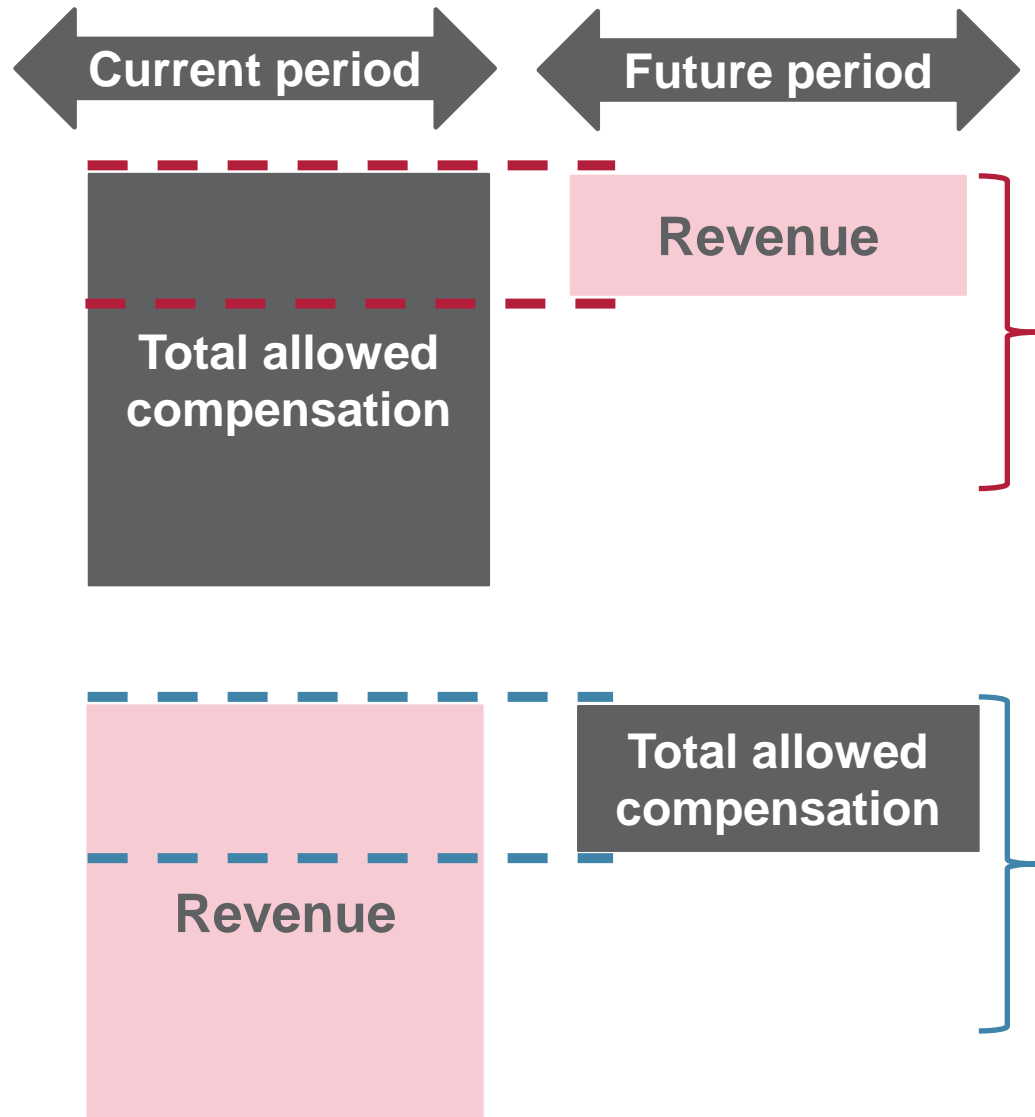
TAC

If **not** included in the regulated rates, and hence in **revenue**, in the same period the goods or services are supplied

Revenue

differences in timing arise

Definitions of regulatory asset and regulatory liability Agenda ref 1



Regulatory asset

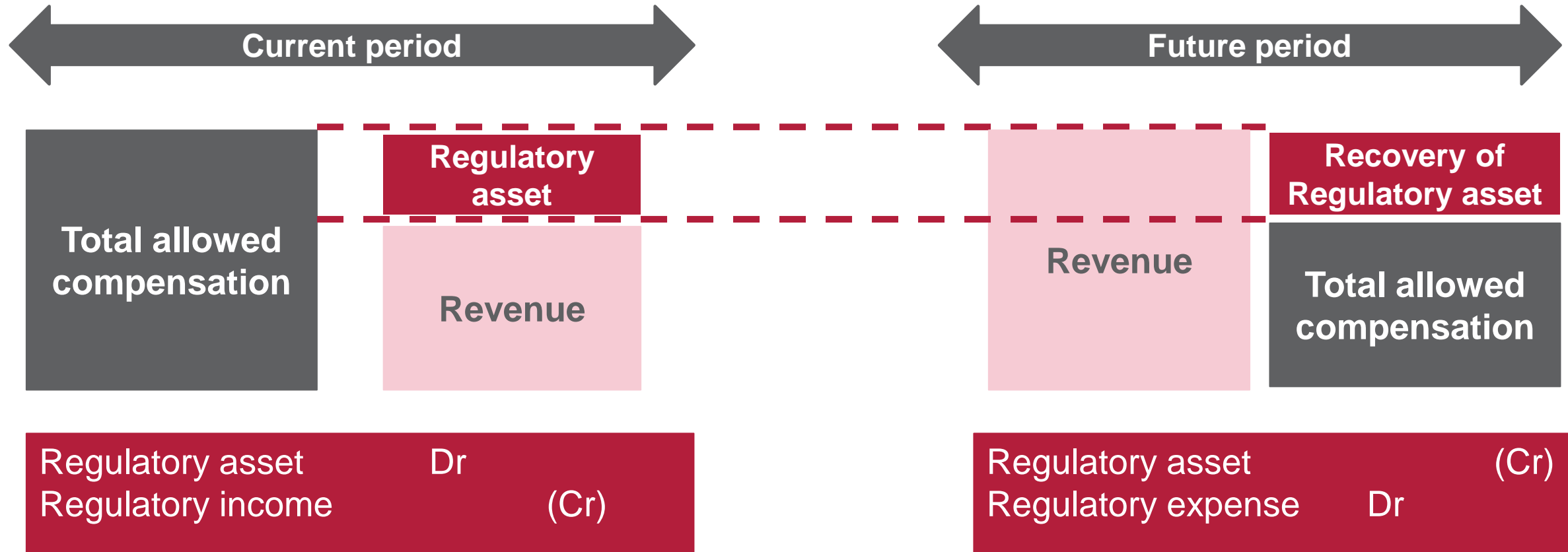
an enforceable present right, created by a regulatory agreement, **to add an amount** in determining a regulated rate to be charged to customers in future periods because part of the **total allowed compensation** for goods or services already supplied will be included in **revenue in the future**

Regulatory liability

an enforceable present obligation, created by a regulatory agreement, **to deduct an amount** in determining a regulated rate to be charged to customers in future periods because the revenue already recognised includes an amount that will provide part of **the total allowed compensation** for goods or services to be supplied in the **future**

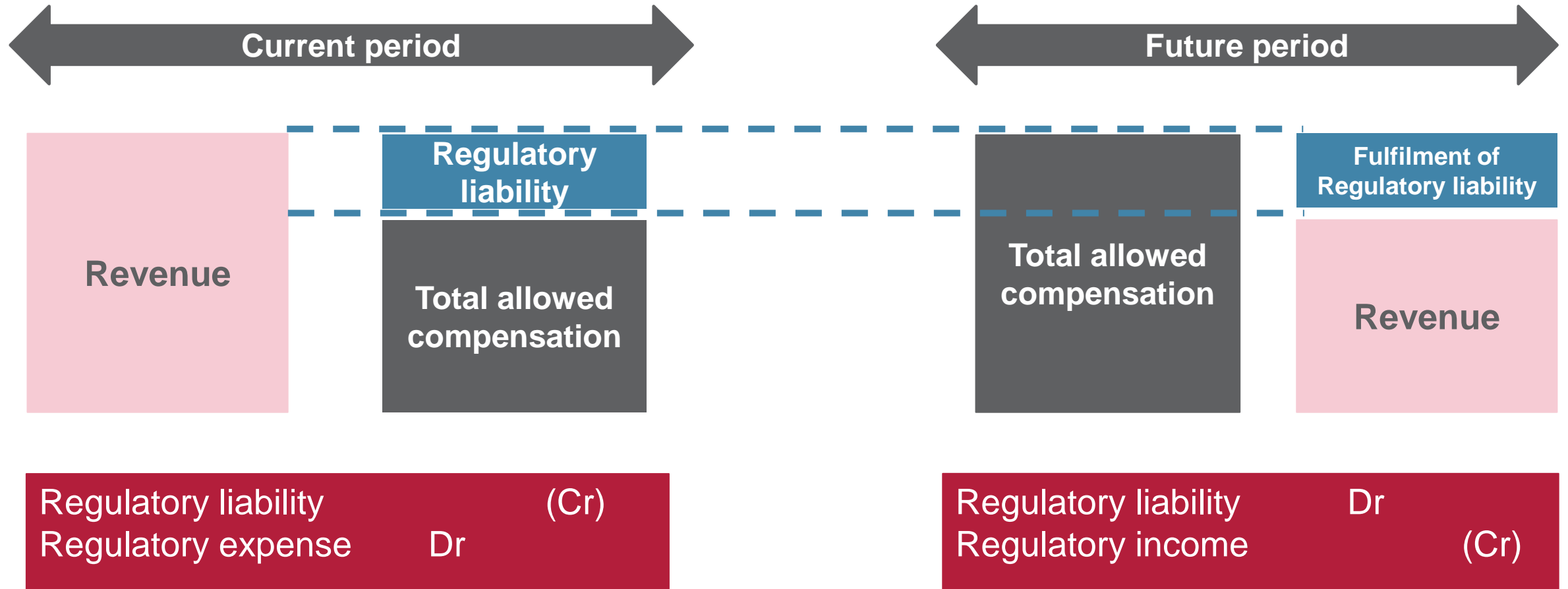
Regulatory assets

Agenda ref 1



Regulatory liabilities

Agenda ref 1



Find us online



www.ifrs.org



IFRS Foundation | International Accounting Standards Board



@IFRSFoundation



IFRS Foundation



IFRS Foundation

Join our team: go.ifrs.org/careers