

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG RRA Comment Letter Unresolved Items

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Objective

- 1 The purpose of the session is to obtain the EFRAG TEG's further guidance on three different topics to which the EFRAG's draft comment letter (DCL) on the IASB Exposure Draft *Regulatory assets and Regulatory Liabilities* (the ED) did not present a conclusive EFRAG position.
- 2 The session aims to help EFRAG to identify the direction to take on the three topics for its final comment letter on the ED informed by the outreach feedback so far. EFRAG TEG will discuss and agree on the position to be taken in the final comment letter in September, after considering the analysis of the comment letters received, the overall outreach feedback and the results of the effects-analysis survey to preparers and users.

Background

- 3 The IASB published its ED in January 2021 with comments requested by 31 July 2021. In the ED, the IASB proposes an accounting model for regulatory assets and regulatory liabilities to supplement the information already provided by applying existing IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers*. The ED's objective is to provide relevant information that faithfully represents how regulatory balances affect an entity's financial performance and financial position.
- 4 In April 2021, EFRAG published its draft comment letter on the ED. In the DCL, EFRAG broadly supports the approach proposed by the IASB albeit seeking views on several topics where EFRAG could not conclude on a preferred view. Therefore, the DCL provides mixed views on the following three topics:
 - (a) A component of the total allowed compensation, namely, Regulatory returns on construction work in progress (CWIP);
 - (b) use of discount rate; and
 - (c) the proposed exception from IFRS 3 *Business Combinations* recognition and requirements for acquired regulatory assets and assumed regulatory liabilities (IFRS 3 exception).
- 5 The aforementioned topics were discussed at different TEG meetings:
 - (a) EFRAG TEG meeting on 26 March 2021 to recommend the draft comment letter;

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- (b) Joint EFRAG CFSS-TEG meeting on 16 June 2021 to obtain input for the June IASB ASAF session;
 - (c) Joint EFRAG RRAWG-TEG meeting on 21 June 2021 that deliberated on the three topics.
- 6 Moreover, the EFRAG Secretariat has conducted outreach with several constituents and received feedback on these three topics. To date the outreach activity covered the following events:
- (a) a joint OIC, EFRAG and IASB outreach event to Italian Stakeholders on 6 May 2021 (see [outreach report](#));
 - (b) an outreach event organised jointly with the Accounting Standards Committee of Germany (ASCG) and EFRAG on 2 June 2021;
 - (c) a closed meeting of the IEAF on 08 June 2021 where EFRAG participated as an observer;
 - (d) a joint IEAF, EFRAG and IASB meeting on 23 June where EFRAG presented its preliminary views on the three areas in its DCL on which EFRAG had mixed views;
 - (e) a closed-session event with the Dutch Accounting Standards Board (DASB) on 24 June 2021 where EFRAG presented its preliminary views on the DCL;
 - (f) a call with the Amsterdam Airport (Schiphol) on 30 June 2021; and
 - (g) a call with Norwegian stakeholders organised by the Norwegian Accounting Standards Board (NASB) on 1 July 2021.

High-level summary of the EFRAG Secretariat recommendations

- 7 As noted earlier, EFRAG's position in the final comment letter will only be taken after incorporating the feedback from the outreach, constituents' comment letter responses to the EFRAG DCL, and results of the effects-analysis survey to preparers and users
- 8 As detailed in agenda paper 09-02, based on the outreach feedback and the main takeaways from the joint RRAWG-TEG meeting held in June 2021, the EFRAG Secretariat recommends that EFRAG TEG takes the following tentative positions:
- (a) EFRAG TEG takes a tentative position against the IASB proposed requirements for CWIP-regulatory returns charged to customers during construction. And EFRAG TEG provides suggestions for defining a broader notion of good and services supplied.
 - (b) EFRAG TEG tentatively decides between either supporting only the regulatory interest rate should discount regulatory assets and regulatory liabilities or proposing a rebuttable presumption that the regulatory interest rate is the appropriate discount rate.
 - (c) EFRAG TEG tentatively agrees to support the IFRS 3 recognition and measurement exception taking account of cost-benefit and practical implementation considerations, the need for a recognition exception, and extending the reasoning applied to other exceptions in IFRS Standards to the IFRS 3 exception for acquired regulatory assets and assumed regulatory liabilities.

Questions for EFRAG TEG

- 9 The detailed questions for each of the three topics are included within agenda paper 09-02.

Agenda Papers

- 10 The following the agenda papers accompany this cover note:
- (a) Agenda paper, 09-02–Issues Paper- EFRAG RRA Comment Letter Unresolved Items.
 - (b) Agenda paper, 09-03–EFRAG RRAWG-TEG 21 June 2021 meeting- Issues Paper-Total allowed compensation & regulatory returns on CWIP (background paper only).
 - (c) Agenda paper, 09-04–EFRAG RRAWG-TEG 21 June 2021 meeting- Issues Paper- Discounting (background paper only).
 - (d) Agenda paper, 09-05–EFRAG RRAWG-TEG 21 June 2021 meeting- Issues Paper- IFRS 3 exception (background paper only).