

IASB Exposure Draft *Regulatory Assets and Regulatory Liabilities* Cover Note

Objective

- 1 On 28 January 2021, the IASB published its Exposure Draft *Regulatory Assets and Regulatory Liabilities* (the ED) with a comment period ending on 31 July 2021.
- 2 The objective of this session is to obtain EFRAG Board's input and approval of the EFRAG's initial draft comment letter (Paper 02-02) as recommended by EFRAG TEG on 26 March 2021.
- 3 In addition to the EFRAG TEG deliberations on the draft comment letter, EFRAG Rate-Regulated Activities Working Group (RRAWG) discussed EFRAG's initial draft responses to the ED and the Illustrative Examples accompanying the ED across three meetings held on 16 February, 4 and 11 March 2021.
- 4 The findings from the early-stage effects analysis outreach to preparers and users conducted from October 2020 to January 2021 and feedback from earlier EFRAG RRAWG and EFRAG TEG sessions held in 2019 and 2020 were factored into the development of the initial draft comment letter.

Points of note

- 5 There are several aspects of the proposed Standard where the EFRAG TEG considered there to be a need for further evidence from stakeholder outreach including through feedback to the questions to constituents, prior to forming an EFRAG position. These are on the following:
 - (a) **Scope of the model – Summary above paragraph 28 & Paragraphs 39 to 67.** There is a need to further analyse the possible unintended consequences that may arise outside of the utilities sector. There is also need to obtain and assess fact patterns where it is not clear whether these fall within the scope of the proposed Standard or IFRIC 12 *Service Concession Arrangements*.
 - (b) **Total allowed compensation (treatment of regulatory returns for construction work in progress that are not be recognised only when the asset is in use) – Summary above paragraph 105 & Paragraphs 105 to 120.** The draft comment letter expresses two views that arose from mixed views considered at the TEG meeting. The first view is in: favour of the proposal based on the underlying conceptual reasoning and relevance of information for some entities. The second view is against the proposal based on misalignment with regulator accounting, operational challenges, and cost-benefit considerations.
 - (c) **Measurement requirements (discounting requirements and the use of minimum adequate rate) – Summary above paragraph 196 & Paragraphs 196 to 212.** There are two views on the appropriate discount rate arising from TEG having mixed views. The first view is that discounting should follow general discounting principles in IFRS Standards. The second view is that the regulatory interest rate should be the discount rate.
- 6 On the advice of RRAWG and as recommended by EFRAG TEG, EFRAG recommends the establishment of a transition resource group (TRG) akin to that established for IFRS 15 and IFRS 17- considering the potential for misinterpretation of the new Standard (See other comments paragraphs 338 to 340).

Questions for EFRAG Board

- 7 Do you agree or disagree with EFRAG initial responses and proposed questions to constituents in the draft comment letter as outlined below:
- (a) Question 1: Objective and Scope (Summary response above Paragraph 28; Detailed response- Paragraphs 28-63); Questions to constituents (Paragraphs 64-67)
 - (b) Question 2: Regulatory assets and regulatory liabilities (Summary response above Paragraph 81; Detailed response- Paragraphs 81-100)
 - (c) Question 3: Total allowed compensation (Summary response above Paragraph 105; Detailed response- Paragraphs 105-116); Questions to constituents (Paragraphs 117-119)
 - (d) Question 4: Recognition (Summary response above Paragraph 133; Detailed response- Paragraphs 133-142); Questions to constituents on recognition threshold (Paragraph 143)
 - (e) Question 5: Measurement (Summary response above Paragraph 163; Detailed response- Paragraphs 163-180); Questions to constituents (Paragraph 181)
 - (f) Question 6: Discounting (Summary response above Paragraph 195; Detailed response- Paragraphs 195-211); Questions to constituents (Paragraph 212)
 - (g) Question 7: Items affecting regulated rates only when related cash is paid or received (Summary response above Paragraph 216; Detailed response- Paragraphs 216-221)
 - (h) Question 8: Presentation in the statement (s) of financial performance and position (Summary response above Paragraph 229; Detailed response- Paragraphs 229-233)
 - (i) Question 9: Disclosures (Summary response above Paragraph 247; Detailed response- Paragraphs 247-258); Questions to constituents (Paragraph 259)
 - (j) Question 10: Effective Date and Transition (Summary response above Paragraph 263; Detailed response- Paragraphs 263-268); Questions to constituents (Paragraph 269)
 - (k) Question 11: Other Standards (Summary response above Paragraph 284; Detailed response- Paragraphs 284-304); Questions to constituents (Paragraphs 305-307)
 - (l) Question 12: Likely effects of the proposals (Summary response above Paragraph 325; Detailed response- Paragraphs 325-338)
 - (m) Question 13: Other comments (Paragraphs 339-341)
- 8 Does EFRAG Board, subject to its proposed changes, approve the draft comment letter?

Agenda Papers

- 9 Accompanying this cover note are the following agenda papers:
- (a) Agenda paper 02-02: Initial Draft Comment Letter;
 - (b) Agenda paper 02-03: IASB Snapshot of the ED (for background only);
 - (c) Agenda paper 02-04: ESA-outreach preparer report (for background only);
and
 - (d) Agenda paper 02-05: ESA-outreach user report (for background only).