

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

IASB project - Regulatory Assets and Regulatory Liabilities Cover Note

Introduction

- 1 On 28 January 2021, the IASB published Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* ('the ED') and was open for consultation until 30 July 2021.
- 2 EFRAG published its [final comment letter](#) on the ED on 10 September 2021 and a [Feedback Statement](#) in October 2021.

Objective

- 3 The objective of this session is to:
 - (a) receive a presentation on the main features of different regulatory regimes - namely cost-based and incentive-based regimes. This information will help EFRAG FR Board members to better understand the rationale supporting the IASB tentative decisions on then accounting for total allowed compensation and potentially other aspects of the accounting model for regulatory assets and regulatory liabilities.
 - (b) discuss IASB tentative decisions made during its redeliberations from May 2022 – September 2022 following the feedback to the ED on scope and aspects of the accounting for total allowed compensation.

Agenda Papers

- 4 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 09-02 – Presentation on features of different regulatory regimes
 - (b) Agenda paper 09-03 – Update on IASB tentative decisions on scope and total allowed compensation.

Background

IASB discussions and tentative decisions so far

- 5 The IASB started to discuss respondents' feedback on the ED at its October and November 2021 meetings.
- 6 The IASB discussed and [approved a plan for redeliberating the proposals](#) at its meeting in Q4 2021. Based on the feedback received, the IASB will redeliberate the proposals based on the following workstreams (in order of priority):
 - (a) Topics that raised significant concerns (proposed scope, total allowed compensation and the discount rate)

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- (b) Topics that were well received (recognition, measurement, presentation and disclosure); and
 - (c) Other topics. These include transition and effective date, effects analysis and due process steps.
- 7 So far, the IASB has made tentative decisions in relation to scope and different aspects of total allowed compensation as outlined in agenda paper 09-02.
- 8 In reaching the tentative decisions the IASB:
- (a) conducted targeted outreach to stakeholders in a selection of jurisdictions where concerns were raised on the applicability of the proposals due to the type and diversity of their prevailing regulatory regimes.
 - (b) met with its Consultative Group for Rate Regulation (Consultative Group) on three occasions in 2022 to discuss various aspects of the ED proposals and how to address concerns raised.
 - (c) consulted with ASAF members on its redeliberation plans and tentative decisions at the March 2022 and September 2022 meetings.

EFRAG discussions

- 9 Between December 2021 and March 2022, EFRAG FR TEG and EFRAG CFSS received an update on the IASB feedback received and IASB plans for redeliberating the proposals.
- 10 In April 2022, the EFRAG FR Board received an update on the IASB's plans for redeliberating the proposals in the ED and the IASB's tentative decisions on the scope of the final Standard.
- 11 In July 2022, EFRAG FR TEG received an update on the IASB tentative decisions on scope and total allowed compensation. At that meeting, EFRAG FR TEG members briefly discussed the 'differences between regulatory recovery pace and assets' useful lives', and it was then agreed that an education session would be useful as a prerequisite to this discussion.
- 12 In September 2022, EFRAG FR TEG and EFRAG CFSS discussed the IASB's tentative decisions taken in May, July, and September 2022 on scope and total allowed compensation (components of total allowed compensation and regulatory returns on assets not yet in use).
- 13 On 8 November 2022, the EFRAG Rate-regulated Activities Working Group (RRAWG) met to discuss the IASB tentative decisions on scope and several aspects of total allowed compensation (including the topics that will be presented at the meeting today).
- 14 At its meeting in December 2022, EFRAG FR TEG received a presentation from the IASB staff on the different regulatory regimes. The same presentation will be provided to the EFRAG FR Board by the EFRAG project team at today's session.

Next steps

IASB

- 15 At its meeting in November 2022, the IASB continued its redeliberation related to total allowed compensation covering the interaction between the IASB's tentative decision on regulatory returns on an asset not yet available for use and an entity's capitalisation of borrowing costs incurred to construct that asset. Relatedly, at its meeting in December 2022, the IASB will discuss and make tentative decisions the effects of inflation on an entity's regulatory capital base. At this meeting the IASB will also discuss and make tentative decisions on accounting for allowable expenses or performance incentives included in an entity's regulatory capital base. Furthermore, the IASB will be presented an IASB staff information paper that

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provides an overview of the use of the direct (no direct) relationship concept in the IASB's redeliberations of the proposed model.

- 16 The IASB will redeliberate the remaining proposals of the ED in 2023.

EFRAG

- 17 In Q1 2023, the EFRAG FR TEG and EFRAG RRAWG will further discuss the October- December 2022 IASB tentative decisions on total allowed compensation.
- 18 Further, the IASB tentative decisions to be made in 2023 will be discussed with EFRAG RRAWG, EFRAG FR TEG and with EFRAG FR Board at future meetings.

Question for EFRAG FRB

- 19 Do EFRAG FRB members have any comments on next steps?