Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Berlin, 23 July 2021

Dear Jean-Paul,

IASB Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to contribute to EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's ED/2021/1 *Regulatory Assets and Regulatory Liabilities* (herein referred to as 'ED') by providing our feedback vis-à-vis the IASB.

We provide our response to EFRAG's questions to constituents in the appendix of this letter and attach our comment letter to the IASB, containing our detailed comments on the questions raised in the ED.

If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann (bultmann@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the DCL

Question 1 – Objective and scope

Have you identified any other situations in which the proposed scope would affect activities that you do not view as subject to rate regulation that give rise to regulatory assets and regulatory liabilities? If so, please describe the situations and why you consider they should not be within the scope.

We are not aware of any situations in which the proposed scope would affect activities that you do not view as subject to rate regulation that give rise to regulatory assets and regulatory liabilities. However, it should be noted that we have received very limited feedback from entities outside the utilities sector.

Have you identified any situations in which the proposed scope would include self-regulation? If so, please explain these situations. In your view, should such situations of self-regulation be included in the scope of the ED?

We are not aware of any situations in which the proposed scope would include self-regulation.

Do you think that there should be additional criteria (e.g., limited competition, regulator committed to support the financial viability through the rate-setting process, customer having no ability to avoid price increases) for eligibility to be within the scope of the proposed Standard?

We do not consider additional criteria for eligibility to be within the scope of the proposed Standard to be necessary.

Are you aware of examples of anomalous outcomes that could arise from the application of the scope of proposed Standard (e.g., recognition of currently excluded enforceable rights and obligations)?

We are not aware of examples of anomalous outcomes that could arise from the application of the scope of proposed Standard. However, we have concerns about the outcomes that could arise from the application of the detailed proposals on how an entity shall determine the components of the total allowed compensation for goods or services supplied in a period (paragraphs B3-B9 and B15). In this regard, please refer to our comments to question 3.

Question 3 – Total allowed compensation

In certain regulatory agreements, the regulator may entitle the entity to recover, as part of the regulatory rate, cost relating to construction before the asset is in operation and is being used to supply goods or services. How common are these type of agreements in your jurisdiction?

Since we are not aware of any German entities outside the energy sector that would fall within the scope of the ED, our response is limited to the energy sector.

In Germany, the entities regulated by the Federal Network Agency (Bundesnetzagentur) are entitled to charge to customers a regulatory return on the committed capital (return on capital) during the construction period. This corresponds to the procedure described in paragraph BC96(b) of the ED. The investments are defined and approved in the network expansion plan so that the regulatory return on the committed capital is certain. Even if – in the hypothetical case – the investment is not continued, this does not result in any obligation for the entity to deduct an amount in determining a regulated rate to be charged to customers in future periods.

Which of the two views (view 1 or view 2) on the treatment of regulatory returns on CWIP do you support and why?

View 1: EFRAG notes there are concerns on the proposed treatment of CWIP regulatory returns in situations where the regulatory agreement allows regulatory returns to be charged to customers during construction. The proposal departs from the alignment of the accounting treatment with the regulatory treatment of regulatory returns. EFRAG also highlights the operational challenges of recognising regulatory returns related to construction work in progress only when the asset is in use. Assets are applied on a portfolio rather than individual basis to generate revenue and it is difficult to attribute revenue to a single asset.

Furthermore, some entities have high volumes of initiated assets under construction and high volumes of these that become operational- and it will be challenging for these entities to apply the proposed treatment of CWIP regulatory returns.

View 2: EFRAG acknowledges that the IASB proposal will reflect total allowed compensation when the underlying asset is being used to provide goods or services and being consumed (through depreciation) and this will result in a faithful representation of profit patterns particularly for entities that have material and long-duration CWIP. For such entities, due to the proposed treatment of CWIP, the profit will be misleadingly understated when the asset becomes operational if the regulatory returns were to be recognised as part of the total allowed compensation during construction. Furthermore, EFRAG notes that the proposal will contribute to comparability across entities regardless of how regulatory return is structured within regulatory agreements.

We support the view 1. For our reasons for this view, please refer to our detailed comments on Question 3 in the comments letter to the IASB attached below.

Do you expect any implementation issues relating to the proposals in the ED to defer and recognise revenue from construction work in progress only in the operating phase?

Yes, we expect significant administrative and financial burden for entities to implement the proposals in the ED to defer and recognise revenue from construction work in progress only in the operating phase. In this respect, please refer to our detailed comments on Question 3 in the comments letter to the IASB attached below.

Question 4 – Recognition

Are you aware of situations where there is uncertainty regarding the existence of an enforceable right or enforceable obligation under a regulatory agreement, and if so, please describe these situations?

We are aware of situations where new legal requirements are created, and it is not yet sufficiently clear how these requirements will be included in the regulatory framework because negotiations with the regulator have not yet been completed. In these cases, judgement would be used to consider whether an enforceable right or an enforceable obligation exists.

Question 5 – Measurement

Do you consider that the guidance in the ED on the boundary of the agreement is understood in practice and can be applied without undue cost and effort? If not please provide examples of the possible challenges on determining the boundary of the regulatory agreement and assessing which cash flows to include in the measurement of regulatory assets and regulatory liabilities.

In the German regulatory system set by the Federal Network Agency (Bundesnetzagentur), the boundary of a regulatory agreement is not determined by the regulatory period. A regulatory period is followed by the next regulatory period. For this reason, from the perspective of the German utilities, rights and obligations arising from a regulatory agreement can already be judged enforceable, even if the prices are not set until a new regulatory period. Thus, we do not expect challenges on determining the boundary of the regulatory agreement.

Question 6 – Discount rate

Which of the two views on discounting do you support and why?
View 1: Use the regulatory interest rate for regulatory assets and regulatory liabilities. The regulatory interest rate is negotiated with the regulator and considered objective by users. Supporters of this view disagree with the proposed application of a minimum adequate rate as the discount rate for regulatory assets, when the regulatory interest rate provided for a regulatory asset is insufficient. What matters ought to be the discount rate agreed with the regulator, as this represents the rate the entity is entitled to recover (fulfil) when measuring its regulatory assets and regulatory liabilities. Therefore, the application of a minimum adequate rate would not be relevant information for users to understand regulatory assets and regulatory liabilities.
View 2: Discounting of regulatory assets and regulatory liabilities should follow the general discounting principles in IFRS Standards because the objective of discounting is to appropriately reflect the effects of the time value of money. The regulatory interest rate might have a different objective. In cases where there is a significant financing component and the regulatory interest rate differs from the market rate, an entity should apply the requirements in IFRS 15 and use the prevailing interest rates in the relevant market.

We support the view 1 to the extent that we consider the use of the regulatory interest rate to be appropriate to discount the estimated future cash flows in measuring regulatory assets and regulatory liabilities.

Regarding the proposed application of a minimum adequate rate as the discount rate for regulatory assets, currently, we do not see any practical relevance for German rate regulation in the event that the regulatory interest rate would not be sufficient.

Question 9 – Disclosure

In your view, which of the proposed disclosures in the ED should be prioritised (i.e., which of the disclosures are most useful and which are less useful)? Please explain.

In our view, a reporting entity should be allowed to judge for itself what specific disclosures need to be provided in order to meet the disclosure objectives. We note that entities use judgement to decide what information would be relevant for users of financial statements and hence, be sufficient to meet the proposed disclosure objectives. We therefore recommend that the detailed provisions included in paragraphs 78, 80, 81 and 83 be worded as examples of the possible disclosures to meet the objectives, rather than as mandatory provisions. Please refer to our comments on Question 9 in the comments letter to the IASB attached below.

Question 10 – Effective date and transition

Do you agree with the IASB decision to charge to goodwill and not to retain earnings all the adjustments to regulatory assets and liabilities resulting from the simplified treatment of the past business combinations? If not, what do you propose?

We agree with the IASB proposal to charge to the carrying amount of goodwill all the adjustments to regulatory assets and liabilities resulting from the application of paragraph C4 of the ED.

Question 11 – Other IFRS Standards

Are you aware of examples of service concession arrangements falling under both the proposed Standard and IFRIC 12?

We are not aware of examples of service concession arrangements falling under both the proposed Standard and IFRIC 12.

Do you agree that the goodwill-related regulatory balances should not be reclassified to goodwill on the first-time adoption of IFRS Standards (proposed amendments to IFRS 1) but recognised as a separate subset of regulatory assets which should subsequently be amortised?

Currently, we do not see any practical relevance of this issues for German entities.

What are your views about an approach where acquired regulatory assets (or liabilities) are not exempt from IFRS 3 and are measured at fair value and further discounted at adjusted regulatory interest rate in a manner similar to the provisions of IFRS 9?

In our view, it is appropriate to exempt the regulatory assets acquired or regulatory liabilities assumed in a business combination from IFRS 3 as proposed in the ED.

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Berlin, 23 July 2021

Dear Andreas,

IASB Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* issued by the IASB on 28 January 2021 (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED proposals.

We welcome the IASB's efforts to set out principles for the recognition, measurement, presentation and disclosure of regulatory assets and regulatory liabilities, and of regulatory income and regulatory expense.

We support the objective of the ED to develop an accounting model for an entity to provide relevant information that faithfully represents of how regulatory effects affect the entity's financial performance and financial position. In general, we agree with the recognition and measurement principles. Further, we support the proposed overall and specific objectives of the disclosure requirements.

However, we have conceptual and economic concerns about the exception for regulatory returns on a balance relating to assets not yet available for use proposed in paragraph B15 and about the guidance in paragraphs B3-B9 of the ED on how an entity determines amounts that recover allowable expenses.

We only partly agree with the Board's analysis of the likely effects of implementing the proposals on the quality of financial reporting and of the likely costs of implementing the proposals. This is because we expect that the information provided applying the requirements proposed in paragraphs B3-B9 and especially in paragraph B15 would not give users of the financial statements a complete and clear picture about regulatory income, regulatory expense, regulatory assets, and regulatory liabilities. Moreover, the information provided might even be confusing and deceptive for users. We deem that users of financial statements would still need to refer to other sources to understand the effects of rate regulation. We also expect significant costs of applying the proposals in paragraphs B15 and B3-B9, both on initial application and on an ongoing basis. In addition to local GAAP, IFRS and regulatory accounts, an entity would need to implement and carry on separate 'IFRS regulatory' accounts.

Thus, we do not expect a positive cost-benefit relationship from implementing the proposals. However, we think this relationship could significantly be improved by making the following amendments to the future standard as explained in our response to question 3:

1) deleting paragraph B15 (in our view, the most important change);
2) determining the components of the total allowed compensation by applying regulatory rules rather than IFRS Standards; and
3) clarifying that an entity identifies its performance obligations based on the regulatory agreement and that performance obligation does not necessary mean supply of goods or services to customers.

These changes would not only improve the relationship between costs and benefits of applying the proposed model but also lead to the recognition of regulatory assets and regulatory liabilities that

- comprehensively reflect the enforceable rights and obligations of an entity arising from a regulatory agreement;
- meet the definition of an asset and a liability within the *Conceptual Framework for Financial Reporting*; and
- correspond to the objective set out in paragraph 1 of the ED.

Our responses to the questions of the ED are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann (bultmann@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the ED

Question 1 – Objective and scope

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity should provide relevant information that faithfully represents how regulatory income and regulatory expense affect the entity's financial performance, and how regulatory assets and regulatory liabilities affect its financial position.

Paragraph 3 of the Exposure Draft proposes that an entity apply the [draft] Standard to all its regulatory assets and all its regulatory liabilities. Regulatory assets and regulatory liabilities are created by a regulatory agreement that determines the regulated rate in such a way that part of the total allowed compensation for goods or services supplied in one period is charged to customers through the regulated rates for goods or services supplied in a different period (past or future). The [draft] Standard would not apply to any other rights or obligations created by the regulatory agreement—an entity would continue to apply other IFRS Standards in accounting for the effects of those other rights or obligations.

Paragraphs BC78–BC86 of the Basis for Conclusions describe the reasoning behind the Board's proposals. They also explain why the Exposure Draft does not restrict the scope of the proposed requirements to apply only to regulatory agreements with a particular legal form or only to those enforced by a regulator with particular attributes.

(a) Do you agree with the objective of the Exposure Draft? Why or why not?

(b) Do you agree with the proposed scope of the Exposure Draft? Why or why not? If not, what scope do you suggest and why?

(c) Do you agree that the proposals in the Exposure Draft are clear enough to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities? If not, what additional requirements do you recommend and why?

(d) Do you agree that the requirements proposed in the Exposure Draft should apply to all regulatory agreements and not only to those that have a particular legal form or those enforced by a regulator with particular attributes? Why or why not? If not, how and why should the Board specify what form a regulatory agreement should have, and how and why should it define a regulator?

(e) Have you identified any situations in which the proposed requirements would affect activities that you do not view as subject to rate regulation? If so, please describe the situations, state whether you have any concerns about those effects and explain what your concerns are.

(f) Do you agree that an entity should not recognise any assets or liabilities created by a regulatory agreement other than regulatory assets and regulatory liabilities and other assets and liabilities, if any, that are already required or permitted to be recognised by IFRS Standards?

<u>Response to (a)</u>

We agree with the objective of the ED. We welcome the IASB's efforts to develop a standard which would require an entity subject to a regulatory agreement to recognise regulatory assets and regulatory liabilities in its statements of financial position and regulatory income and regulatory expense in its statement(s) of financial performance. Since current IFRSs do not allow the recognition of regulatory assets, liabilities, income, and expense, we agree that the current financial statements of entities subject to rate regulation do not present their activities fairly. Recognising regulatory assets, liabilities, income, and expense would result in financial statements providing a more complete picture of how regulatory income and regulatory expense affect the entity's financial performance, and how regulatory assets and regulatory liabilities affect its financial position.

However, in our view, the proposed detailed requirements in paragraphs B15 and B3-B9 contradict the objective of the ED as formulated in paragraphs 1 and 2. We deem that the application of these proposals would not result in financial statements of entities subject to a regulatory agreement providing a clearer and more complete picture of the relationship between the revenue and expenses of those entities. In this regard, please refer to our comments to question 3.

Response to (b)

Our analysis indicates that entities within the utilities sector were clear on the scope of the ED. We did not note any uncertainties about the scope within this sector.

The few responses we received from entities beyond the utilities sector in Germany indicated that they were not affected by the proposed scope. Furthermore, no rate-regulated activities were mentioned which are not affected by the scope of the ED, but which should fall within the scope.

Response to (c)

From our point of view, the proposals in the ED are clear enough to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities.

However, we have concerns from a conceptual and practical perspective about the detailed proposals in paragraphs B15 and B3-B9. In this regard, please refer to our comments to question 3 below.

Response to (d)

We agree that the requirements proposed in the ED should apply to all regulatory agreements and not only to those that have a particular legal form or those enforced by a regulator with particular attributes.

Restricting the definition of a regulatory agreement to certain legal forms or certain characteristics of a regulator would narrow the scope of the ED without any discernible benefit. Moreover, it hardly seems possible to anticipate the diverse legal designs of regulatory agreements worldwide.

Response to (e)

We are not aware of any situations in which the proposed requirements would affect activities that should not be subject to the scope of the ED. However, as noted, we have received very limited feedback from entities outside the utilities sector.

Response to (f)

We agree that an entity should not recognise any assets or liabilities created by a regulatory agreement other than regulatory assets and regulatory liabilities and other assets and liabilities, if any, that are already required or permitted to be recognised by IFRS Standards. However, in our view, regulatory assets and regulatory liabilities determined applying the proposed requirements in paragraphs B15 and B3-B9 would not faithfully represent the enforceable rights and obligations arising from a regulatory agreement. Please see our comments to question 3 below.

Question 2 – Regulatory assets and regulatory liabilities

The Exposure Draft defines a regulatory asset as 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.

The Exposure Draft defines a regulatory liability as 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.

Paragraphs BC36–BC62 of the Basis for Conclusions discuss what regulatory assets and regulatory liabilities are and why the Board proposes that an entity account for them separately.

(a) Do you agree with the proposed definitions? Why or why not? If not, what changes do you suggest and why?

(b) The proposed definitions refer to total allowed compensation for goods or services. Total allowed compensation would include the recovery of allowable expenses and a profit component (paragraphs BC87–BC113 of the Basis for Conclusions). This concept differs from the concepts underlying some current accounting approaches for the effects of rate regulation, which focus on cost deferral and may not involve a profit component (paragraphs BC224 andBC233–BC244 of the Basis for Conclusions). Do you agree with the focus on total allowed compensation, including both the recovery of allowable expenses and a profit component? Why or why not?

(c) Do you agree that regulatory assets and regulatory liabilities meet the definitions of assets and liabilities within the Conceptual Framework for Financial Reporting (paragraphs BC37–BC47)? Why or why not?

(d) Do you agree that an entity should account for regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement (paragraphsBC58–BC62)? Why or why not?

(e) Have you identified any situations in which the proposed definitions would result in regulatory assets or regulatory liabilities being recognised when their recognition would provide information that is not useful to users of financial statements?

Response to (a)

We agree with the proposed definition of regulatory assets and regulatory liabilities.

Response to (b)

We agree that total allowed compensation includes the recovery of allowable expenses and a profit component.

Response to (c)

We agree that regulatory assets and regulatory liabilities meet the definitions of assets and liabilities within the *Conceptual Framework for Financial Reporting.* Please also refer to our comments to question 4.

Response to (d)

We agree that an entity should account for regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement.

Response to (e)

Yes, we have identified situations in which the proposed definitions would result in regulatory assets or regulatory liabilities being recognised when their recognition would provide information that is not useful to users of financial statements. This, however, would not be caused by the proposed definitions of regulatory assets and regulatory liabilities but rather by the detailed requirements in paragraphs B15 and B3-B9. In this regard, please refer to our comments to question 3 below.

Question 3 – Total allowed compensation

Paragraphs B3–B27 of the Exposure Draft set out how an entity would determine whether components of total allowed compensation included in determining the regulated rates charged to customers in a period, and hence included in the revenue recognised in the period, relate to goods or services supplied in the same period, or to goods or services supplied in a different period. Paragraphs BC87–BC113 of the Basis for Conclusions explain the reasoning behind the Board's proposals.

(a) Do you agree with the proposed guidance on how an entity would determine total allowed compensation for goods or services supplied in a period if a regulatory agreement provides:

(i) regulatory returns calculated by applying a return rate to a base, such as a regulatory capital base (paragraphs B13–B14 and BC92–BC95)?

(ii) regulatory returns on a balance relating to assets not yet available for use (paragraphs B15 and BC96–BC100)?

(iii) performance incentives (paragraphs B16–B20 and BC101–BC110)?

(b) Do you agree with how the proposed guidance in paragraphs B3–B27 would treat all components of total allowed compensation not listed in question 3(a)? Why or why not? If not, what approach do you recommend and why?

(c) Should the Board provide any further guidance on how to apply the concept of total allowed compensation? If so, what guidance is needed and why?

Overall response

In principle, we support the proposed basic concept and the definition of the total allowed compensation as proposed in paragraph 11 and in Appendix A. Further, we support the IASB's proposal in paragraph B2 that total allowed compensation would comprise amounts that recover allowable expenses minus chargeable income, target profit, and regulatory interest income and regulatory interest expense. We also agree with the inclusion of three main components of target profit (profit margin, regulatory returns, and performance incentives) in the total allowed compensation as proposed in paragraph B11.

However, we suggest deleting the exception for regulatory returns on a balance relating to assets not yet available for use proposed in paragraph B15 of the ED. Further, in our view, determining that an allowable expense forms part of the total allowed compensation in the period when this expense is recoverable under the terms of a regulatory agreement rather than when it is recognised as an expense applying IFRS Standards (as proposed in paragraphs B3-B9) would better represent the effects of rate regulation and thus, would better support the objectives of the ED.

With the proposed detailed regulations regarding the calculation of the total allowed compensation, the Board aims to create comparability among entities in different regulatory systems. This appears to be not realistic. Due to differences in regulatory requirements/laws in the individual jurisdictions and industries, we deem that complete comparability across jurisdictions and industries cannot be achieved. Comparability can only be achieved among entities of the same jurisdiction and same regulatory regimes. This comparability should be sought through the future standard on rate regulated activities. Also, it seems questionable whether in a regulated environment a comparison between entities of different industries and jurisdictions (e.g., comparison of an airport operator in one country with a network operator in the same or in another country) takes place in practice.

Furthermore, in our view, the application of the proposed requirements in paragraphs B15 and B3-B9 of the ED would result in information that does not faithfully represent how regulatory income and regulatory expense affect the entity's financial performance, and how regulatory assets and regulatory liabilities affect the entity's financial position. Thus, we deem that these requirements contradict the objective of the ED laid down in paragraph 1.

Finally, generating the required information for applying these requirements might impose a significant administrative and financial burden for the entities.

In detail:

Response to (a)

(i) Regulatory returns calculated by applying a return rate to a base, such as a regulatory capital base

We agree with the Board's proposal that regulatory returns would form part of the total allowed compensation for goods or services supplied in the period in which the regulatory agreement entitles an entity to add those returns in determining a regulated rate for goods or services supplied in that period. However, we do not support the exception for regulatory returns on assets not yet available for use. In this respect, please refer to our comments under (ii).

(ii) Regulatory returns on a balance relating to assets not yet available for use

We do not agree with the proposed guidance in paragraphs B15 and BC96–BC100 that the regulatory return on a balance relating to assets not yet available for use shall not be treated as forming part of total allowed compensation for goods or services supplied before the asset is available for use. Our view is based on the following considerations:

Conceptual considerations

As illustrated in the Example 3 *Regulatory returns on an asset not yet available for use* of the Illustrative Examples that accompany the ED, balances relating to an asset not yet available for use may be considered in a regulatory agreement in two ways:

(1) A regulatory agreement may provide entities with a regulatory return on capital invested to construct an asset in a period when the asset is not yet available for use (regulatory return of CU80 in the Example 3). This is the case under the regulatory rules applying to German utilities. For the reasons explained below, we are of the opinion that this regulatory return should form part of the total allowed compensation in the same period in which the regulatory agreement entitles the entity to add it in determining the regulated rates.
(2) A regulatory agreement may entitle an entity to recover the cost of an asset before this asset is available for use (e.g., amount that recovers allowable expenses of CU 250 in the Example 3). Contrary to the aforementioned item (1), this recovery of the regulatory capital base should form part of the total allowed compensation for goods or services supplied only once the asset is available for use. However, we do not see the need for a special rule on how to account for these recoverable amounts as proposed in paragraph B15 of the ED because it is already covered by the requirements in paragraphs B3-B9 of the ED. This case is not relevant for German entities.

In our view, regulatory return on invested capital (no. 1 above) related to an asset not yet in use forms part of the total allowed compensation for goods or services supplied as defined in paragraph 11 of the ED because:

- it represents an amount of compensation for goods or services supplied that
- a regulatory agreement entitles an entity to charge customers through the regulated rates,
- in either the period when the entity supplies those goods or services or a different period.

Consequently, contrary to the explanations in paragraph BC98(a), we consider the exception proposed in paragraph B15 to be inconsistent with the principle underlying the accounting model described in paragraph BC30. This model is based on the principle that an entity should reflect the total allowed compensation for goods or services supplied as part of its reported financial performance for the period in which the entity supplies those goods or services. Although the regulatory return on invested capital related to an asset not yet in use forms part of the total allowed compensation for goods or services supplied, it may not be recognised under the ED until the related asset is available for use.

The Board justifies the proposed exception by stating that in case of regulatory returns on a balance relating to an asset under construction, no goods or services are being supplied using that asset before it is available for use (paragraph BC98(a)). However: In certain jurisdictions regulatory authority grants compensation during the construction phase independently from any goods or services supplied using that certain asset to cover costs of debt and equity as well as other costs, which might not qualify to capitalize as asset. Although an entity has not delivered goods or services to the customer using that asset, by making an investment that has been defined and approved by the regulatory authority, it has provided and committed capital. On this capital, it will certainly receive a regulatory return. Even if – in the hypothetical case – the investment is not continued, this does not result in any obligation for the entity to deduct an amount in determining a regulated rate to be charged to customers in future periods (This is at least the case under the regulatory rules applying to German utilities.). Thus, in this case, it is not the matter of the supply of goods or services to the customer within the meaning of IFRS 15 *Revenue from Contracts with Customers*, but the matter of a regulatory supply of goods or services. The investment of capital for an asset that is part of the network should therefore qualify as goods or services supplied pursuant to the proposed basis model. For this regulatory return it is irrelevant whether goods or services are supplied to the customer using this asset. In contrast to non-regulated industries, an entity that is subject to rate regulation is obliged to continuously make available an infrastructure that is ready for use. The German utilities, for example, **are obliged** to operate a secure, reliable, and efficient energy supply network, to maintain it and to optimize, reinforce and expand it in line with demand (para. 11 of the German Energy Industry Act). This network consists of a combination of several assets (some available for use, some under construction) that provide services together.

While we understand that the proposal in paragraph B15 is aimed at matching expense and revenue (revenue recognition when corresponding expenses, e.g., depreciation when an asset is used, are recognised applying IFRS Standards), we think that the matching principle does not properly reflect the regulatory concept, at least in the context of German rate regulation. Instead, in our view, identifying the performance obligation, like in IFRS 15, should be the starting point for recognising regulatory revenue.

The core principle underlying IFRS 15 is that an entity should recognise revenue in a manner that depicts the pattern of transfer of goods and services to customers. The amount recognised should reflect the amount to which the entity expects to be entitled in exchange for those goods and services. In order to meet the core principle, IFRS 15 requires an entity, among other things, to identify its performance obligations. Similarly, an entity subject to rate regulation, should identify its performance obligation which not necessary is supplying goods or services to customers. In case of the transmission system operators in Germany, providing capital for an investment is one of the entity's performance obligations within a regulatory agreement.

Under IFRS 15, the company assesses each individual contract with the customer from an economic perspective. Similarly, in the case of rate-regulated activities, the economic context should first be analysed (What is a performance obligation?) in order to subsequently derive an appropriate accounting treatment. Therefore, we think, that for rate-regulated transactions, the process should be the same as in IFRS 15:

- Identify the performance obligations based on a regulatory agreement (which may differ from the performance obligations as defined by IFRS 15);
- determine the amount of consideration to which the entity is entitled in exchange for that performance obligation under the regulatory agreement (determined by the regulatory requirements, not by IFRS Standards);
- allocate the consideration to the performance obligations.

The actual performance obligations depend on the local regulatory framework and are therefore likely to be different in different countries. Due to differences in regulatory frameworks, international comparability amongst rate regulated entities will always be limited to a certain extent.

Further, applying the guidance proposed in paragraph B15, an entity would have to recognise a regulatory liability that

- does not actually exist, either legally or economically: By making an investment approved by the regulatory authority, the entity has supplied services and received consideration in the form of a regulatory return, and
- does not meet the definition of a regulatory liability proposed in the ED: According to paragraph 4 an enforceable present obligation to deduct an amount in determining a regulated rate to be charged to customers on future periods **should be created by a regulatory agreement** to meet the definition of a regulatory liability. If the regulatory agreement uses the approach described in paragraph BC96(b), it does not create an obligation relating to regulatory returns accumulated before the asset is available for use. Thus, this obligation would not arise from the regulatory agreement, but solely from the proposed model.

Furthermore, in our view, the proposals in paragraph B15 are inconsistent with the ‘more likely than not’ recognition threshold proposed in paragraph 28: While applying paragraph B15, an entity would not recognise a profit on capital provided in case of 100% certainty that an enforceable right exists, according to paragraph 28 it would recognise a profit in case of only more than 50% certainty.

Finally, we believe that the proposed different treatment of regulatory returns related to construction work on the one hand and the performance incentives for performing construction work on the other hand is not justified. The Board recognises that the proposed treatment of performance incentives related to construction work as part or reduction of total allowed compensation during construction would not align with the principle underlying the model. Nevertheless, it accepts this and proposes to include the amounts relating to a performance incentive in the total allowed compensation even for incentives for performing construction work. Through this, the Board wants to achieve an aligned treatment of incentives for performing construction work and all other performance incentives. The Board justifies this by making the following arguments (set forth in paragraph BC106):

- The alignment would provide more useful and understandable information than applying different approaches for different types of performance incentives.
- The alignment would avoid unnecessary costs.

We are of the opinion that both arguments are equally valid for treating the regulatory returns on capital provided to construct an asset as part of total allowed compensation during construction. Consequently, we are in favour of treating regulatory returns related to construction work on the one hand and the performance incentives for performing construction work on the other hand in the same way.

<u>Economic considerations</u>

In the case of rapidly growing business and the associated high level of investment, applying the proposed requirements, a significant portion of the regulatory return earned for performing construction work would be shifted into the future. The users would be provided with information that does not faithfully represent how the effects of rate regulation affect the entity’s financial performance and financial position. Thus, the proposed requirements contradict the intended objective of the ED laid down in paragraph 1.

As part of the dynamic development in the energy sector, substantial investments will be required in the electricity network infrastructure in the coming years. Attracting investors to cover the related financing needs will become a key challenge for network operators. Experiences of German network operators in the context of investor communication show that investors are interested in the effects that have resulted from the regulatory framework in the reporting period and will result in further periods. In the case of utilities, these effects may amount to several hundred million euros and thus to a large part of an entity's revenue. In this regard, the information provided based on proposed requirements, would not give investors a true and fair view of the financial position and performance of an entity, and would not be understood without insider knowledge. The overriding principle of fair presentation should then be questioned. The users of financial statements would have to obtain the relevant information they need to understand the financial effects of rate regulation on an entity's rate regulated activities from other sources, as they already do today.

<u>Cost-benefit considerations</u>

We do not consider the proposal on regulatory returns on a balance relating to an asset not yet available for use to be appropriate on cost-benefit grounds. Assets are applied on a portfolio basis to generate revenue. When the construction of an asset is completed, it becomes part of the regulatory asset portfolio. Other assets leave the portfolio because they no longer contribute to the entity's overall performance. Regulatory returns are not attributed to a single asset. In this respect, determining the amounts of regulatory returns on a balance relating to a single asset not yet available for use as proposed by the Board will be challenging for entities that have a high volume of assets under construction. In our view, this effort is not justified by any discernible benefit for the users.

<u>Other considerations</u>

It is unclear how to proceed if the investment made is not continued so that the asset under construction will be written off: Should the regulatory liability be derecognised, and regulatory income be recognised as a one-time effect at the time the asset is written off? In Germany, due to a close coordination between the rate-regulated entity and the regulatory authority, this case will probably have little practical relevance. Nevertheless, this issue seems unclear from a conceptual point of view.

For the above reasons, we suggest deleting paragraphs B15, BC96-BC100, and reconsidering the Example 3.

(iii) Performance incentives

We agree with the Board's proposal that amounts relating to a performance incentive would form part of or would reduce the total allowed compensation for goods or services supplied in the period in which an entity's performance gives rise to the incentive bonus or penalty.

<u>Response to (b)</u>

Amount that recovers allowable expenses minus chargeable income

As mentioned above, we support the proposed inclusion of the amounts that recover allowable expenses minus chargeable income in the total allowed compensation. However, we have the following concerns about the guidance in paragraphs B3-B9 on how an entity would determine these amounts, even though these concerns are not as material as the concerns about the proposal in paragraph B15.

The Board proposes that the amount that recovers an allowable expense forms part of the total allowed compensation for goods or services supplied in the same period in which the entity recognises the allowable expense by applying IFRS Standards. Entities subject to rate regulation generally need to prepare regulatory accounts in accordance with the regulatory requirements in their jurisdictions. As stated in paragraph B5, the period when an entity recognises an allowable expense as an expense applying IFRS Standards may differ from the period in which this expense is allowed to be recovered according to regulatory rules. We noted that not only the periods of recognising but also the amounts of the recoverable expenses over the total period may be different whether applying IFRS Standards or regulatory requirements which leads to permanent differences. This may, for example, be the case, when the regulatory agreement entitles an entity to recover the calculatory trade tax.

We question whether these permanent differences give rise to regulatory assets or regulatory liabilities according to the proposed model.

To illustrate this, assume that the regulatory agreement entitles an entity to recover the imputed costs of CU100 and the estimated quantity to be supplied in Year 1 amounts to 100 units. Consequently, the regulated rate to be charged to customers in Year 1 amounts to CU1 per unit. In Year 1, the entity supplied only 60 units to customers. In Year 1, the entity recognises revenue of CU60 by applying IFRS 15. The remaining part of CU40 will be included in revenues in the future. Currently, the entity would not be allowed to recognise a regulatory asset of CU40 at the end of Year 1.

Our understanding is that applying the proposals in the ED, the amount of CU40 is a form of target profit provided by the regulatory agreement and thus, forms part of the total allowed compensation for goods or services to be supplied in a future period. Consequently, the entity recognises a regulatory asset of CU40 in Year 1.

On the other hand, one may argue that permanent differences are not within the scope of the ED because they do not represent an allowable expense as an expense by applying IFRS Standards. If interpreting the ED in this way, the entity would account for the amount of CU40 by applying IFRS 15 and consequently would not recognise a regulatory asset of CU40 at the end of Year 1. In our view, this treatment would not provide a complete picture of the entity’s regulatory assets and thus, would not contribute to the achievement of objectives of the ED.

Therefore, we suggest the Board to clarify that permanent differences are a form of target profit, if the regulatory agreement entitles an entity to add them in determining a regulated rate for goods or services supplied in a period.

As stated in the ED, differences in timing arise if a regulatory agreement includes part of the total allowed compensation for goods or services supplied in one period in determining the regulated rates for goods or services supplied in a different period (past or future). This is the case if the estimated input costs differ from the actual input costs. Assuming that an entity has complete information about all relevant processes of future periods, so that no timing differences arise between the estimated input costs and the actual input costs calculated based on the regulatory agreement, the entity would not have any rights or obligations arising from timing differences and would recognise revenue in each period applying IFRS 15. However, the Board proposed that the allowable expenses, which are one of the components of the total allowed compensation, are expenses as defined in IFRS Standards. In case that an expense under the term of a regulatory agreement differs from the expense applying IFRS Standards, this would lead to timing differences. Thus, even in the theoretical case of the existence of complete information and thus the congruence of estimated and actual quantity, when applying the proposal, the entity would recognise a regulatory asset or a regulatory liability that do not actually exist.

Further, we are in favour of determining the amounts that recover allowable expenses based on the regulatory accounting rather than on IFRS Standards because of cost-benefit considerations. Entities would have to keep parallel accounts to comply with the proposed requirements. However, the quality of information provided applying the proposed requirements is questionable because it could not be understood without insider knowledge.

All the problems described above – especially the treatment of assets not yet available for use and the case of permanent differences – could be avoided if the definition of the total allowed compensation was not based on IFRS figures but was rather based on the figures according to regulatory rules. There would not be a third ledger and no drawback from cost-benefit considerations. Instead, the displayed regulatory assets and regulatory liabilities would totally reflect the enforceable present rights and obligations of an entity to add or to reduce an amount in determining a regulated rate to be charged to customers in future periods. So defined regulatory assets and regulatory liabilities would fulfil the definition of an asset and a liability within the *Conceptual Framework for Financial Reporting* and would definitely correspond to the objective set out in paragraph 1 of the ED.

Response to (c)

We recommend reconsidering the guidance in paragraphs B15 and B3-B9 to align the accounting treatment with the regulatory treatment. In our view, this can most easily be achieved by determining the components of the total allowed compensation by applying the regulatory requirements. Alternatively, this could be achieved by retaining the paragraph 11 as it is and making the following amendments:

1) Delete the exception for regulatory returns on a balance relating to assets not yet available for use proposed in paragraphs B15, BC96-BC100 and reconsidering the Example 3.
2) Reconsider the guidance in paragraphs B3-B9 to define an amount that recovers allowable expenses minus chargeable income as the expense or income by applying the regulatory requirements.
3) Clarify that an entity identifies its performance obligations based on the regulatory agreement and that performance obligation does not necessarily mean supply of goods or services to customers.

Question 4 – Recognition

Paragraphs 25–28 of the Exposure Draft propose that:

- an entity recognises all its regulatory assets and regulatory liabilities; and
- if it is uncertain whether a regulatory asset or regulatory liability exists, an entity should recognise that regulatory asset or regulatory liability if it is more likely than not that it exists. It could be certain that a regulatory asset or regulatory liability exists even if it is uncertain whether that asset or liability will ultimately generate any inflows or outflows of cash. Uncertainty of outcome would be addressed in measurement (Question 5).

Paragraphs BC122–BC129 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree that an entity should recognise all its regulatory assets and regulatory liabilities? Why or why not?

(b) Do you agree that a 'more likely than not' recognition threshold should apply when it is uncertain whether a regulatory asset or regulatory liability exists? Why or why not? If not, what recognition threshold do you suggest and why?

Response to (a)

We agree that an entity should recognise all its regulatory assets and regulatory liabilities. However, as already noted, not all enforceable rights and obligations arising from a regulatory agreement would lead to the recognition of the regulatory assets and regulatory liabilities applying the proposed requirements in paragraphs B3-B9. Since neither current IFRSs nor the proposed Standard allow the recognition of these rights and obligations, they would still remain off balance. Please also refer to our answer to question 3(b).

Response to (b)

We agree with the proposal to apply a 'more likely than not' recognition threshold in situations in which it is uncertain whether a regulatory asset or regulatory liability exists, with the following understanding: If an enforceable right exists, we do not consider it necessary to assess the existence uncertainty of a regulatory asset applying the 'more likely than not' threshold. Only if there is uncertainty as to whether an enforceable right exists, an assessment according to the proposed threshold should be made.

Even if setting the same recognition thresholds for assets and liabilities can be questioned from a conceptual point of view, we share the Board's view that in case of regulatory assets and regulatory liabilities, an asymmetric threshold would not be reasonable and may even result in information that could be difficult to interpret.

Apart from this, in respect to German entities subject to rate regulation, uncertainty with regards to the recognition is unlikely to exist because of the regulatory oversight. An entity supplies goods or services only if it is certain, based on a regulatory agreement, that the expenses will be recovered through the regulated rates and thus, that an enforceable right exists.

Question 5 – Measurement

Paragraph 29 of the Exposure Draft specifies the measurement basis. Paragraphs 29–45of the Exposure Draft propose that an entity measure regulatory assets and regulatory liabilities at historical cost, modified by using updated estimates of future cash flows. An entity would implement that measurement basis by applying a cash-flow-based measurement technique. That technique would involve estimating future cash flows—including future cash flows arising from regulatory interest—and updating those estimates at the end of each reporting period to reflect conditions existing at that date. The future cash flows would be discounted (in most cases at the regulatory interest rate—see Question 6). Paragraphs BC130–BC158 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree with the proposed measurement basis? Why or why not? If not, what basis do you suggest and why?

(b) Do you agree with the proposed cash-flow-based measurement technique? Why or why not? If not, what technique do you suggest and why?

If cash flows arising from a regulatory asset or regulatory liability are uncertain, the Exposure Draft proposes that an entity estimate those cash flows applying whichever of two methods—the 'most likely amount' method or 'expected value' method—better predicts the cash flows. The entity should apply the chosen method consistently from initial recognition to recovery or fulfilment. Paragraphs BC136–BC139 of the Basis for Conclusions describe the reasoning behind the Board's proposal.

(c) Do you agree with this proposal? Why or why not? If not, what approach do you suggest and why

Response to (a)

We agree with the proposed measurement basis.

Response to (b)

We agree with the proposed cash-flow-based measurement technique.

Response to (c)

From a practical point of view, we support the Board's proposal to estimate the uncertain future cash flows arising from a regulatory asset or regulatory liability using the most likely amount method or the expected value method whichever better predicts the cash flows. In practice, there are use cases for both methods. We also agree with the proposed requirement that an entity should apply the chosen method consistently from initial recognition to recovery or fulfilment.

Question 6 – Discount rate

Paragraphs 46–49 of the Exposure Draft propose that an entity discount the estimated future cash flows used in measuring regulatory assets and regulatory liabilities. Except in specified circumstances, the discount rate would be the regulatory interest rate that the regulatory agreement provides. Paragraphs BC159–BC166 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree with these proposals? Why or why not? If not, what approach do you suggest and why?

Paragraphs 50–53 of the Exposure Draft set out proposed requirements for an entity to estimate the minimum interest rate and to use this rate to discount the estimated future cash flows if the regulatory interest rate provided for a regulatory asset is insufficient to compensate the entity. The Board is proposing no similar requirement for regulatory liabilities. For a regulatory liability, an entity would use the regulatory interest rate as the discount rate in all circumstances. Paragraphs BC167–BC170 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(b) Do you agree with these proposed requirements for cases when the regulatory interest rate provided for a regulatory asset is insufficient? Why or why not?

(c) Have you identified any other situations in which it would be appropriate to use a discount rate that is not the regulatory interest rate? If so, please describe the situations, state what discount rate you recommend and explain why it would be a more appropriate discount rate than the regulatory interest rate.

Paragraph 54 of the Exposure Draft addresses cases when a regulatory agreement provides regulatory interest unevenly by applying a series of different regulatory interest rates in successive periods. It proposes that an entity should translate those rates into a single discount rate for use throughout the life of the regulatory asset or regulatory liability.

(d) Do you agree with the proposal? Why or why not? If not, what do you recommend and why?

Response to (a)

We support the proposal to require an entity to discount the estimated future cash flows used in measuring regulatory assets and regulatory liabilities and to use the regulatory interest rate that the regulatory agreement provides, except in specified circumstances.

Response to (b)

Currently, we do not see any practical relevance for German rate regulation in the event that the regulatory interest rate would not be sufficient.

Response to (c)

For some components of the total allowed compensation, the regulatory interest rate provided by the regulatory agreement may be zero. If the entity's assessment leads to the conclusion that this regulatory rate is not sufficient, the proposed guidance would require the entity to estimate and to use the 'minimum interest rate' to discount the regulatory asset but would not require to discount the regulatory liability. While we deem that in this case, it would be appropriate to discount the regulatory liability using a discount rate that is not the regulatory interest rate, we, nevertheless, support the Board's decision not to require an entity to assess whether the regulatory interest rate for a regulatory liability is sufficient. This would avoid unnecessary costs and complexity.

Response to (d)

We agree with the proposal in paragraph 54 of the ED that an entity shall translate uneven regulatory interest rates into a single discount rate for use throughout the life of the regulatory asset or regulatory liability. However, the Example 5 of the Illustrative Examples that accompany the ED could imply that in such cases, an entity shall always use an effective interest rate. We therefore recommend clarifying that Example 5 illustrates only one of the possible ways to comply with the requirements of paragraph 54.

Question 7 – Items affecting regulated rates only when related cash is paid or receive

In some cases, a regulatory agreement includes an item of expense or income in determining the regulated rates in the period only when an entity pays or receives the related cash, or soon after that, instead of when the entity recognises that item as expense or income in its financial statements. Paragraphs 59–66 of the Exposure Draft propose that in such cases, an entity would measure any resulting regulatory asset or regulatory liability using the measurement basis that the entity would use in measuring the related liability or related asset by applying IFRS Standards. An entity would adjust that measurement to reflect any uncertainty that is present in the regulatory asset or regulatory liability but not present in the related liability or related asset. Paragraphs BC174–BC177 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree with the measurement proposals when items of expense or income affect regulated rates only when related cash is paid or received? Why or why not? If not, what approach do you suggest for such items and why?

When these measurement proposals apply and result in regulatory income or regulatory expense arising from remeasuring the related liability or related asset through other comprehensive income, paragraph 69 of the Exposure Draft proposes that an entity would also present the resulting regulatory income or regulatory expense in other comprehensive income. Paragraphs BC183–BC186 of the Basis for Conclusions describe the reasoning behind the Board's proposal.

(b) Do you agree with the proposal to present regulatory income or regulatory expense in other comprehensive income in this case? Why or why not? If not, what approach do you suggest and why?

Response to (a)

From a conceptual point of view and notwithstanding our comments on the proposed requirements in paragraphs B3-B9 (see response question 3(b)), we agree with the measurement proposals when items of expense or income affect regulated rates only when related cash is paid or received. We currently do not see any practical relevance of these cases for German entities subject to rate regulation.

Response to (b)

From a conceptual point of view, we agree with the presentation proposals when items of expense or income affect regulated rates only when related cash is paid or received. We currently do not see any practical relevance of these cases for German entities subject to rate regulation.

Question 8 – Presentation in the statement(s) of financial performance

Paragraph 67 of the Exposure Draft proposes that an entity present all regulatory income minus all regulatory expense as a separate line item immediately below revenue. Paragraph 68 proposes that regulatory income includes regulatory interest income and regulatory expense includes regulatory interest expense. ParagraphsBC178–BC182 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree that an entity should present all regulatory income minus all regulatory expense as a separate line item immediately below revenue (except in the case described in Question 7(b))? Why or why not? If not, what approach do you suggest and why?

(b) Do you agree with the proposed inclusion of regulatory interest income and regulatory interest expense within the line item immediately below revenue? Why or why not? If not, what approach do you suggest and why?

Response to (a)

We agree.

Response to (b)

We agree.

Question 9 – Disclosure

Paragraph 72 of the Exposure Draft describes the proposed overall objective of the disclosure requirements. That objective focuses on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities, for reasons explained in paragraphs BC187–BC202 of the Basis for Conclusions. The Board does not propose a broader objective of providing users of financial statements with information about the nature of the regulatory agreement, the risks associated with it and its effects on the entity's financial performance, financial position or cash flows.

(a) Do you agree that the overall disclosure objective should focus on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities? Why or why not? If not, what focus do you suggest and why?

(b) Do you have any other comments on the proposed overall disclosure objective?

Paragraphs 77–83 of the Exposure Draft set out the Board's proposals for specific disclosure objectives and disclosure requirements.

(c) Do you have any comments on these proposals? Should any other disclosures be required? If so, how would requiring those other disclosures help an entity better meet the proposed disclosure objectives?

(d) Are the proposed overall and specific disclosure objectives and disclosure requirements worded in a way that would make it possible for preparers, auditors, regulators and enforcement bodies to assess whether information disclosed is sufficient to meet those objectives?

Response to (a)

We agree with the proposed overall objective of the disclosure requirements described in paragraph 72.

Response to (b)

We do not have any other comments on the proposed overall disclosure objective.

Response to (c)

We agree with the specific disclosure objectives proposed in paragraphs 77, 79 and 82. However, we are concerned about the specific disclosures proposed in paragraphs 78, 80, 81 and 83 insofar as these are stipulated as mandatory provisions. Stipulating those provisions as mandatory suggests that the fulfillment invariably implies the achievement of the specific disclosure objectives. To the contrary, we note that entities use judgement to decide what information would be relevant for users of financial statements and hence, be sufficient to meet the proposed disclosure objectives. The proposed detailed provisions could help the entities with their decision. However, these provisions should only be meant to provide assistance to the entities by way of providing examples and considerations. We therefore recommend that the detailed provisions included in paragraphs 78, 80, 81 and 83 be worded as examples of the possible disclosures to meet the objectives, rather than as mandatory provisions.

Further, according to paragraph 74 an entity would disclose additional information if the information provided applying paragraphs 75-83 is not sufficient to meet the disclosure objectives. Conversely, we suggest that the IASB includes a provision that allows certain specific disclosures to be waived by an entity if these disclosures do not contribute to meeting the disclosure objectives.

We do not see the need to require other disclosures.

Response to (d)

Please refer to our response to (c).

Question 10 – Effective date and transition
Appendix C to the Exposure Draft describes the proposed transition requirements. Paragraphs BC203–BC213 of the Basis for Conclusions describe the reasoning behind the Board's proposals. (a) Do you agree with these proposals? (b) Do you have any comments you wish the Board to consider when it sets the effective date for the Standard?

Response to (a)

We generally agree with the proposed transition requirements. However, we wish to stress that retrospective application could be very burdensome and even impracticable in specific cases, especially for groups with several foreign operations within the scope of the ED. Where full retrospective application is deemed impracticable, we suggest proposing an optional modified retrospective application from the beginning of the annual reporting period in which an entity first applies the new Standard without restating comparative information, by adjusting opening retained earnings as an one-time effect. We note that this approach would result in incomparable information of the periods presented. However, we deem that in specific cases, the benefits for preparers from applying the modified form of retrospective application would overweight the resulting costs for users of financial statements.

Response to (b)

Due to an immense technical and administrative effort the entities would face applying the proposed Standard, we suggest giving the entities sufficient time for the initial application (not less than 24 months after the publication of the final Standard. However, early application shall be permitted.

Question 11 – Other IFRS Standards
Paragraphs B41–B47 of the Exposure Draft propose guidance on how the proposed requirements would interact with the requirements of other IFRS Standards. Appendix D to the Exposure Draft proposes amendments to other IFRS Standards. Paragraphs BC252–BC266 of the Basis for Conclusions describe the reasoning behind the Board's proposals. (a) Do you have any comments on these proposals? Should the Board provide any further guidance on how the requirements proposed in the Exposure Draft would interact with any other IFRS Standards? If yes, what is needed and why? (b) Do you have any comments on the proposed amendments to other IFRS Standards?

Response to (a)

We agree with the Board's proposals addressing the interaction with other IFRS Standards.

Response to (b)

We do not have any comments on the proposed amendments to other IFRS Standards.

Question 12 – Likely effects of the proposals

Paragraphs BC214–BC251 of the Basis for Conclusions set out the Board's analysis of the likely effects of implementing the Board's proposals.

(a) Paragraphs BC222–BC244 provide the Board's analysis of the likely effects of implementing the proposals on information reported in the financial statements and on the quality of financial reporting. Do you agree with this analysis? Why or why not? If not, with which aspects of the analysis do you disagree and why?

(b) Paragraphs BC245–BC250 provide the Board's analysis of the likely costs of implementing the proposals. Do you agree with this analysis? Why or why not? If not, with which aspects of the analysis do you disagree and why?

(c) Do you have any other comments on how the Board should assess whether the likely benefits of implementing the proposals outweigh the likely costs of implementing them or on any other factors the Board should consider in analysing the likely effects?

Response to (a)

We partly agree with the Board's analysis of the likely effects of implementing the proposals on the quality of financial reporting.

In agreement with the Board's assessment, we expect reduced volatility in an entity's financial performance caused by the differences in timing. However, as explained in our response to question 3 above, the information provided applying the requirements proposed in paragraphs B3-B9 (amounts that recover allowable expenses) and especially in paragraph B15 (regulatory returns on assets not yet available for use) would not give the users of the financial statements a complete and clear picture about regulatory income, regulatory expense, regulatory assets, and regulatory liabilities. Moreover, the provided information might even be confusing and deceptive for the users.

While we acknowledge the IASB's efforts to improve comparability of financial information of entities affected by the proposal, we question whether achieving the comparability between the entities operating in different regulatory systems is realistic.

Response to (b)

We just partly agree with the Board's analyses in the likely costs of implementing the proposals.

Costs for user of financial statements

For the reasons explained under (a), we deem that the users of financial statements would still need to refer to other sources in order to understand the effects of rate regulation. To avoid this, we think that three changes should be made to the future standard as explained in our response to question 3 above:

1) deleting paragraph B15 (in our view, the most important change),
2) determining the components of the total allowed compensation by applying regulatory rules rather than IFRS Standards, and
3) clarifying that an entity identifies its performance obligations based on the regulatory agreement and that performance obligation does not necessary mean supply of goods or services to customers.

Costs for entities

We expect considerable costs of applying the proposals, both on initial application and on an ongoing basis. In addition to regulatory accounts, an entity would need to implement and carry on a separate IFRS regulatory accounts. Specialists are needed who are familiar with both regulation and IFRS. However, in our view, this can be avoided by making the three changes as summarised above.

Cost-benefit considerations

In our view, the costs we expect preparers to incur are not justified by the benefit for the users. Thus, we do not expect a positive cost-benefit relationship from implementing the proposals. However, in our view this relationship could be significantly improved by making the aforementioned three changes.

Response to (c)

We do not have any other comments.

Question 13 – Other comments
Do you have any other comments on the proposals in the Exposure Draft or on the Illustrative Examples accompanying the Exposure Draft?

We do not have any other comments.