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29 July 2021

Dear Sir

Exposure Draft ED/2021/1: Regulatory Assets and Regulatory Liabilities

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the ED.

We support the efforts of the IASB to improve the requirements of IFRS applicable entities subject to rate regulation. We believe that the application of the proposed requirements would create a higher level of consistency in the reporting of the effects of regulatory agreements by entities subject to rate regulation, which is common in many jurisdictions.

In addition to our comments supporting the proposals, we have a number of suggestions to improve and clarify the proposed requirements.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

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Appendix

Question 1

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).1 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) (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?*

We generally agree with the scope of the proposals included in the ED, however, we believe that the ED may not include sufficient clarity about the types of regulatory agreements that should be included in the scope of the proposals.

The ED includes within its scope all regulatory assets and regulatory liabilities, which are enforceable rights and obligations created by a regulatory agreement, which is defined in the

ED as ‘a set of enforceable rights and obligations that determine a regulated rate to be applied in contracts with customers.’

The ED does not propose further criteria or conditions on the types of agreements that would meet this definition, therefore, regulatory assets and liabilities are recognised whenever they arise from sets of enforceable rights and obligations.

We agree that many common characteristics of regulated industries that will be within the scope of the proposals are not necessary for enforceable rights and obligations to exist (BC83), however, we are concerned that a lack of more specific criteria may result in the potential for unintended consequences.

For example, based on the ED, it is unclear to us whether the proposals intend to capture relationships between a supplier of goods and services, its customers and a regulator when the supplier and the regulator are subject to common control. For example, many jurisdictions may have suppliers that are government controlled (e.g. state electricity or water companies) whose rates are subject to government regulation, sometimes in the form of an independent board or merely a branch of government.

In the case of a regulator where the rates are established by a government, there is the risk that the government could set rates for goods and services at an artificially low level, but ostensibly permit costs to be recovered in the future. This would permit governments to ‘artificially’ recognise regulatory assets in the financial statements of the state-owned supplier based entirely on the decisions made by a level of government. We believe such regulatory assets would be eliminated on consolidation of the supplier and the regulator by the government, however, we believe this still might impair the usefulness of information produced by the supplier in its own separate or individual financial statements, particularly relating to their statement of financial position.

In contrast, if the rate set for a state-owned supplier were determined with some level of independence from the controlling party of the supplier (i.e. the government), then the recognition of regulatory assets and liabilities would reflect an ‘arm’s length’ transaction between the supplier and its customers, who are represented by the regulator in this case.

Therefore, we believe that additional criteria should be established to clarify the types of regulatory agreements that are within the scope of the proposals, especially relating to the nature of the relationship that must exist between a supplier and its regulator for enforceable rights and obligations to exist.

Question 2

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 and BC233–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 (paragraphs BC58–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?*

We agree with the proposals included in question 2.

We believe that the definitions of regulatory assets and regulatory liabilities faithfully represent their substance and are consistent with the definitions of assets and liabilities in the Conceptual Framework. Regulatory assets and regulatory liabilities relate to rights and obligations that an entity can control (in the case of assets) or are obligated to transfer economic benefits (in the case of a liability). These items meet the definitions in the Conceptual Framework because their recognition would be subject to enforceable rights and obligations as set out in the proposals.

Despite this, we do have some concern that entities might attempt to apply the proposals by analogy to situations that do not meet the definitions and criteria set out in the proposals. This might be attempted by applying IAS 8.11 and an entity asserting that the requirements of this new IFRS deal with 'similar and related issues', therefore, those requirements are either required to be, or may be, applied by analogy. We believe that it would be useful for the final standard to include a prohibition from applying it by analogy, similar to that which has been included in other IFRS standards (e.g. IFRS 1.18, IAS 32.96B, IFRIC 10.9 and IFRIC 16.8).

We agree with the concept of total allowed compensation that would underly many of the proposals. This approach differs from current practice in some jurisdictions, as the IASB has acknowledged, where some requirements focus on deferring costs and 'matching' them to the associated revenue. We believe regulatory assets and liabilities should consider all of the financial effects of past actions, whether those be the supply of goods or services which will increase or decrease rates in the future, or the performance of other actions that will affect the amounts that may be charged to customers (e.g. performance incentives being met/not met). Excluding a 'profit component' from these estimates does not faithfully represent the effect of past actions taken by entities subject to regulatory agreements.

We agree that entities should account for regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement because this unit of account identifies only incremental cash flows. Said another way, this defined unit of account reflects a direct causal relationship from an action taken by an entity subject to rate regulation in the prices it must charge in the future. This is separate from other rights and obligation that might arise from a regulatory agreement. For example, levies in the scope of IFRIC 21 might be charged to an entity subject to rate regulation based on the enforceable terms of the regulatory agreement. These cash flows differ from the those that affect the rates set in the future, and therefore, should be accounted for separately. We do not believe it is possible to account for the entirety of a regulatory agreement as a single unit of account because regulatory agreements are often broad in scope and address more than the price of goods and services to be delivered by an entity subject to rate regulation.

We have not identified instances in which the proposed definitions would result in the recognition of regulatory assets and regulatory liabilities that would provide information that is not useful to users of financial statements.

Question 3

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?*

We agree with most of the proposed guidance on how an entity would determine total allowed compensation. We have concerns about the distinction made by the proposals between two components of target profit: regulatory returns and performance incentives.

Paragraph B15 of the proposals requires that returns on a regulatory base not be included in total allowed compensation for goods or services before the asset is available for use. Once the asset is available for use, that return would form part of total allowed compensation supplied over the remaining periods in which the entity recovers the carrying amount of the asset through the regulated rates. A common example of a situation that would be impacted by these proposals would be assets under construction. It is common for regulators to allow a percentage of return on assets under construction to compensate entities for costs incurred in constructing items of property, plant and equipment that will be used to deliver goods or service. For example, a percentage return on upgrades made to a power grid that is subject to rate regulation when the electricity is ultimately delivered. These proposals would result in the entity not recognising a regulatory asset for this allowance provided by the regulator despite the fact that the entity is entitled to compensation for its performance based on its past actions (i.e. compensation to be received in the future for constructing the items of property, plant and equipment).

We understand the arguments for the requirements of paragraph B15, since the recognition of regulatory assets in this case would result in the recognition of assets and income as a consequence of an entity constructing an item of property, plant and equipment that it controls. Our concern relates to the fact that we believe the proposed requirements for performance incentives introduce the opportunity to structure regulatory agreements to produce different accounting results when the underlying effects of the regulation are similar.

B18 of the proposals require that if a performance incentive tests only an entity’s performance of construction work, then the performance incentive forms part of or reduces the total allowed compensation for goods or services supplied in the period in which the performance occurs. There may also be instances where the performance criteria are fully or partly conditional on the entity’s performance when it subsequently supplies goods or services using the asset (e.g. completion of a water treatment plant by X date and supplying Y amount of water per day for Z years). In these cases, the conditional part of the performance incentive forms part of or reduces total allowed compensation for those goods or services (e.g. it forms part of total allowed compensation as water is supplied over Z years in the earlier example).

B20 of the proposals acknowledges that performance incentives may be fixed monetary amounts or a formula, however, in all cases, the performance incentive would be accounted for in accordance with B15.

The contradiction in the requirements of B15 and B18 may be demonstrated in the following example:

Example A – Entity A earns regulatory returns on a regulatory asset base related to assets under construction
Entity A is constructing a new power relay station to allow it to deliver electricity to a newly established community. The regulator permits a rate of return on a regulatory asset base, which includes a return on assets under construction of 5%, representing the cost of equity to Entity A. Applying paragraph B15, Entity A is not permitted to include the return on assets under construction in total allowed compensation because the power relay station is not yet available for use. Instead, the return is included in total allowed compensation as Entity A supplies electricity from the power relay station over its useful life. As such, no regulatory asset or income are recognised in the construction period.

Example B – Entity B earns performance incentives related to assets under construction

Entity B is constructing a new power relay station to allow it to deliver electricity to a newly established community. The regulator provides a performance incentive of cost + 5% if construction is completed within 6 months, otherwise, the incentive is reduced. Entity B expects to complete construction in 4 months. The performance criteria tests only Entity B's performance of construction work (e.g. is it constructed to suitable technical and safety specifications). Applying paragraph B18, Entity B includes the performance incentive as part of total allowed compensation in the period in which the performance occurs. As such, Entity B recognises a regulatory asset and income once construction is complete.

In both Example A and B, the entities are subject to rate regulation and are compensated for costs incurred plus a component of target profit as described in paragraph B11. In Example A, the target profit is based on a regulatory asset base, whereas in Example B, the target profit is structured as a performance incentive. Applying the proposed requirements results in significantly different outcomes as Entity A may only include the regulatory returns in total allowed compensation over the useful life of the power relay station, whereas Entity B includes the performance incentive in the period in which the performance occurs because the performance criteria are not conditional on the entity's performance of supplying goods or services in the future.

We acknowledge that Example A and B are not identical fact patterns in that Example B introduces a time-based criterion for Entity B to satisfy, which is not the case in Example A. However, we do not believe that the difference in the fact patterns warrants the difference in the outcome applying the proposed standard. In both cases, Entities A and B construct an item of property, plant and equipment that will be used to deliver goods or services in the future and both Entities A and B are entitled to compensation for the performance of the construction activity, however, the application of paragraphs B15 and B18 results in a different outcome. In any event, the time period permitted for the construction to qualify for a performance incentive could be set at a period such that, other than in an extremely unlikely event or sequence of events, the performance incentive will always be received.

We believe that if the proposals are taken forward as set out in the ED, entities and regulators may revise their regulatory agreements to increase the prevalence of performance incentives, as the requirements of paragraphs B15 and B18 differ in how economically similar situations may be accounted for, particularly as they relate to assets under construction. Significant investments in items of property, plant and equipment are common in many entities that are expected to be affected by the proposals, such as the utilities and transportation sector, therefore, we believe the scope of this issue may be significant.

Question 4

Paragraphs 25–28 of the Exposure Draft propose that:

- *an entity recognise 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?

We agree with the proposals. While a portion of the estimation uncertainty relating to a regulatory asset or liability is addressed in the measurement (Question 5), we believe it is appropriate to introduce a threshold of 'more likely than not' before a regulatory asset or liability is recognised. We do not believe it would be useful to users of financial statements to present regulatory assets and liabilities if there is a low probability (e.g. 20%) that they will be realised, even if that probability is reflected in the carrying value of the asset or liability.

We also believe it is appropriate to have a consistent threshold for both regulatory assets and liabilities. In some cases, IFRS Standards have differing thresholds (e.g. certain assets and liabilities in the scope of IAS 37), however, we do not believe this is appropriate in this case because the nature of the uncertainties for regulatory assets and regulatory liabilities are likely to be consistent (e.g. the example facts and circumstances included in paragraph 27 of the proposals).

Question 5

Paragraph 29 of the Exposure Draft specifies the measurement basis. Paragraphs 29–45 of 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?

We agree with the proposals. The proposed basis of measurement considers all cash flows arising from the effect of the regulatory agreement, which we believe is appropriate.

We also agree with the use of the ‘most likely amount’ or ‘expected value’ methods to incorporate the effect of uncertainty into the measurement of regulatory assets and liabilities. These techniques are well understood and are used regularly in other IFRS Standards.

We believe this approach is more appropriate than a ‘cost less impairment’ model such as the expected credit losses model in IFRS 9 for certain financial assets. This is because regulatory assets do not represent present rights to contractual cash flows until services are provided (i.e. an electricity supplier provides electricity in the future at a higher tariff rate due to the effects of a regulatory agreement). Therefore, the initial measurement of the regulatory balances should consider the effects of uncertainties in the future, which might include the credit risk of the eventual customer base, uncertainty over the effects of the regulation, the specific timing of the recovery/settlement of the balances, etc.

Question 6

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?*

The time value of money is a critical element in many regulatory agreements, as many expenses are recovered over a significant period (e.g. construction of significant items of property, plant and equipment). Consistent with other IFRS Standards, we agree that the measurement of regulatory assets and liabilities should incorporate the effects of discounting to reflect this fact.

We do not agree with the proposal to require entities to assess the sufficiency of regulatory interest rates relating to regulatory assets. This is for the following reasons:

- We are not aware of any other IFRS Standard that requires discounting to be incorporated into the measurement of an asset or liability where requirements to reflect the effect of discounting differs depending on whether the balance is an asset or a liability. We do not believe there is sufficient evidence to support a different approach for regulatory assets and regulatory liabilities as the nature of such balances are consistent with one another.
- The requirement for an entity to assess the sufficiency of regulatory interest rates introduces additional complexity to the model, despite the fact that the IASB believes insufficient regulatory interest rates will occur infrequently (BC167).
- Presenting regulatory interest income using a rate other than the rate either implicitly or explicitly stated in a regulatory agreement does not provide users of financial statements with useful information, because such a regulatory interest rate does not relate to the terms and conditions of the regulatory agreement.

Many IFRS Standards require discounting, however, there is significant diversity in how discount rates should be determined and what the effect of discounting intends to depict. We encourage the IASB to simplify the requirements for discounting regulatory assets and liabilities.

Question 7

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?*

We agree the proposals as they significantly simplify the proposals by using a consistent measurement basis with that which is required by other IFRS Standards. We believe the illustrative example included in the exposure draft relating to environmental clean-up costs is useful as it illustrates the effects of the proposals to a common fact pattern. We recommend that the IASB provide additional illustrative examples on other common fact patterns, such as the effect of income taxes when current and deferred tax are incorporated in determining regulatory assets and liabilities (IAS 12), cash and equity-settled share-based payment transactions (IFRS 2) and service concession arrangements (IFRIC 12).

Such illustrative examples clarify the intention of the proposals. In our experience, the understandability of IFRS Standards that introduce requirements that differ significantly from previous standards (e.g. IFRS 16, IFRS 17, etc.) benefit from the inclusion of illustrative examples that clarify the requirements of the standard in a range of common fact patterns.

Question 8

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. Paragraphs BC178–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?*

We agree with the proposals. Regulatory income and expenses affect the ultimate amount of consideration that will be receivable from customers, however, they differ from amounts recognised in accordance with IFRS 15 because they do not affect the price charged for goods and services supplied in the current period. Amounts that are presently due (e.g. accounts receivables and contract assets/liabilities, which affect the amount of revenue recognised in accordance with IFRS 15) differ significantly from regulatory assets and regulatory liabilities, because they relate to current performance or future performance. We believe this distinction is important to users of financial statements because it provides them with information about the extent of the entity's current activities.

We therefore agree with the IASB's approach to not 'net' the presentation of these amounts with revenue recognised in accordance with IFRS 15.

Question 9

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?*

We agree with the proposals. Generally, we believe that the information required to provide the proposed disclosures should be readily available from the records necessary to recognise regulatory assets and regulatory liabilities in accordance with the proposals.

During our outreach, we received some feedback noting that the requirements to disclose the amounts comprising regulatory income or regulatory expense in paragraph 78(a)-(g) of the proposals might be considered excessively detailed. However, like many IFRS standards that require a reconciliation or 'roll' of balances from one period to another, we believe these requirements must be considered holistically together with the requirement to disclose material information in financial statements. Some items might be insignificant or immaterial, resulting in an entity only disclosing the major items of regulatory income or regulatory expense and aggregating other immaterial amounts.

Therefore, we believe the proposed disclosure requirements are sufficiently scalable for entities to apply in practice considering their specific facts and circumstances.

Question 10

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?*

We agree with the proposals, which require retrospective application of the requirements (with limited exceptions) along with restatement of comparative periods presented. We believe that restatement of comparative periods presented will provide users of financial statements with useful information, particularly because entities adopting these requirements for the first time may have applied significantly different requirements in their previous financial statements.

Similar to the approach taken by the IASB in the transitional requirements of IFRS 17, because entities may have applied differing accounting policies in the past, it is important for consistent accounting policies to be applied in all periods presented in the financial statements. This approach differs from the options and requirements included in other recent measurement focused IFRS Standards like IFRS 9, 15 and 16 where restating comparative periods was either not required or was prohibited in some cases. In the case of those IFRS Standards, entities had previously applied consistent accounting requirements (e.g. IAS 39, IAS 18 and IAS 17 respectively), therefore, a modified retrospective approach, without the restatement of comparative periods could be assessed via the cost-benefit analysis differently than the proposals in this exposure draft.

Because of this requirement to restate comparative periods and the fact that entities may not previously have applied any specific accounting standards that consider the effect of regulatory agreements, we recommend that the IASB set the mandatory effective date of the of the Standard to be at least 24 months from the date of publication of the final IFRS Standard. As comparative period would be required to be restated, an effective date 24 months in the future provides preparers with only 12 months in practice, as many systems and processes will need to be designed to capture the necessary information.

Question 11

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?*

We agree with the proposals, however, consistent with our response to Question 7, we believe the understandability of the proposals would be improved by additional illustrative examples that demonstrate the requirements.

Question 12

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?

We agree with the IASB's analysis of the likely effects of implementing the proposals. As observed by the IASB, entities that have not applied any type of 'regulatory balance' accounting in the past will be significantly more affected than entities that have previously applied some basis of regulatory accounting. However, the need for consistency amongst entities and the improved financial reporting outcomes outweigh the costs of implementation.

Question 13

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

We have no other comments.