

# FEEDBACK STATEMENT

IASB ED\*/2021/1

Regulatory Assets and Regulatory Liabilities

\*Exposure Draft

The UK Endorsement Board (UKEB) is the UK's national standard-setter for IFRS. Its statutory functions include influencing the development and subsequent adoption of International Accounting Standards for use in the UK. The UKEB's comment letter on this IASB Exposure Draft (ED) forms part of those influencing activities, and is intended to contribute to the IASB's due process.

The views expressed by the UKEB in this feedback statement are separate from, and will not necessarily affect the conclusions in any endorsement and adoption assessment of new or amended International Accounting Standards undertaken by the UKEB.

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# Purpose of this feedback statement

This feedback statement presents the views of UK Stakeholders heard during the UKEB's outreach activities on the IASB's ED/2021/1 *Regulatory Assets and Regulatory Liabilities* and explains how the UKEB's comment letter addressed those views.



# Background to the IASB's ED

The ED sets out the IASB's proposals on how an entity can 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.

The ED was issued in January 2021 and the comment deadline was 30 July 2021.



# IASB's Main Proposals

## 1. Objective and scope

The Standard would only apply to entities that are party to a regulatory agreement that is capable of creating regulatory assets and regulatory liabilities.

The new Standard would replace IFRS 14 *Regulatory Deferral Accounts* by introducing a new model for regulatory assets and regulatory liabilities.

## 2. Recognition

Regulatory assets and regulatory liabilities arise when the regulated rate is determined in such a way that some or all of the total allowed compensation for goods or services supplied in one period is charged to customers in a different period. The recognition of regulatory assets or regulatory liability leads to regulatory income and regulatory expense.

# IASB's Main Proposals

## 3. Measurement

Regulatory assets and regulatory liabilities are measured at historical cost, modified for subsequent measurement by using updated estimates of the amount and timing of future cash flows. The estimated future cash flows of a regulatory asset or regulatory liability would be discounted to their present value using the regulatory interest rate. After initial recognition, the carrying amount of the regulatory asset or regulatory liability would be updated at the end of each reporting period to reflect conditions existing at that date.

## 4. Presentation

In the statement of financial performance, an entity shall present all regulatory income minus regulatory expense in a separate line item immediately below revenue. In the statement of financial position, an entity shall present line items for regulatory assets and regulatory liabilities. Current and non-current regulatory assets, and current and non-current regulatory liabilities as separate classifications.

# IASB's Main Proposals

## 5. Disclosure

The ED proposes overall disclosure objectives and specific disclosure objectives to enable users of financial statements to understand the relationship between an entity's revenue and expenses, and an entity's regulatory assets and regulatory liabilities at the end of the reporting period.

## 6. Transition

The ED proposes that the date of initial application as the beginning of the annual reporting period in which an entity first applies the Standard.

The ED further proposes that an entity apply the proposals retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* except where otherwise permitted.



# Outreach activities approach

The UKEB's outreach activities took place between May and July 2021.

The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability.

To develop our response and obtain a balanced range of views on the ED, we had meetings with two preparers that are likely to be within the scope of the proposals, staff of other national standard-setters, European Financial Reporting Advisory Group (EFRAG) and regulators. We received one comment letter on our draft comment letter from United Utilities Group Plc.

We also gathered input from public meetings such as the IASB's Accounting Standards Advisory Forum (ASAF) and the joint EFRAG, EFFAS, ABAF/BVFA and IASB webinar, in order to obtain a range of views on the IASB's proposals.

Our outreach resulted in various comments and views on the proposals made by the IASB. All comments and views were considered in reaching our final position.

A draft of the UKEB's comment letter was agreed by the UKEB at its meeting on 9 July 2021.

Due to time constraints, the draft comment letter was published for a shorter period than is common practice, being between 14 July and 26 July 2021.

This shortened comment period was a unique one, and the UKEB remains committed to allowing appropriate timelines for stakeholders to comment on draft comment letters.

# I. Objective and Scope

IASB proposal	UKEB draft position	Stakeholder views*	UKEB final position
<p>The Standard would only apply to entities that are party to a regulatory agreement that is capable of creating regulatory assets and regulatory liabilities.</p> <p>The new Standard would replace IFRS 14 Regulatory Deferral Accounts by introducing a new model for regulatory assets and regulatory liabilities.</p>	<p>UKEB agreed with objective of the proposals in the ED however, it expressed concerns regarding:</p> <ul style="list-style-type: none"> <li>i. The type of regulatory agreements that are not in scope.</li> <li>ii. Explicit inclusion of service concession arrangements in the proposals.</li> <li>iii. Transactions and events covered by other IFRS are not explicitly excluded from the scope.</li> </ul>	<p>Support UKEB draft position.</p>	<p>Supports IASB proposals and further recommended that:</p> <ul style="list-style-type: none"> <li>i. the scope should be explicit that the agreements intended to be included in the scope of the definition “regulatory agreement” are a small subset of regulatory agreements.</li> <li>ii. the definition of a regulator be included and state that it is an independent third party.</li> <li>iii. Transactions and events covered by other IFRS e.g.: service concession arrangements, be explicitly excluded from the scope unless there is clear evidence that users would gain additional information from the application of both IFRIC 12 and the proposed standard to such arrangements</li> </ul>

## 2. Recognition

IASB proposal	UKEB draft position	Stakeholder views*	UKEB final position
<p>Regulatory assets and regulatory liabilities arise when the regulated rate is determined in such a way that some or all of the total allowed compensation for goods or services supplied in one period is charged to customers in a different period. The recognition of regulatory assets or regulatory liability leads to regulatory income and regulatory expense.</p>	<p>No draft response as this area had not been identified as an issue in the UK.</p>	<p>Supports IASB proposals but expressed concerns relating to not recognising returns on assets not yet available for use.</p>	<p>Supports IASB proposal for recognising regulatory assets and liabilities.</p> <p>Do not support IASB's proposal to not recognise returns on assets not yet available for use in Total Allowed Compensation as this does not reflect the economic substance of that return.</p>

# 3. Measurement

IASB proposal	UKEB draft position	Stakeholder views*	UKEB final position
<p>Regulatory assets and regulatory liabilities are measured at historical cost, modified for subsequent measurement by using updated estimates of the amount and timing of future cash flows.</p> <p>The estimated future cash flows of a regulatory asset or regulatory liability would be discounted to their present value using the regulatory interest rate. After initial recognition, the carrying amount of the regulatory asset or regulatory liability would be updated at the end of each reporting period to reflect conditions existing at that date.</p>	<p>Sought more guidance for the application of proposals relating to the:</p> <ul style="list-style-type: none"> <li>i. Interaction between a regulatory licence and a pricing period.</li> <li>ii. Interaction between boundary of regulatory agreement and compensation for cancellation of an agreement.</li> <li>iii. length of life of an asset where recovery period is longer than licence agreement period.</li> </ul>	<p>Supports UKEB draft position.</p> <p>Requested further clarity regarding the boundary of the regulatory agreement, and what constitutes an enforceable agreement where an entity operates under a rolling long-term license subject to shorter price control periods.</p>	<p>Supportive of IASB proposals.</p> <p>Requested clarification about interaction between a regulatory licence a pricing period and the interaction between boundary of regulatory agreement and compensation for cancellation of an agreement.</p> <p>Proposed that the IASB includes illustrative examples to reflect situations whereby the recovery period for an asset is longer than the period of the license agreement or pricing period under the regulatory agreement.</p>

# 4. Presentation

IASB proposal	UKEB draft position	Stakeholder views*	UKEB final position
<p>In the statement of financial performance, an entity shall present all regulatory income minus regulatory expense in a separate line item immediately below revenue. In the statement of financial position, an entity shall present line items for regulatory assets and regulatory liabilities.</p> <p>Present current and non-current regulatory assets, and current and non-current regulatory liabilities as separate classifications.</p>	<p>No draft response as this area had not been identified as an issue in the UK.</p>	<p>Supported IASB proposals with a minority of stakeholders proposing that entities be permitted to choose to include the amount within Revenue on the face of the income statement.</p>	<p>Supported IASB proposals.</p>

# 5. Disclosure

IASB proposal	UKEB draft position	Stakeholder views*	UKEB final position
<p>The ED proposes overall disclosure objectives and specific disclosure objectives to enable users of financial statements to understand the relationship between an entity's revenue and expenses, and an entity's regulatory assets and regulatory liabilities at the end of the reporting period</p>	<p>No draft response as this area had not been identified as an issue in the UK.</p>	<p>Supported overall disclosure proposals. One stakeholder suggested proposals that could enhance the IASBs current proposals.</p>	<p>Overall support for proposals but recommended additional disclosures about an entity's regulatory agreement.</p>

# 6. Transition

IASB proposal	UKEB draft position	Stakeholder views*	UKEB final position
<p>The ED proposes that an entity apply the proposed Standard retrospectively in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, except as permitted by specific paragraphs.</p> <p>A list of instances where an entity may elect not to apply the proposed Standard retrospectively is listed in paragraph C4 of the proposals.</p>	<p>Transition needs are likely to be different depending on an entity's starting position. Therefore do not consider it appropriate to rely on only the IAS 8 requirements.</p> <p>Recommended further engagements with preparers to identify detailed issues.</p> <p>Recommended specific transition requirements be included in the proposed Standard to address the different starting positions that entity's may have.</p>	<p>Supported UKEB position on further engagement with stakeholders.</p> <p>Supported IASBs position of a retrospective application for entities.</p>	<p>Recommended further engagements with preparers to identify detailed issues.</p> <p>Do not consider it appropriate to rely on only the IAS 8 requirements.</p>

# Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the IASB's *Regulatory Assets and Regulatory Liabilities* ED 2021/1 and should not be relied upon for any other purpose. The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication. Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.



## Contact Us

UK Endorsement Board

8th Floor | 125 London Wall | London |  
EC2Y 5AS | United Kingdom

[contact@endorsement-board.uk](mailto:contact@endorsement-board.uk)