

# Meeting Summary of UKEB’s Rate-regulated Activities Technical Advisory Group meeting held on 27 March 2024 from 2pm to 5pm

Item No.	Agenda Item
1	Welcome and apologies
2	Top-down approaches to tracking and recovery of RCB adjustments for no direct relationship entities
3	Unit of account for revenue timing differences
4	IASB Tentative decisions
5	Topics tracker
6	AOB

Present	
Name	Designation
Phil Aspin	UKEB member and RRA TAG Chair (“The Chair”)
Robin Cohen	UKEB member
Seema Jamil-O’Neill	Technical Director, UK Endorsement Board
Claire Howells	RRA TAG member
Dean Lockhart	RRA TAG member
James Sawyer	RRA TAG member
Sam Vaughan	RRA TAG member
Simon Davie	RRA TAG member
Stefanie Voelz	RRA TAG member

<b>Present</b>	
<b>Name</b>	<b>Designation</b>
Stuart Wills	RRA TAG member
Suzanne Gallagher	RRA TAG member
Kelly Martin	RRA TAG member
Will Gardner	RRA TAG member (joined virtually)
<b>Observers</b>	
Nick Anderson	IASB member
Rachel Knubley	IASB staff (joined virtually)
Mariela Isern	IASB staff (joined virtually)
Nhlanhla Mungwe	IASB staff (joined virtually)
Siok-Mun Leong	IASB staff (joined virtually)
Vincent Papa	EFRAG staff (joined virtually)
Isabel Batista	EFRAG staff (joined virtually)
Ioana Kiss	EFRAG staff (joined virtually)

Relevant UKEB Secretariat team members were also present.

## Welcome and apologies

- The Chair welcomed the members, the IASB member and those attending virtually.

## Paper 2: Top-down approaches for tracking and recovery of RCB adjustments for no direct relationship entities

- The UKEB Secretariat introduced the paper which provided:
  - The background to the possible top-down approach, including the IASB’s tentative decisions based on the direct (no direct) relationship concept, an overview of the UK water industry regulatory model (Appendix A), and regulatory timing differences for the UK water industry (Appendix B).
  - The top-down approach, including an example illustrating the proposed approach, as well as an alternative approach which involves tracking additions to and inflation indexation of the regulatory capital base (RCB).
  - An overview of the IASB’s current proposals on the unit of account.

- d) A worked example illustrating the treatment of inflation in the nominal and real interest regulatory models.

## Paper 2A: Background

- 3. Member views were sought on the background and the appendices and several questions were posed. The paper also included how IASB staff papers depicted the proposed treatment of common differences in timing based on the IASB's proposed direct (no direct) relationship concept<sup>1</sup> and how that might apply for UK entities in scope. Some members expressed concerns related to understanding how the model would work in practice. The UKEB Secretariat agreed to provide more examples to further illustrate the model.

### **Question 1: Do TAG members consider that the revised diagram clearly sets out the types of timing differences that are recognised, depending on the entity's type of regulatory agreement?**

- 4. Members generally agreed that the revised depiction was clear. Comments included:
  - a) The treatment of returns on assets under construction is the same for both the direct and no direct models.
  - b) A further split of some items into more detailed types of timing differences would be helpful, including:
    - i. The difference in the treatment of inflation between the real and nominal interest models, and
    - ii. The fact that regulatory depreciation in incentive-based schemes is more akin to a current cost model whereas the regulatory depreciation in cost-based schemes is on a historic cost basis.

### **Question 2 and 3: Do TAG members consider that Appendix A and B are reflective of the other UK rate-regulated industries? If not, how might it differ?**

- 5. Members generally agreed that Appendix A and B (which presented the water sector example) were reflective of the other industries. They also noted that the other UK rate-regulated industries generally have fewer differences in timing than the water sector.

## Paper 2B: Example

- 6. Member views were sought on the example illustrating the possible top-down approach that would enable entities with no direct relationship between PPE and

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<sup>1</sup> Published in [AP9D](#) of the December 2022 IASB meeting

RCB to recognise differences in timing reflected in the RCB as regulatory assets and/or regulatory liabilities. Several questions were posed to members.

**Question 1: Do TAG members consider that changes to the RCB are recovered from customers?**

7. In principle members agreed that changes to the RCB are recovered from customers. However, some members noted there may be some limited examples in relation to energy networks where transition to net zero may constrain the period of recoverability of this RCB component. This would be subject to judgement in relation to the recoverability of the RCB under any model, in exactly the same way as PPE would be subject to the same judgements.

**Question 2: Do TAG members consider that the proposed top-down approach fully reflects the underlying economics of a rate-regulated entity with no direct relationship between PPE and RCB?**

8. Members generally agreed that the top-down approach as proposed in the papers fully reflects the underlying economics of a rate-regulated entity with no direct relationship between PPE and RCB.

**Question 3: Could the proposed top-down approach be operationalised?**

9. Members generally agreed that the top-down approach could be operationalised.
10. One member stated that further work is required to understand whether the approach could be operationalised in other jurisdictions.

**Question 4: Do TAG members consider that the information from the proposed top-down approach would be understandable to users?**

11. Members generally agreed that the information would be understandable to users. A sophisticated user member suggested that recognising the differences in timing resulting from the inflation indexation of the RCB may be confusing to some users, especially considering the timing mismatch that occurs in using estimated and actual inflation rates. It was agreed that the UKEB Secretariat would provide further examples to illustrate how the treatment of inflation flowed through the model.

**Paper 2C: Unit of account for the RCB**

12. Member views were sought on how differences in timing are tracked by entities.

**Question 1: Do TAG members consider that they track and monitor the timing differences reflected in the RCB by line of business?**

13. Members noted that the RCB for entities in the aviation and energy sectors was aligned to a single line of business (e.g. Electricity distribution or Electricity

transmission or Gas distribution etc.) It was noted that some holding group entities may well have multiple single line businesses in their group (e.g. Electricity transmission and several electricity distribution businesses). In contrast the water entities had an RCB that was split into 4 lines of business (water network, wastewater network, water resources and bioresources).

## **Paper 2D: Inflation**

14. Member views were sought on the example illustrating the treatment of inflation in the nominal interest and real interest regulatory models.

### **Question 1: Do TAG members use a real interest model?**

15. Members agreed that they are not aware of any entities in the UK (that are expected to be in scope of the proposals) that did not use a real interest model.

### **Question 2: Do TAG members consider that the explanation of the differences between a nominal and a real interest model is correct?**

16. Members generally agreed that the explanation of the differences between the two models is correct. However, one member questioned whether the use of long-term estimated inflation in the nominal model and the use of actual inflation in the real model is less comparable. The Chair responded that it is like comparing a fixed and floating rate debt instrument and that it does not mean they are not comparable.

### **Question 3: Do TAG members consider that there are published documents that show the real return of capital and inflation amounts that could be used?**

17. Members agreed that published documents are available that show the amounts required but that further work is required to find out whether this is the case in other jurisdictions.

### **Question 4: Do TAG members consider that the simplified examples showing the IASB nominal interest rate model and the UK real interest rate model reflect how the business model for rate-regulated activities work?**

18. Members generally agreed that the simplified examples reflect how the business model for rate-regulated activities work.

## **Paper 3: Unit of account for revenue timing differences**

19. Member views were sought on the unit of account relating to revenue timing differences.

### **Question 1: What are members' views on the IASB's tentative decisions on the unit of account?**

20. Members were of the view that, on the broader issue of unit of account, further clarification of the appropriate level for unit of account is required. The IASB member stated that the tentative decisions on the grouping of rights and obligations that meet the criteria for grouping is expected to address this concern.
21. The Chair stated that the level of the unit of account needs to reflect the level of enforceability i.e. just because an entity can reconcile how the RCB may have been made up over time does not necessarily mean that enforceability is at the lower-level unit of account. In UK regulated entities, enforceability of recovery of the RCB is at the RCB level. There will be discussions between entities and regulators about what is and is not logged up in the RCB but that does not mean individual components are separately recoverable. The lowest level unit of account that can be operated is the level at which the recoverability can be enforced.

### **Question 2: Do TAG members think the unit of account analysis in the paper reflects the true nature of the unit of account?**

22. Members generally agreed that the paper reflects the true nature of the unit of account.

### **Question 3: Do members foresee any challenges, including costs, in the application of the requirements relating to the unit of account for revenue timing differences?**

23. Members were of the view that it would be important to clarify the appropriate unit of account. For example, in the water industry there are approximately 20–30 ex-post adjustment mechanisms that are individually tracked and subject to separate enforceability. These would each be a separate unit of account. They are likely to be able to be grouped as have similar characteristics. For items that are remunerated on a cash basis in the regulatory agreement (e.g. pensions, decommissioning liabilities, etc) will each form their own separate unit of account.
24. There was general agreement that judgement would be required to decide on the appropriate unit of account and that there may be a lot of estimates involved, especially considering the Totex mechanism. Accounting firm members mentioned that auditing of estimates is always challenging.

### **Question 4: What are members' views on the IASB's tentative decision to not permit an entity to offset regulatory assets and regulatory liabilities for presentation purposes?**

25. Members generally agreed that this seems appropriate.

## Paper 4: IASB tentative decisions

26. Member views were sought on the tentative decisions made by the IASB since the last meeting of the RRA TAG in December 2023. The members were posed several questions.

### Presentation

#### Question 1: What are members' views on the IASB's tentative decisions on presentation?

27. A member stated that the IASB's discussion on presentation relating to line items on the face of the financial statements was a bit confusing. The IASB member stated that materiality remains the overriding factor.

### Items affecting the regulated rates on a cash basis

#### Question 2: What are members' views on the IASB's tentative decisions relating to items affecting the regulated rates on a cash basis?

28. Members generally agreed that the tentative decisions seem appropriate.

### The boundary of the regulatory agreement

#### Question 3: What are members' views on the IASB's tentative decisions relating to the boundary of a regulatory agreement?

29. A member questioned how the tentative decisions would apply to a 25-year license with 5-year price control periods. The IASB member commented that judgement would be required based on the level of certainty and what would be reflective of the economics. The Chair commented that existence of rights and obligations for a perpetual license with notice would be addressed once notice is given and that this is no different to long term contract accounting and the need to consider long term judgements.

### Amendments to IAS 36 *Impairment of assets*

#### Question 4: What are members' views on the IASB's tentative decisions relating to amendments to IAS 36 *Impairment of assets*?

30. Members generally agreed that the tentative decisions are appropriate. One member commented that additional guidance would have been helpful as entities struggle with assessing impairment, considering that regulatory assets will be new to preparers.

## Disclosure requirements proposed in the ED

### Question 5: What are members' views on the IASB's tentative decisions relating to the disclosure requirements as proposed in the ED?

31. Members were generally of the view that disclosing the required information in the early years would be challenging. The IASB member stated that they assumed the information is already available for the purposes of regulatory reporting. One member commented that materiality and sensitivity of information may be challenging, e.g. when an entity has a disagreement with a regulator.
32. A couple of members commented that the requirement for an entity disclose the nature of unrecognised regulatory assets and unrecognised regulatory liabilities is not clear. A member commented that it is the narrative to describe the entity's rationale at arriving at the conclusion that a regulatory asset or regulatory liability should not be recognised. The IASB member responded that the wording may need to be reconsidered so as to provide sufficient clarity.

## New disclosure requirements

### Question 6: What are members' views on the IASB's tentative decisions relating to the new disclosure requirements?

33. The Chair questioned the required disclosure of unrecognised regulatory assets and regulatory liabilities. A member commented that it would be a description of what the entity is not recognising.
34. A member asked whether entities would be able to voluntarily disclose information that is not required. The IASB member responded that it would be permitted as long as it does not obscure other material information.

## Topics tracker document

35. It was agreed that a discussion on transition should be prioritised for the next meeting.

## Any other business

36. The Chair thanked everyone for their contributions and reminded the group that the next meeting is on 27 June 2024.
37. There being no other business, the meeting ended.