UKEB UK Endorsement Board

Dr Andreas Barckow
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[Date]

Dear Dr Barckow

Invitation to Comment: Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter forms part of those influencing activities and is intended to contribute to the International Accounting Standards Board's (IASB) due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

We welcome the opportunity to respond to Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*. Our main points on the IASB's Exposure Draft are outlined below. For detailed responses to the questions in the Exposure Draft please see Appendix 1.

Overall, we support the proposals in the Exposure Draft. We consider that it is important to provide information to users of financial statements that explains the effect a regulatory agreement has on the timing of revenue, profit and cash flows of companies that undertake rate regulated activities.

Our main concerns with the proposals in the Exposure Draft (ED) are that:

1. The proposed standard should be clarified so that it is explicit that the agreements in the scope of the definition "regulatory agreement" reflects the small subset of regulatory agreements. We also recommend that the title of the definition is amended to clarify the scope (see our detailed response at paragraphs A3–A7 in Appendix 1).

2. The proposed standard should be clarified to explicitly exclude certain types of contracts and agreements, such as service concession arrangements (see detailed response at paragraphs A8–A15 in Appendix 1).

3. The proposed standard should explicitly require an independent third-party as an entity's regulator. We believe this can be achieved by defining what is meant by a regulator (see detailed response at paragraphs A16–A19 in Appendix 1).

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4. The proposed requirement to exclude regulatory returns relating to assets not yet available for use in Total Allowable Compensation (TAC) does not reflect the substance of that return. We believe that it is a component of the regulatory return calculated by applying a return rate to a regulatory capital base, and as such is not dependent on the asset becoming operational (see detailed response at paragraphs A33–A41 in Appendix 1).

If you have any questions about this response please contact the project team at UKEndorsementBoard@endorsement-board.uk

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix 1 Questions on ED/2021/1 *Regulatory Assets and Regulatory Liabilities*

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Appendix 1: Questions on ED/2021/1 *Regulatory Assets and Regulatory Liabilities*

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).[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) 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? [1] A regulatory agreement is defined in the Exposure Draft as a set of enforceable rights and obligations that determine a regulated rate to be applied in contracts with customers.

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Question 1(a) Do you agree with the objective of the Exposure Draft? Why or why not?

A1 We agree with the objective of the Exposure Draft. We understand that this is a significant issue for entities with rate-regulated activities, many of whom consider that it is not possible at present to reflect the underlying economic reality of those activities in financial statements prepared in accordance with IFRS. We consider that the proposals in this Exposure Draft will enable these entities to provide relevant information to investors and other users helping them to understand the effect that a "regulatory agreement" (within the scope of the proposed requirements) has on their financial statements.

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Question 1(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?

A2 We are supportive of the scope of the Exposure Draft, however, we have identified three potential issues:

a) It is not immediately clear that many types of regulatory agreement are out of the scope.

b) Given that the proposed model will supplement the information that entities provide, as entities will apply IFRS 15 *Revenue from Contracts with Customers* and other IFRS before applying the requirements of the proposed standard, that transactions and other events covered by other standards are not explicitly excluded from the scope.

c) The explicit inclusion of service concession arrangements in the proposed standard.

Types of "regulatory agreement"

A3 The scope in the Exposure Draft relies on the definition of a "regulatory agreement", "regulatory asset" and "regulatory liability". The title of the definition of regulatory agreement appears to be especially problematic in the UK because it generally relates to a wide range of agreements, most of which are not in the scope of the Exposure Draft. For stakeholders not familiar with the project, it can create an initial perception that a great many of these agreements will be in the scope of the Exposure Draft. However, once they work through the details in the Exposure Draft and test them against the regulatory agreements they hold, it should become clear that the scope is limited to only a very small subset of all agreements that in common usage are referred to as "regulatory agreements".

A4 For example, there are over 90 regulators in the UK[1]. However, there are only "…five regulators … that are independent economic regulators, which promote competitive forces in industries which would otherwise be natural monopolies due to high network or infrastructure costs"[2].

A5 We believe, and strongly recommend, that it would be clearer if the title of the definition of "regulatory agreement" was amended to make it clear that it only applies to a very small subset of all regulatory agreements, e.g. by using the term "specified regulatory agreement".

A6 We also consider that it would be helpful if the types of regulatory agreements that are out of the scope could be made explicit, e.g. by including an example of simple price cap regulation. In the UK, price cap regulation limits the prices that can be charged on a volumetric basis. Entities regulated on a price cap basis might therefore be exposed

1 National Audit Office: "A Short Guide to Regulation", September 2017, page 4: https://www.nao.org.uk/wp-content/uploads/2017/09/A-Short-Guide-to-Regulation.pdf

2 National Audit Office: "A Short Guide to Regulation", September 2017, page 5: https://www.nao.org.uk/wp-content/uploads/2017/09/A-Short-Guide-to-Regulation.pdf

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to demand risk as prices are based on forecast volumes and shortfalls are not necessarily adjusted, or 'trued up', in following periods.

A7 Adding examples of types of regulation that is out of the scope of the Exposure Draft would also minimise the risk that the requirements would be inappropriately applied by analogy to other types of rate regulation.

Exclusions from scope

A8 The scope of other IFRS make it clear that certain types of transactions or contracts are excluded from their scope. For example, IFRS 15 excludes from its scope:

> An entity shall apply this Standard to all contracts with customers, except the following:
> (a) lease contracts within the scope of IFRS 16 *Leases*;
> (b) insurance contracts within the scope of IFRS 17 *Insurance Contracts*. However, an entity may choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of IFRS 17;
> (c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*; and
> (d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.[3]

A9 We believe that it would improve the clarity of the proposed standard if the IASB explicitly listed the types of contracts and agreements that are out of scope. This would be consistent with the fact that this proposed model will supplement the information an entity already provides by applying IFRS.

Service concession arrangements

A10 We are concerned about the inclusion of service concession arrangements in the scope of the proposed standard. We do not see why service concession arrangements that are in the scope of IFRIC 12 *Service Concession Arrangements*, should be in the scope of the proposed standard at all. IFRIC 12 has two models of service concession arrangement, the financial asset model and the intangible asset model. For the financial asset model, paragraph 16 of the ED requires:

> The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

A11 We do not understand how an operator under the financial asset model would have additional unrecognised amounts that should be recognised as regulatory assets and

[3] IFRS 15 *Revenue from Contracts with Customers*: 2021 Issued Standards, accessed 30 June 2021.

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regulatory liabilities. We recommend that these types of contracts should be excluded from the scope of the proposed standard.

A12 For operators within the scope of IFRIC 12 that have agreements under the intangible asset model paragraph 17 of that Interpretation requires:

> The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

A13 Therefore, for an operator under the intangible asset model, it also needs to be made clear whether they would have additional unrecognised amounts that should be recognised as regulatory assets and regulatory liabilities, over and above what is already recognised. For example, where an operator builds and operates a toll road and has the right to collect tolls from users. This could be in the scope of IFRIC 12 if the relevant criteria are met, including that the grantor controls the tolls to be charged to users. This example would not necessarily be in the scope of the proposals where the operator bears the risks that construction and operating costs are higher or lower than expected, and bears demand risk. In this case, the operator will not have a right to earn a specified amount of compensation and will not be in the scope of the proposed standard. However, if the agreement gave the operator an enforceable right (obligation) to increase (decrease) tolls in future periods to recover (settle) cost and demand variances, the entity would be within the scope of the proposed standard.

A14 Our outreach to date has not found an example of where an intangible asset service concession arrangement would also meet the scope of the proposed standard.

A15 For both models, we cannot see that users would gain additional information by applying both IFRIC 12 and the proposed standard. Therefore, we question whether service concession arrangements should be in scope at all. If they are, then it needs to be made clear why it is necessary and what the regulatory asset and/or regulatory liability would represent over and above the amounts already recognised under IFRIC 12.

Question 1(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?

A16 We strongly disagree with the reasoning in paragraph BC86 that it is unnecessary to define the regulator. We consider that relying solely on the definitions of “regulatory agreement”, “regulated rate”, “regulatory asset”, and “regulatory liability” is not sufficient.

A17 It needs to be made explicit that the regulator (to which the entity is subject, notwithstanding that the regulatory agreement can take various forms as set out in paragraph 8 of the Exposure Draft) is a body that is an independent third-party from the entity applying the proposed requirements.

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A18 Making it an explicit requirement that the regulator is an independent third-party from the entity delivers the following advantages:

a) It mitigates against unintended consequences where situations that have not been brought to the IASB's attention are inappropriately included in the scope of the proposed requirements.

b) It ensures that self-regulated entities, such as co-operatives, are not included in the scope of the proposals.

c) It reduces the opportunities for abuse. We acknowledge that this is not a primary reason to include a requirement, but it would act as a further incentive to include a definition of regulator, because it would make it immediately clear that a transfer pricing agreement between a parent and one of its subsidiaries is not within the scope.

A19 See also our response to Question 1(b).

Question 1(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?

A20 Subject to our responses to Questions 1(a)–(c), we are content with the proposed requirements apply to all regulatory agreements within scope.

Question 1(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.

A21 We have undertaken outreach to endeavour to identify situations where we would consider it inappropriate to apply the proposed requirements to those activities. To date we have not identified any specific cases.

A22 However, we consider that the concern that the proposed requirements would apply to activities that should not be within the scope, is not sufficiently addressed, hence our suggestions in response to Questions 1(a)–(c).

A23 See also our response to Question 1 relating to service concession arrangements.

Question 1(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,

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that are already required or permitted to be recognised by IFRS Standards?

A24 We agree that applying the proposed requirements to regulatory assets and regulatory liabilities only is appropriate as this is consistent with the approach being a supplementary model to pre-existing IFRS requirements.

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. a) 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. b) Do you agree with the proposed definitions? Why or why not? If not, what changes do you suggest and why? c) 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? d) 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? e) 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? f) 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?

A25 [No draft response as this has not been identified as an issue in the UK.]

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)?

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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?

Question 3(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:

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

A26 We do not agree with the proposed guidance relating to regulatory returns on a balance relating to assets not available for use.

A27 In our outreach we heard that regulatory returns relating to assets not yet available for use should be included in Total Allowable Compensation (TAC)[4] as the return is not dependent on the assets becoming operational. Rather it is a component of regulatory returns calculated by applying a return rate to a regulatory capital base. These preparers have stated that this component of the regulatory return is a part of the return on the capital invested even if the construction of the asset is not continued in the future.

A28 This situation is alluded to in paragraph B15 which states that it "…might be a separate base or part of a larger base…". However, that paragraph ignores that, in many instances, it is a component of the return on investment for the entity and that it is not returned even if the asset is not completed. For example, where an entity decides not to build an asset, it does not have to return the amount allocated for a regulatory return on an asset not yet available for use where the intended outcome regarding the provision of services is achieved. A preparer likened this to the fact that the regulator is focused on outcomes from the total investment and did not allocate returns on an asset-by-asset basis.

A29 The concern from preparers is that their regulators have very high-level records which do not contain the level of detail required to apply the proposed requirements. Rather, a regulator is looking at the overview of an entity's operations and future requirements for goods or services, and thus the investment required to produce that level of goods or services, rather than focusing on the construction of one particular asset.

A30 Moreover, we consider that the reasoning in paragraph BC98 is not consistent with the model that is being proposed in that:

a) Goods and services will be provided in the future when the assets not yet available for use are available for use (or the equivalent assets are available for use) as the

[4] Total allowed compensation (for goods and services) is defined as: "The full 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." Appendix A of the Exposure Draft.

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regulator is focusing on the provision of a specified level of future goods or services instead of whether a specific asset is built.

b) Where a regulatory agreement includes regulatory returns on assets not yet available for use, we consider that that is economically different from regulatory agreements that do not include this type of return. Consequently, we do not believe that there is an issue with comparability.

A31 [No draft responses provided for (a)(i), (a)(iii), (b) and (c) as these questions have not been identified as issues in the UK.]

Question 4: Recognition
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?

A32 [No draft response as this has not been identified as an issue in the UK.]

Question 5: Measurement
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?

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Boundary of a regulatory agreement

A33 We consider that it is unclear how to apply the proposed requirements relating to the boundary of the regulatory agreement with the measurement requirements.

A34 For example, it does not seem clear how to deal with the very practical issue that approvals from a regulator may be given well after the end of the reporting period, e.g. more than one year after the end of the regulatory period. It may well be that entities could recognise a regulatory asset or liability based on previous interactions with the regulator but this needs to be included in the guidance.

A35 Other issues relate to:

a) The interaction between a regulatory licence and a pricing period.

b) The interaction between paragraphs B28–B34 (boundary of a regulatory agreement) and paragraphs B35–B36 (compensation for cancellation of an agreement.

c) The length of life of an asset, e.g. the asset recovery period is longer than the period of the licence agreement.

Interaction between a regulatory licence and a pricing period

A36 The application of the proposed requirements relating to the boundary of the regulatory agreement is unclear where there exists a regulatory pricing period and the resulting determination by the regulator. For example, an entity with a rolling 25-year licence to operate and a 5-year agreement with the regulator relating to pricing and returns. The true-up negotiation occurs after the end of the 5-year period and takes a year to negotiate. The proposed requirements do not seem clear that if part of the true-up relates to a return that will take the entity 10 years to recover, that would be included in the regulatory asset.

Interaction between the boundary of a regulatory agreement and compensation for cancellation of an agreement

A37 Paragraph B30(b) sets out the criteria under which an entity's present right to increase the regulated rate at a future date is enforceable only if two conditions are met. on eof those condition is that "no party apart from the entity has a right to cancel the regulatory agreement before that date without arranging compensation for the entity to recover its regulatory asset". Paragraphs B35–B38 gives further explanation of how the compensation for cancellation of an agreement may affect the measurement of a regulatory asset or a regulatory liability.

A38 However, there is no explanation that the measurement of a regulatory asset or regulatory liability may not be affected, if the regulatory agreement includes provisions for compensation for cancellation of a regulatory agreement. It needs to be explicit that there may be an interaction between whether or not, for example, the entity's present right to increase the regulated rate at a future date is enforceable and the provisions for cancellation of a regulatory agreement due to the length of time it will take to recover the regulatory asset when the recovery period is longer than the license period.

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Asset recovery period is longer than the period of the licence agreement / pricing period under the regulatory agreement

A39 It seems clear from paragraph B28 that the boundary of the regulatory agreement (and consequently, measurement) is the latest future date at which an entity has either “an enforceable present right to recover a regulatory asset by increasing the regulated rate to be charged to customers” or “an enforceable present obligation to fulfil a regulatory liability by decreasing the regulated rate to be charged to customers”.

A40 This guidance does not address the situation whereby the recovery period for an asset is longer than the period of the license agreement or pricing period under the regulatory agreement. For example, where the asset recovery period is 40 years, but the regulatory license is a 25-year rolling period and the pricing period is five years.

A41 We would encourage the IASB to include Illustrative Examples that reflect these situations. These examples would be more likely to reflect situations in practice due to the long-lived nature of some of the assets. Examples would mean it is more likely that there is consistent application of the proposed requirements.

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?

Question 6(a) Do you agree with these proposals? Why or why not? If not, what approach do you suggest and why?

A42 [No draft response as this has not been identified as an issue in the UK.]

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Question 6(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?

A43 Our outreach with stakeholders did not identify any examples situations where the regulatory interest rate for a regulatory asset is not sufficient to compensate the entity for the time value of money and uncertainty risks. An entity is required to make this assessment on initial recognition of a regulatory asset and when the regulatory interest rate changes.

A44 We would advise the IASB to simplify the requirements by making it a rebuttable presumption that the regulatory interest rate is sufficient, unless the indicators set out in paragraph 52 of the Exposure Draft are present. This would mean that entities are only required to make this assessment where there are indicators that the regulatory interest rate for a regulatory asset is insufficient. This would achieve the same outcome whilst reducing the burden on preparers.

Question 6(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.

A45 No, we have not identified any other situations in which it would be appropriate to use a discount rate that is not the regulatory interest rate.

Question 6(d) Do you agree with the proposal? Why or why not? If not, what do you recommend and why?

A46 [No draft response as this has not been identified as an issue in the UK.]

Question 7: Items affecting regulated rates only when related cash is paid or received
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.

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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?

A47 [No draft response as this has not been identified as an issue in the UK.]

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?

A48 [No draft response as this has not been identified as an issue in the UK.]

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?

A49 [No draft response as this has not been identified as an issue in the UK.]

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?

A50 The Exposure Draft specifies that an entity shall apply the proposed requirements retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The entity has an option not to apply the proposed requirements

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retrospectively to a past business combination and sets out a number of conditions if this option is used.

A51 We understand from stakeholders that this does not address a number of challenges associated with determining the opening balance for regulatory assets and regulatory liabilities. We encourage the IASB to engage with preparers to identify the detailed issues.

A52 The starting position for entities that are within the scope of the proposed requirements are different. For example, some entities:

a) Will never have recognised regulatory assets and regulatory liabilities.

b) Will be applying IFRS 14 *Regulatory Deferral Accounts*.

c) Will be applying US GAAP, which has a standard for the recognition of these types of assets and liabilities.

A53 We believe that, dependent on an entity's starting position, the transition needs are likely to be different. For example, entities that have never recognised regulatory assets and regulatory liabilities, may lack the records to apply the full retrospective approach. We do not consider it appropriate to simply rely on the requirements in IAS 8 relating to retrospective application and including the guidance on when it is impracticable to apply retrospective application. Incorporating specific transition requirements into the proposed standard, in acknowledgement of the fact that entities will be recognising new types of assets and liabilities is consistent with other IFRS which include specific transition requirements. This approach is also likely to result in a much more consistent application of the proposed requirements on transition. Which, in turn, will result in more understandable information for users of the financial statements.

A54 We would like to highlight that Appendix D includes proposed requirements for consequential amendments to other standards. This includes a proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which would permit a first-time adopter of IFRS to use carrying amounts determined under a previous GAAP to recognise regulatory assets and regulatory liabilities. It seems inconsistent that this relief is available to first-time adopters of IFRS but not to those entities that currently apply IFRS 14 or another GAAP, such as US GAAP, and that go on to apply the proposed standard in the Exposure Draft. We suggest the IASB rectify this inconsistency when finalising the standard.

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?

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Question 11(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?

A55 We generally agree with the proposed requirements relating to the interaction with other IFRS, except for service concession arrangements (as noted above).

A56 Notwithstanding our concern that service concession arrangements should not be included in the scope of the proposed standard, if they do remain in scope, we do not consider that the proposed requirements in paragraph B47 are detailed enough to help those preparers that have service concession arrangements that also come within the definition of regulatory agreements.

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?

A57 [No draft response as this is work in progress.]

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?

A58 Consistent with our response to Question 1 we consider that there should be specific examples illustrating other types of regulatory agreements that are outside the scope of the proposed standard.

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