Meeting summary of the UKEB's Rate-regulated Activities Technical Advisory Group meeting held on 20 September 2024 from 12h30 until 15h00

Item No.	Agenda Item
1	Welcome and apologies
2	Top-down approach: Verbal update
3	Past business combinations
4	Transition and effective date
5	IASB tentative decisions
6	Topics tracker
7	AOB • Hybrid models • Next steps (IASB) • Equity Method

Present	
Name	**Designation**
Phil Aspin	Chair
Seema Jamil-O'Neill	Technical Director, UK Endorsement Board
Claire Howells	RRA TAG member
Dean Lockhart	RRA TAG member
Sam Vaughan	RRA TAG member
James Sawyer	RRA TAG member
Kelly Martin	RRA TAG member

Present	
Name	**Designation**
Stuart Wills	RRA TAG member
Simon Davie	RRA TAG member

Relevant UKEB Secretariat ('the Secretariat') team members were also present. An observer from the IASB project team also attended the meeting virtually.

Welcome and apologies

1. The Chair welcomed the members and observer. Apologies were noted from Suzanne Gallagher, Will Gardiner and Stefanie Voelz.

Paper 2: Top-down approach: Verbal update

2. The UKEB Technical Director noted that the UKEB wrote to the IASB in July 2024, incorporating a consolidated report on the Secretariat's work on the top-down approach.

3. Members asked whether this type of feedback would be acknowledged by the IASB in the Basis for Conclusions of the final Standard. The IASB observer noted that the project team will consider the point.

4. At the request of the Chair, the IASB observer explained the next steps for the IASB project team as follows:

    a) The primary focus was drafting of the Standard. The pre-ballot draft will be shared on a confidential basis with invited IFASS members and some accounting firms for a fatal flaw review (currently expected by summer 2025).

    b) Continued consultations with certain advisory groups, such as ASAF, as necessary. This could include discussions of the final tentative decisions and updates on impact assessment work.

    c) The field-testing survey currently underway, which will allow the Board to make conclusions on the likely effects of the Standard.

5. The IASB observer commented that it is currently expected that the Standard will be issued at the end of 2025.

Paper 3: Past Business Combinations

6. The UKEB Secretariat introduced the paper which covers the proposals in the ED, subsequent IASB tentative decisions and an example on the proposed treatment

of regulatory assets acquired and regulatory liabilities assumed in a past business combinations[1].

7. During the discussion, the following points were made:

   a) Whether not adjusting goodwill for regulatory assets acquired and regulatory liabilities assumed in past business combinations results in double counting?

   b) It is unclear how the elimination of the regulatory assets and regulatory liabilities (RARLs) in an impairment review of a cash-generating unit (CGU) under IAS 36 *Impairment of Assets* should be done in practice. The question was related to whether the elimination should be at the carrying amounts of the RARLs or the discounted cash flows. The Chair noted that the interaction with IAS 36 will need to be very clear and it was agreed that a future TAG meeting will consider an example.

   c) The IASB observer's view was that the elimination of the RARLs should be on a comparable basis between the two bases (i.e. carrying amount and recoverable amount). The IASB had not observed any evidence that RARLs relating to past business combinations should be treated differently to other assets, hence the proposal to treat these in accordance with the transition requirements.

   d) It is possible that not adjusting goodwill could have an impact on distributable reserves in the financial statements of UK entities. However, this was considered irrelevant for consolidated financial statements, as distributable reserves are only relevant for solus entity financial statements. The IASB observer mentioned that the adjustment to retained earnings 'or another category of equity' is standard wording and that the IASB does not stipulate the category of equity to adjust.

   e) The timing of transition and the impairment testing could cause issues as an impairment loss in the income statement at the end of the first period could coincide with an increase in retained earnings upon transition.

   f) It would be very challenging for companies to establish the data required for stripping out the cash flows for the value-in-use (VIU) calculations relating to goodwill arising for business combinations that took place a long time ago. A worked example to demonstrate this was requested for consideration at a later TAG meeting.

1 Refer to the IASB AP9E – July 2024.

g) The use of different discount rates applying IAS 36 and the measurement of the RARLs could cause issues. If no headroom exists, an impairment could arise purely as a result of using different discount rates.

Paper 4: Transition and effective date

8. The Secretariat introduced the paper which covered the ED proposals and IASB tentative decisions on transition[2] and effective date[3].

Transition

9. During the discussion on transition, the following points were made:

a) Under the modified retrospective approach, a catch-up adjustment to opening equity of the prior period will be required in addition to presenting restated comparatives for the prior period. The IASB observer confirmed that the restatement of the prior period is required and that the catch-up adjustment to opening equity of the prior period will be required for all RARLs existing at that date.

b) If the effective date is 1 January 2029, the date of transition for comparative purposes will be 1 January 2028. The IASB observer confirmed that the date of initial application is the effective date.

c) Only one comparative period will be required and there is no requirement to present a third balance sheet under the modified retrospective approach.

d) The question was raised why entities whose property, plant and equipment (PPE) and regulatory capital base (RCB) have a direct relationship will not be required to apply the requirements fully retrospectively, especially in relation to regulatory returns on assets under construction. The IASB observer explained that feedback received revealed that entities do not keep records on the returns on assets under construction once the asset is completed and taken into use. The IASB observer noted further that the information for the reversing of these items would not be available and that this is not an exception but a transition relief.

e) The difference between the fully retrospective approach and the modified retrospective approach is the two reliefs, i.e. the use of the discount rate at the beginning of the prior period and the use of hindsight. If two years are presented, there would actually be no difference between the two methods. The IASB observer commented that this is a fair summary, but

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2 Refer to IASB AP9C and AP9D – July 2024.
3 Refer to IASB AP9F – July 2024.

that there is also the relief from the requirements of par.28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

f) There were mixed views whether one of the transition issues could have been to permit 'no direct relationship' entities to recognise their historical RCB prospectively, applying the top-down approach. On the one hand, there was some caution as to whether applying the top-down approach prospectively would address the difficulty in tracking, and on the other hand that it would be easier to track adjustments to the RCB going forward.

g) Members highlighted a lack of clarity on whether, for entities with 'no direct relationship', adjustments to the RCB that are not related to fixed assets, for example demand-related adjustments in a certain UK sector, would be permitted to be tracked as a separate unit of account. The IASB observer provided an example of another entity in the same sector with a similar adjustment but which was tracked separately in agreement with the regulator. In that second instance, The IASB observer's view was that entity will be permitted to recognise that specific timing difference as a separate unit of account, even though there was no direct relationship to a property, plant or equipment. There was significant discussion on whether this was consistent with the general understanding of the IASB's tentative decisions in relation to the direct/no direct relationship concept. Members noted that it was very important that the final Standard was drafted in a way that such nuances were clearly understood and did not lead to structuring opportunities.

Effective date

10. During the discussion on effective date for the final Standard, the following points were made:

a) Some accounting firm representatives understood that some entities in the water sector may be considering adopting the final Standard early so that it coincides with the new price control period. This may reduce the transition impact as it would allow the capturing of timing differences when they originate rather than mid-way through the price control period. The next price control period for that sector starts in March 2027.

b) Given the final Standard is not expected to be issued until later in 2025, this would require a very swift adoption for UK companies, given the level of system change the new standard may require.

Paper 5: IASB tentative decisions

Extending the measurement[4] and presentation[5] proposals relating to items affecting the regulated rates only when the cash is paid or received

11. The TAG considered the IASB's tentative decisions on proposals not contained in the ED. These proposals were to extend the measurement and presentation proposals relating to items affecting the regulated rates on a cash basis to items that regulators treat on a basis that is different to IFRS accounting, such as local GAAP or other bases analogous to the cash basis.

12. Members confirmed that these types of items are not prevalent in the UK. A member from an entity with operations in the US confirmed that the examples provided in the Appendix to the paper is analogous to the items in their US operations.

IASB Due process-related decisions

13. The members considered the IASB's decisions on due process-related issues, including:

    a) The consideration of the re-exposure criteria[6];

    b) Whether all the mandatory due process steps[7] have been taken; and

    c) the permission for the IASB staff to begin the balloting process for the future Standard and an indication of whether any IASB member intends to dissent from the publication of the future Standard.

14. During the discussion, the following points were made:

    a) The due process steps appear to have been followed. The top-down approach, which is supplementary to the IASB proposals, was not discussed by the IASB.

    b) In response to a question by a TAG member, it was clarified that the final Standard will be assessed against the endorsement criteria set out in the statutory instrument and that work is separate to the UKEB's preceding influencing activities.

    c) The timeline of the UKEB for endorsement of the final Standard would be determined once the final Standard was available for consideration.

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4 Refer to IASB AP9A – July 2024.
5 Refer to IASB AP9B – July 2024.
6 Refer to IASB AP9G – July 2024.
7 Refer to IASB AP9H – July 2024.

d) It was noted that there were split votes on some tentative decisions and three IASB members indicating that they were considering dissenting. TAG members asked whether this was a common occurrence. It was noted that the UKEB Board meeting (held the day before the TAG meeting) had also raised concerns about the significant number of dissents, given the bar for dissent from a new Standard is very high.

Paper 6: Topics tracker

15. TAG members confirmed that no new items needed to be added to the topics tracker.

AOB

Hybrid models

16. The Chair explained the new hybrid model the UK energy regulator is planning to implement in the next price control period which means the following:

    a) Around half of an entity's capital structure will be subject to a return on capital using a nominal interest rate and the other half will be subject to a return on capital using a real interest rate.

    b) This will improve the income statement and earnings per share (EPS) in the short term, as the nominal return means entities are compensated for inflation in revenue and not the RCB, but that this will smooth out in the long term.

17. The members from the UK energy sector confirmed that they agreed with this assessment but that, in the long term, the change may be net detrimental for the entities.

18. Members agreed that this will lead to comparability issues and that the rule-based approach in the IASB's current proposals may lead to opportunities for structuring of agreements. It was noted that new accounting standards should be principles-based to allow flexibility to adapt to reflect future changes to regulatory agreements without the need for subsequent amendments to newly issued standards.

19. The Chair confirmed that the Secretariat will prepare a paper on this for a future meeting of the group.

Next steps

20. The following next steps are relevant in relation to the final issuance of the Standard by the IASB:

a) The IASB is drafting the final Standard and the pre-ballot version is likely to be shared with selected IFASS members, including the UKEB, for fatal flaw review. This typically has a short turn-around period.

b) The IASB field-testing survey results on the likely effects of the Standard will be helpful for the UKEB and may also form part of the evidence base for the endorsement process.

c) The Secretariat will use past and future input from the group on assessing the proposals against the accounting criteria.

d) The long-term public good (LTPG) assessment is another piece of work that will be carried out and that this entails considering:

   i. whether the use of the standard is likely to improve the quality of financial reporting;

   ii. the costs and benefits that are likely to result from the use of the standard; and

   iii. whether the use of the standard is likely to have an adverse effect on the economy of the United Kingdom, including on economic growth.

AOB: Equity Method

21. The Secretariat gave the TAG a brief overview of the Equity Method project and requested that members get in touch with the relevant Secretariat members if they had any comments on the IASB's Exposure Draft, issued on 19 September 2024.

22. The Chair thanked members and observers for their contributions.

23. The next TAG meeting is scheduled for 29 November 2024 and will be a virtual meeting.

24. There being no other business, the meeting ended.