30 July 2021

Dr. Andreas Barckow
Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

Dear Dr. Barckow,

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the International Accounting Standards Board's ('the IASB's') Exposure Draft (ED) *Regulatory Assets and Regulatory Liabilities*. In formulating these comments, the views of the constituents within each jurisdiction were sought and considered.

The AOSSG currently has 27 member standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam. To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. The intention of the AOSSG is to enhance the input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their comment. In responding to the ED, AOSSG members have provided their responses to the questions in the ED as described in Appendix of this submission.

Most AOSSG members agree with the overall model proposed in the ED, but some have provided comments on specific proposals, including the following:

Scope

Most AOSSG members agree with the proposed scope of the ED, but some have provided comments, including the following:

- the proposal in the ED 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, therefore, it is too broad in scope
- the ED should provide further guidance on attributes of regulatory agreement and the characteristics of the rate-regulator within the scope of the ED
- the notion of 'enforceability' in the ED might create difficulties for the companies to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities
- clarity should be provided on the interaction of the ED with IFRIC Interpretation 12 *Service Concession Agreements*
- to limit the application scope to rate regulated activities as initially targeted by the ED, it is necessary to consider including general characteristics that are commonly found in the rate-regulating schemes that fall under the scope of the ED (e.g., supply of essential goods or services for the public good, the need to maintain stability in supply and quality, etc.) on top of the scope requirement of the ED

Total allowed compensation

While some AOSSG members agree with the guidance on total allowed compensation proposed in the ED, most AOSSG members provided comments, including the following:

- while it is desirable that the concept of 'total allowed compensation' is introduced to recognise regulated assets and regulated liabilities, the guidance on each element is overly detailed and complex. Rather than setting out additional guidance, it would be appropriate to provide more detailed explanation on the principle itself in the standard and provide various application examples.
- it would be more appropriate to include regulatory returns on a balance relating to assets not yet available for use at the time when the entity becomes entitled to it as per the terms of the regulatory agreement

- it would be difficult for entities to determine the amount of total allowed compensation for performance incentives that relate to an incomplete time frame, especially for incentives with a performance period longer than a year
- there could be cases whereby it may not be possible to assess whether a performance incentive exists before preparing the financial statements for the period that gives rise to a potential performance incentive

Measurement

While some AOSSG members agree with the guidance on measurement proposed in the ED, most AOSSG members provided comments, including the following:

- uncertainties associated with demand and regulatory decisions make cash flow estimates highly complex and volatile, leaving room for highly subjective measurements resulting in opportunities for earnings management. Therefore, the IASB should deliberate on developing a simpler measurement approach, similar to that taken in IAS 12 *Income Taxes* for measurement of deferred tax assets and liabilities.
- the costs would exceed the benefits if the present discounted value is applied to cases where the regulatory assets and regulatory liabilities are realised within a short period of time. Therefore, a practical expedient should be provided to exempt regulatory assets and regulatory liabilities that are to be realised within one year from being discounted.
- it would be more desirable in terms of maintaining consistency with other standards (e.g., IFRS 13 *Fair Value Measurement*) to set out a principle that the discount rate should be determined by reflecting the risk of the item that generates cash flows, instead of the method set out in the ED where the regulated interest rate provided by the regulatory agreement is determined to be the discount rate.
- unlike the approach in IFRS 15, there are no constraints when estimating uncertain future cash flows
- guidance on demand risk and the boundary of the regulatory agreement is needed

Disclosure

While some AOSSG members agree with the guidance on disclosures in the ED, some other AOSSG members provided comments, including the following:

- the forthcoming Standard should make provision for cases where certain disclosures are legally prohibited, since there are legal restrictions on disclosures in some developing countries, which might affect the assertion of compliance with IFRS Standards.
- it should be clarified whether the disclosure requirements on contingent liabilities in IAS 37 should be applied if the recognition threshold for regulatory assets and regulatory liabilities is not met.

Transition

Some AOSSG members are concerned that full retrospective transition approach could be onerous for entities to adopt.

If you have any questions regarding this submission, please contact either one of us.

Yours sincerely

D.R. S.B. Zaware

AOSSG Chair

Atsushi Kogasaka

AOSSG Business Groups and Assets Working Group

Appendix – Comments from AOSSG members

Comments from some jurisdictions in this paper are based on staff's view. Therefore, these comments may not necessarily reflect the views of the official entity in each jurisdiction.

IASB ED Regulatory Assets and Regulatory Liabilities

Questions for respondents

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,

[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.

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?

AOSSG members' comments on Question 1 (including general comments on the ED)

[Australia]

The AASB agrees with the proposed objective and scope and considers the proposals will provide general purpose financial statement (GPFS) users with information that will help them understand which fluctuations in the relationship between an entity's revenue and expenses are caused by timing differences due to the effect of regulatory rates under regulatory agreements. The AASB has not identified any situations where the proposed requirements would affect activities that are not subject to rate regulation.

The majority of feedback received from Australian stakeholders generally supported the proposals on the basis that they will establish robust and consistent reporting requirements to provide more accurate, useful and comparable information in GPFS. It was also suggested that the proposals could be supported as they are analogous to requirements in some other Standards, such as IAS 12 *Income Taxes*.

Regulatory agreements

The AASB also heard that some entities were unsure whether they would be captured by the proposals, as they considered that the scope of the ED is too broad and could require entities

to consider another level of analysis to assess whether a resulting Standard would be relevant to their circumstances. However, the AASB considers the proposed scope is appropriate and notes that, like any new Standard, entities would need to assess its relevance. Furthermore, it is unlikely that entities would have regulatory assets and liabilities at the date of initial application of a Standard without already being aware of the effects of regulatory agreements on their ability to set prices that they can charge to customers in the future for their products. Entities would need to assess whether they are subject to timing differences between revenue per IFRS 15 *Revenue from Contracts with Customers* and total allowed compensation.

It may assist entities to determine whether a Standard would be relevant to them if the scope of the Standard clearly excluded price cap arrangements that do not give rise to timing differences. For example, at the end of a regulatory agreement, the negotiations for the following agreement may take into account volume and cost variances under the current agreement. However, the entity has no rights and obligations relating to those variances until the next agreement is struck, and therefore no regulatory assets and liabilities relating to those variances arise under the current agreement.

The AASB does not see a suitable basis on which to exclude regulatory agreements of particular types or subject to regulators with particular attributes. Substance over form should be followed, with the result that entities assess the relevance of a Standard to their own regulatory agreements.

Service concession arrangements

Paragraph 8 in the ED notes that regulatory agreements may take the form of service concession arrangements (SCA), for example. The AASB is not aware whether any SCA in Australia would give rise to timing differences contemplated by the ED. However, it would be useful if the application to SCA was explained or illustrated further. For instance, if an SCA does result in such timing differences, these result in regulatory assets or liabilities relating to operation services that are additional to the financial asset or intangible asset that the operator would recognise under Interpretation IFRIC 12 *Service Concession Arrangements* in relation to construction services.

The explanation in paragraph BC52 of the Basis for Conclusions that regulatory assets and liabilities are not financial assets and liabilities should be extended to address the case of SCA where the operator has a financial asset for amounts due from or at the direction of the grantor. The timing differences to be accounted for under rate regulation accounting still relate to regulated rates charged to customers, even if the grantor is to increase or reduce its payments to the operator at that time.

Insurance arrangements

The AASB did hear some concerns as to whether regulated insurance arrangements could be subject to regulatory accounting requirements. Given the complexities of insurance accounting under IFRS 17 *Insurance Contracts*, a specific exclusion for insurance arrangements might be appropriate and should be considered by the IASB or else the application to insurance arrangements addressed in detail.

[China]

According to the comments we received and our analysis, we generally do not support the Board to publish accounting standard for regulatory assets and regulatory liabilities.

Firstly, we have big concerns over the applicability of the ED. We consider the accounting model proposed in ED is highly dependent on the regulatory agreement having clear terms with enforceability to be executed, however, the regulatory model in some jurisdictions might be framework-oriented which makes the accounting model for the regulated entities in these jurisdictions difficult to apply. Under the circumstance where the applicable scope of the ED is relatively limited, this project would not meet the "pervasiveness" standard the Board sets for the prioritized projects. As a result, considering the Board has limited resources, we suggest not further proceeding with this standard-setting project which is not pervasively applicable.

Secondly, we have concerns that the application of the ED might create opportunities for accounting arbitrage. There are various regulatory frameworks, regulatory models and rate making mechanisms in different jurisdictions, and the use of the 'most likely amount' method or 'expected value' method proposed by the accounting model to estimate the future cash flows involves high uncertainties, both of which might make the application of the standard create

opportunities of accounting arbitrage, reduce the comparability and consistency of the accounting information, thus the quality of the accounting information is affected.

Lastly, we consider that the application cost of the standard would overweight its benefit. According to the accounting model proposed in the ED, there would be high preparation cost in estimating the future cash flows and using the regulatory rate to discount these cash flows in practice; and the financial information to be provided by or disclosed in the financial statements is of limited usefulness and there is no immediate needs of this information for stakeholders. Therefore, we consider that the benefit the standard would bring could hardly overweight the high application cost of this standard. Our detailed responses to each question please find below.

As for question 1 about objective and scope, we suggest the Board limiting the scope of this standard be applied to the regulatory agreements between regulated entities and regulators, and providing further guidance on regulatory agreements that have enforceable rights and obligations. The scope of the ED defined is not very clear, which may lead to the misuse of standard for the commercial agreements that meet the definition of the regulatory agreement between entities, which is deviated from the intended scope of the ED. Meanwhile, it will also bring in difficulties and high costs to make judgments on whether enforceable rights and obligations exist in a regulatory agreement.

When making judgments on whether rights and obligations in a regulatory agreement are enforceable, the ED states that it is a matter of law, although it provides some guidance, there are various types of and uncertainties with the regulatory agreements in practice, and considering there are differences in legal and regulatory environment and economy structure, the guidance provided in the ED may not fit for all comprehensive situations in practice. **[Korea]**

It is desirable that the key characteristics of rate regulation suggested in the past discussion paper are simplified to form the criteria of scope that includes only the characteristics that are directly related to creation of regulated assets and liabilities—it makes it easier for entities to determine the application scope.

However, there is concern that excessive simplification of the scope of the requirements may cause the scope to include even the transactions not initially anticipated by this project (e.g., rate regulation via contracts designed between private entities with an intention to meet criteria of the scope).

Therefore, to limit the application scope to rate regulated activities as initially targeted by the ED, it is necessary to consider including a general characteristics commonly found in the rate-regulating scheme under the scope of the ED (e.g., supply of essential goods or services for the public good, the need to maintain stability in supply and quality, etc.) on the top of scope requirement of the ED.

On the other hand, as the goods or services supplied by certain types of business in Korea are essential and closely related to people's standard of living, there exists a clause in the regulatory agreement that enables indefinite postponement of increase in the rate considering the impact on the price index.

Given the public nature of goods or services supplied by rate regulated activities, it is viewed that there would exist a wide range of examples of such limitations. Therefore, additional guidance (e.g., application examples, etc.) should be included in the ED for such cases because whether an activity falls within the application scope could become a practical implementation issue.

In the current ED, all regulated assets and regulated liabilities that meet the recognition threshold are required to be recognized even if it is uncertain that the economic benefits will be produced or that the transfer of economic resources will occur (para BC48). Also, the uncertainty of future cash flows is discussed in measurement.

Nevertheless, as there exists a possibility that unnecessary controversy may arise over whether the follow-up approval process provides grounds for determining the rate in a regulatory agreement, we suggest that application examples be provided for clarification.

[Malaysia]

(a) We agree with the objective of the Exposure Draft. Rate-regulated activities create specific financial reporting issues and users of financial statements need reliable and comparable information about rate-regulated activities. Malaysia was unable to apply IFRS 14 *Regulatory Deferral Accounts* as, prior to the application of IFRS Standards, standards applied in Malaysia did not include specific requirements for rate-regulated activities. Therefore, we support the introduction of an IFRS Standard that would ensure that information about rate-regulated activities is internationally consistent.

(b) We agree with the proposal in paragraph 3 that the standard resulting from this Exposure Draft should apply to all of an entity's regulatory assets and regulatory liabilities. Accounting policies should be applied consistently to all similar events and transactions.

For the purpose of clarity, the forthcoming Standard should explicitly state that regulatory assets and regulatory liabilities are not within the scope of IFRS 9 *Financial Instruments*.

(c) We agree that the proposals in the Exposure Draft are clear enough in many straightforward cases to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities.

However, we have concerns, similar to those in the Alternative View, that arise from the scope and definition of regulatory agreement.

Specifically, we are concerned that the proposals in the Exposure Draft 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.

(i) There is no definition of *regulator*.

Many would expect that a regulator is created by law or regulation as is the case in IFRS 14 with the definition of rate regulator. This view is reinforced by paragraph 8 of the Exposure Draft which refers to service concession arrangements and statute, legislation or regulation. Further, the Exposure Draft contains some references to regulator – frequently in connection with services covered by statute, legislation or regulation.

As we understand the proposals in the Exposure Draft, any agreement that leads to enforceable rights and obligations to increase or decrease future prices charged for goods or service would fall within the scope of the proposals. This could apply to contracts between individual companies without the intervention of any government-based regulator. We consider that this flexibility creates arbitrage opportunities for entities to create artificial regulatory assets and regulatory liabilities as a basis for managing reported performance.

(ii) Given the broad scope of regulatory agreements proposed in the Exposure Draft, we are concerned that there will be substantial debate about many agreements as to whether or not they are regulatory agreements. This concern might be alleviated if regulators were required to have specific attributes.

Conversely, if an entity has the power to negotiate with the government over its rate-regulated activities, whether in such a case the rate-regulated activity falls within the scope of the Exposure Draft.

We would also support clear guidance on the types of arrangements that would be excluded from the scope of a future standard.

(iii) Can an agreement be within the scope of the Exposure Draft if regulatory liabilities and regulatory assets are not treated equally? For example, there could be a possibility whereby an entity may end up recognising regulated liabilities and not regulated assets because the wording in the agreement favours the regulator, such as where the regulator reviews the rate when the profit achieved is above what has been anticipated under the regulatory agreement. However, when actual profit is below anticipated profit, the agreement may only permit the entity to request a review.

(d) Following from the concerns raised in part (c) of this question, we consider that a regulator should be specified similarly to rate regulator as defined in in IFRS 14. This will:

(i) ensure that the scope of the project applies to appropriate arrangements;

(ii) is likely to reduce the uncertainty about the application of the standard; and

(iii) may avoid any unintended consequences arising from the breadth of the scope.

(e) We have not identified any specific situations in which the proposed requirements would affect activities that we do not view as being subject to rate regulation.

(f) We are not aware of 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 are aware that transactions with customers that are not rate-regulated may be associated with the activities within the scope of a regulatory agreement. For example, there are cases where a government may use a regulated entity to act as an agent in passing rebates to customers or in adding to the charges to customers. The regulated entity passes through the rebates (which are funded by government) to customers or collects charges from customers on behalf of the government.

We strongly urge that the forthcoming standard clearly identifies that such pass-through arrangements are not within the scope of rate-regulation.

[Pakistan]

(a) We agree with the overall objective of the Exposure Draft to develop an accounting model for regulatory assets/liabilities and related regulatory income/expense.

We believe that it is essential for users of the financial statements to have 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 the entity's financial position. In this context, the proposed accounting model is expected to enable users of financial statements to understand how financial performance and financial position of a reporting entity is affected by its rate-regulated activities.

(b) We agree with the proposed scope of the Exposure Draft. We understand that the proposed scope of the ED focuses on existence of regulatory assets and liabilities based on the terms of a regulatory agreement. It requires existence of an agreement that regulates rates for supplying specified goods or services and that part of the total allowed compensation for those goods or services supplied in one period is charged to customers, both current and future customers, through the regulated rates for goods or services supplied in a different period creating what the Exposure Draft refers to as 'timing differences'.

(c) We suggest that more specific guidance and examples on what constitutes a 'regulatory agreement' would facilitate an appropriate identification of activities and entities within the scope of the proposed model.

We also note that the notion of 'enforceability' in the Exposure Draft might create difficulties for the companies to determine whether a regulatory agreement gives rise to a regulatory assets and regulatory liabilities. For example, in our jurisdiction the regulatory agreements outline the mechanism for determination of total allowed compensation for a particular year. However, there are no bright line formula and the regulator has authority to allow or disallow a component of total allowed compensation. Further, the review and approval of the total allowed compensation by regulator occurs after the end of the reporting period. In such a case, entities might have varied views on whether at the end of the reporting period it has an enforceable right which gives rise to regulatory asset or liability.

Under certain regulatory arrangements, in case of customers' inability to pay or as part of government's policy, a third party (such as government, insurance company, guarantor) could be required to provide the shortfall in total allowed compensation on behalf of the customer. We suggest that to address such scenarios, the Exposure Draft should clarify that that the proposed model for regulatory assets and regulatory liabilities is independent of who pays for the services or goods delivered.

We also observed that the Exposure Draft in paragraph8,while providing examples of the regulatory agreement includes 'a service concession agreement'. IFRIC 12 deals with Service Concession Agreements and we believe that clarity should be provided on the interaction of the Exposure Draft with IFRIC 12.

(d) We understand that the rate regulated entities as envisaged in the Exposure Draft and the IFRS 14 are those providing an essential good or service to public at large. In Pakistan the rate-regulator is a government authority, and we believe that in most of the jurisdictions, the rate regulator would be a government/state body having the mandate for rate regulation. However, Exposure Draft does not define the 'rate-regulator'. There is also no further explanation about the characteristics of a rate-regulator. Due to this, entities could face difficulty in determining whether only agreements with a rate-regulator mandated by government are within the scope of Exposure Draft or any similar mechanism between private parties under a contractual arrangement would also fall within the scope of Exposure Draft. Accordingly, we suggest that the Exposure Draft should provide further guidance on attributes of rate-regulation agreement and the characteristics of the rate-regulator within the scope of the ED.

As noted earlier, the Exposure Draft does not specify the form of the 'regulatory agreement', and we have noted our comments in (c), above.

(e) As discussed in our response to (d) above, in the absence of guidance about the types of regulatory agreements or the rate-regulators that fall within the scope of the Exposure Draft, contractual arrangements between private parties with similar attributes might be scoped in and accounted for under the Exposure Draft.

(f) We 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.

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.

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?

AOSSG members' comments on Question 2

[Australia]

Regulatory assets and liabilities

The AASB agrees with the proposed fundamental definitions of regulatory assets and regulatory liabilities and that they are consistent with the *Conceptual Framework for Financial Reporting*, for the reasons noted in paragraphs BC37–BC47 of the Basis for Conclusions. A key aspect of regulatory assets is that the right to charge a higher amount under regulated rates for the future supply of the goods or services is based on a past event – part of the total allowed compensation for goods or services already supplied has not yet been charged to customers. The right is therefore not a future asset.

Similarly, for regulatory liabilities, a key aspect is that the obligation to charge a lower amount under regulated rates for the future supply of the goods or services is based on a past event – part of the revenue charged to customers for goods or services already supplied represents total allowed compensation for goods or services to be supplied to customers in the future. The obligation is therefore not a future liability. The AASB agrees that a reduction in future cash inflows represents a transfer of economic resources.

The AASB agrees that regulatory assets and liabilities should be accounted for separately from other assets and liabilities arising from a regulatory agreement as those other elements would be subject to recognition, classification, presentation and disclosure requirements under other IFRS Standards. There is no apparent benefit in trying to modify those other requirements to incorporate regulatory assets and liabilities. Their separate presentation and disclosure should assist users of financial statements to assess their significance for an entity.

Total allowed compensation

The AASB also agrees with the proposed fundamental definition of total allowed compensation (TAC). The full amount of the compensation for goods or services supplied that a regulatory agreement entitles an entity to charge customers should be recognised in profit or loss (or other

comprehensive income, when appropriate) in the period of supply, subject to revenue deferrals in accordance with IFRS 15 (as per ED paragraphs 18–19).

The basic approach of treating an allowable expense (and its recovery in TAC) as relating to the supply of goods or services in the period when the expense is recognised under Standards appears to be an appropriate approach. No other suitable basis is apparent. This principle underpins the recognition of regulatory assets and liabilities based on timing differences as to when amounts are recognised as revenue under Standards.

It is necessary for TAC to also cover other amounts that do not represent explicitly the recovery of allowed expenses, such as regulatory returns on the regulatory asset base and additional expense recoveries due to different measurements for regulatory purposes in comparison with financial reporting requirements. Such amounts are encompassed by the "profit component" of TAC, although some clarification of the proposals here may be helpful – see Question 3 comments.

Information usefulness

Some Australian stakeholders have significant reservations about the difficulties of estimating future cash flows under regulatory agreements and have raised concerns that the resulting regulatory assets, liabilities, income and expenses could be volatile, particularly where regulatory arrangements are not stable from one regulatory agreement to the next. Regulatory agreements of which the AASB is aware range from two to five years in term, which could result in significant changes in regulatory amounts recognised in the financial statements when a regulatory agreement changes significantly.

Regulatory assets and liabilities could be immaterial, since many entities have very large balances for the infrastructure property, plant and equipment needed to operate electricity, gas or water distribution networks. Nevertheless, regulatory income and expenses are more likely to be material to a regulated entity, particularly where a significant proportion of an entity's activities are subject to regulatory agreements.

[China]

We consider that there might have some situations in which the proposed definitions would result in regulatory assets or regulatory liabilities being recognized when the recognition would

not provide information that is useful to users of financial statements in practice. We understand from the investors that the financial information to be provided by or disclosed in the financial statements has limited usefulness and they have no immediate needs for this information. Meanwhile, the recognition of the regulatory assets and regulatory liabilities requires a lot of professional judgements, and considering the complexity with the measurement model for the regulatory assets and regulatory liabilities, which may lead to an inaccuracy of the recognition of regulatory assets and liabilities, thus may reduce the understandability and comparability of the financial statements.

[Korea]

(See Question 1.)

[Malaysia]

(a) We agree with the proposed definitions of regulatory asset and regulatory liability.

We note that evidence that an 'enforceable' present right (obligation) exists may be based on the 'preliminary views' of the regulator. Paragraph 28 of the Exposure Draft further states that an entity can recognise a regulatory asset or regulatory liability if it is 'more likely than not' that it exists. We are of the view that 'preliminary view of the regulator' in paragraph 27(h) and 'more likely than not' in paragraph 28 may not be consistent with 'enforceable' in paragraphs 4 and 5 and recommend that the IASB provides greater clarify on this in the forthcoming Standard.

We consider that the description of *boundary of a regulatory agreement* (paragraph B28) should be included in Appendix A as a formal definition because the boundary of a regulatory agreement is a critical factor to consider in determining the existence of regulatory assets and regulatory liabilities.

For example, the regulatory period may be longer than the accounting period (for example 3 years). This means that the tariff may only be reset every three years. To illustrate say, the necessary tariff to cover expenses and profit every three years would be for each year 90, 100 and 110. The regulator determines that the tariff should be the same for each of the three years at 100, resulting in the entity making a profit in year 1 and a loss in year 3. We propose that the final standard clarify that a regulatory liability arises in year 1 and is

reversed in year 3 and an illustrative example is provided that explicitly addresses this fact pattern.

(b) We agree with the focus on total allowed compensation, including both the recovery of allowable expenses and a profit component. We comment further on the profit component in our response to question 3.

However, we anticipate that further standard setting will be required to address accounting issues arising from other forms of rate regulation such as those that focus on cost deferral and may not involve a profit component.

(c) We agree that regulatory assets and regulatory liabilities meet the definitions of assets and liabilities in the *Conceptual Framework for Financial Reporting*, following the reasoning in the Basis for Conclusions.

(d) We agree that an entity should account for regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement. For example, the regulatory agreement could contain conditions that affect service concession arrangements that are recognised in accordance with IFRIC 12 *Service Concession Arrangements*, and these should not be included in regulatory assets and regulatory liabilities. In addition, the cash flows generated from regulatory assets and regulatory liabilities are incremental and largely independent of other rights and obligations created by a regulatory agreement.

(e) We have not 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.

However, we are concerned that the practical challenges associated with regulatory assets and regulatory liabilities are such that the costs of providing the information at the level proposed may outweigh the benefits. Further, we are concerned that the excessive granularity of the proposed disclosures leading to necessary changes to systems and processes and the likely need for manual intervention increase the likelihood of accounting / reporting errors.

For example, current financial information system may not be adequate to support the tracking of actual OPEX and CAPEX against approved OPEX and CAPEX at the level which is required to track the status of regulatory assets and regulatory liabilities. The approved OPEX under some regulatory regimes is based on high level totals of the major

expense components. Therefore, more granular monitoring of regulatory assets and regulatory liabilities will be difficult to track and perform accurate unwinding. Manual templates will be required to determine the regulatory assets and regulatory liabilities adjustments if financial information systems are unable to cater.

[Pakistan]

(a) We also support the proposed definitions of regulatory assets and regulatory liabilities and agree with the IASB's conclusions that regulatory assets and regulatory liabilities meet the definitions of assets and liabilities under the Conceptual Framework.

However, as discussed in our responses above, the notion of 'enforceability' in the definitions might create difficulties for the companies to determine whether a regulatory agreement gives rise to a regulatory assets and regulatory liabilities.

We also consider that further implementation guidance is provided for an entity to determine whether a regulatory asset or liability exists as regulatory agreements may come in variety of forms. For example, in our jurisdiction certain rate regulatory agreements allow deficit in the revenue requirement of an entity to be recovered through future increase in regulated rates, however, any excess of the revenue charged for a year over the revenue requirement is payable to rate regulator in cash within a certain time limit. Accordingly, the liability to pay cash to the regulator would be considered as a financial liability within the scope of IFRS 9 Financial Instruments or a liability within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Whereas, the right to add any shortfall in the revenue requirements in future regulated rates would likely be scoped under the Exposure Draft. Considering the current proposals in the ED, it would be difficult to reach a conclusive view on whether such hybrid agreements or parts thereof, would be scoped within the Exposure Draft.

(b) We agree the proposed approach of focusing on total allowed compensation, including both the recovery of allowable expenses and a profit component. The components of the total allowed compensation and the type of good or service involved may vary from jurisdiction to jurisdiction. The profit component may be present in some jurisdictions/types of good or service while it may not be present in others, and we agree that the definition of total allowed compensation should include a profit element.

(c) As noted earlier, we believe that regulatory assets and liabilities meet the definition of assets and liabilities within the Conceptual Framework for Financial Reporting. We agree with the Board's conclusion and its basis as discussed in paragraphs BC 39 and BC 45 that all the three conditions outlined in the definition of an asset or liability in the Conceptual Framework for Financial Reporting exist in the case of regulatory assets and liabilities.

(d) We agree that an entity should account for regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement. We agree with the Board's rationale that the cash flows that result from a regulatory asset or a regulatory liability are incremental and do not significantly affect cash flows from the other rights and obligations created by the regulatory agreement. Therefore, in accordance with paragraph 4.51(b) of the Conceptual Framework for Financial Reporting, selecting regulatory assets and regulatory liabilities as separate unit of account would faithfully represent the substance of the transaction or other event from which they have arisen.

However, the Board should clarify the 'other rights and obligations' mentioned in paragraph BC60 of the Exposure Draft. Paragraph BC60 states that "other rights and obligations created by a regulatory agreement typically generate cash flows only in combination with other assets and liabilities, such as property, plant and equipment or recognised or unrecognised intangible assets. As a result, an entity typically does not recognise those other rights and obligations as assets and liabilities". We suggest that guidance is provided regarding the rights and obligations referred to by the Board in above noted paragraph BC60.

(e) So far we have not 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.

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)?

(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?

AOSSG members' comments on Question 3

[Australia]

The AASB agrees generally with how an entity would determine total allowed compensation (TAC) for goods or services supplied in a period. However, the AASB has identified some concerns.

Assets not yet available for use

The AASB heard stakeholder concerns with the approach to regulatory returns relating to assets not yet available for use, noting that regulatory compensation during the construction period is clearly intended by the regulator to compensate for construction costs. Under paragraph B15, the regulatory return is proposed to form part of TAC only for goods or services supplied over the periods in which the asset is available for use and recovered through the regulated rates. This approach is an exception to the general approach to "target profit" as set out in paragraph B10, which treats an amount added in determining a regulated rate for goods or services supplied in a period as forming part of the TAC for the goods or services supplied in that period.

The IASB aims to justify this proposal by arguing that including the regulatory return in the TAC for goods or services supplied before the asset is in use would contradict the principle underlying the ED. That principle is set out in paragraph 16 (and paragraph BC30) as an entity reflecting the TAC for goods or services supplied as part of its financial performance for the period in which those goods or services are supplied. However, the AASB considers that the exception relating to assets not yet available for use has not been adequately justified. If a regulatory agreement permits an entity to include a return on assets not yet available for use in rates charged to customers for goods or services supplied, then the regulator intends that the return provides compensation for the entity in that period, prior to the asset becoming available for use. From the regulator's perspective, the return is part of the TAC for the goods or services supplied in that period. This view would support applying the general approach to target profit, without the need for an exception, and can be argued as consistent with the principle underlying the ED.

The IASB also explains in paragraph BC98 that the exception would avoid a lack of comparability between (1) regulatory agreements that accumulate the construction-period regulatory returns until the asset is available for use and (2) agreements that include those returns in rates charged to customers during the construction period. However, since these two types of agreements are structured differently, the appropriate approach might be to reflect those differences instead of adding an exception to force the accounting for the second type to be the same as for the first type. Which approach better reflects the substance of the second type of regulatory agreement? Recognising the regulatory return in the period in which it arises would also obviate the need to recognise regulatory liabilities and allocate the regulatory return on a reasonable basis over the remaining periods in which the asset amount is recovered through regulated rates (example 3 illustrates the complexity of the approach proposed in the ED).

Contrast with construction performance incentives

The AASB notes that the proposed exception for regulatory returns relating to assets not yet available for use differs from the proposed approach to construction performance incentives. Under paragraph B18, the performance incentives related only to construction work would

form part of or reduce the TAC for goods or services supplied in the construction period, prior to the asset becoming available for use. The AASB supports this approach.

The IASB acknowledges in paragraphs BC102–BC105 that this approach is "arguably" inconsistent with the principle underlying the model in the ED. The IASB concluded the approach is appropriate because the construction period is when the relevant performance occurs and the approach would provide more useful and understandable information, while also avoiding unnecessary costs of different policies for different performance incentives.

The AASB considers that this same justification could be applied to the approach to regulatory returns relating to assets not yet available for use, i.e. providing more useful and understandable information and avoiding the costs of different policies for different types of regulatory returns.

Performance incentives

The AASB supports the general approach of including performance incentives in the TAC for goods or services supplied in the period in which the performance giving rise to the incentive occurs (paragraph B17), and the application of this approach to construction performance incentives, as noted above.

The AASB has concerns over the difficulty for entities in estimating the amount of performance incentives that relate to an incomplete time frame, especially for incentives with a performance period longer than a year. An entity would apply either the 'most likely amount' method or the 'expected value' method in estimating the uncertain future cash flows (paragraph 39), however it is not clear how an entity would apportion the estimated incentive amount to the relevant periods, in order to include the amount in the TAC for the goods or services supplied in each period. Significant estimations are therefore likely in practice, which potentially could be volatile. Consideration should therefore be given to including a constraining limitation similar to that for estimates of variable consideration under IFRS 15 (paragraph 56), which requires a significant reversal to be highly unlikely when the uncertainty is resolved. In some cases, it might not be appropriate to recognise any performance incentive until the performance time frame is complete.

Other TAC components

The proposed guidance in paragraphs B3–B9 regarding amounts that recover allowable expenses (less chargeable income) does not explicitly address the effect of quantity variances, which are illustrated in Example 2A. As the regulatory accounting effects of such quantity variances are likely to be the most easily understood by entities adopting rate regulation accounting for the first time, it would be helpful to explain these timing difference effects in the Appendix B application guidance, instead of leaving them to the Illustrative Examples, which would accompany a Standard but not form part of it.

In contrast, paragraph B7 does explain the treatment of timing differences arising in respect of depreciation expenses, which can result in significant regulatory assets and liabilities. Examples 2B and 2C then illustrate the effects of the regulatory agreement using a longer or shorter recovery period than the asset's useful life. Nevertheless, it would be helpful for paragraph B8, which deals with the remaining carrying amount of depreciable assets, to be extended to clarify that those carrying amounts and any differences to their regulatory carrying amounts do not result in regulatory assets and liabilities, as these arise only through future depreciation differences. This could help entities better understand the requirements when implementing a Standard for the first time.

Furthermore, the recovery of allowable expenses as a component of TAC appears to be limited to amounts expensed under Standards. Any additional recovery due to a different measurement of balances such as property, plant and equipment for regulatory purposes would therefore appear to be treated as target profit components of total allowed compensation. The AASB recommends that the IASB clarify this, since target profit is presented as comprising the components of profit margins on allowable expenses, regulatory returns and performance incentives, which do not clearly encompass additional allowable expense amounts.

Further guidance

The normal presumption in the proposals and illustrative examples appears to be that the regulatory balances used as the basis for regulatory returns and the recovery of allowable expenses are the same as the balances or amounts recognised under Standards. In many or most Australian regulatory agreements, the regulator determines their own base amounts after

considering an entity's pricing proposals. The regulatory asset base (the common term in Australia) might also be indexed with periodic inflation adjustment of the asset base.

There are some references in the ED to differences between amounts recognised under Standards and regulatory bases but these are not well-developed. The discussion in paragraph B13 addresses the regulatory return on a differently constituted or measured regulatory asset base. The general principle of paragraph B10 for target profit is applied – whatever the amount of the regulatory return, include that in the TAC for goods or services supplied in the same period.

Additional illustrative examples would be very helpful here, for example to help entities distinguish when regulatory amounts should be treated as recoveries of allowable expenses versus regulatory returns on regulatory bases. The distinction is important, given the different approaches to including the amounts in TAC: expense recoveries are related to the recognition of expenses for financial reporting purposes but regulatory returns are related to the period in which the return arises.

The distinction is not clear where a regulator develops general regulatory amounts or bases that are not clearly linked to the amounts or even the items that are recognised under Standards. For example, regulatory agreements in the Australian energy sector generally include operating expenditure amounts and income tax amounts, based on the regulator's efficiency estimates. It is not clear how an entity should relate such regulatory amounts to specific expenses recognised under Standards where the components of the regulatory amounts are not specifically identified.

The illustrative examples assume an identifiable link between items and amounts for regulatory and financial reporting purposes, such as for the depreciation of plant and equipment. However, this can be completely lacking where a regulatory agreement establishes an aggregate regulatory asset base without identifying the specific items or amounts. In such a case, it would be helpful to clarify whether all allowed regulatory amounts relating to the regulatory asset balance should be treated as regulatory returns. Under this approach, timing differences would not arise in respect of the implicit differences between allowed depreciation and depreciation expense as it would not be feasible to identify differences between useful lives

and recovery periods or relate depreciation recoveries to recognised depreciation expense. This would simplify the accounting considerably. Perhaps it would be appropriate to address this as a unit of account issue.

[China]

We suggest the Board providing more guidance on how to estimate performance incentives that are not clearly defined in the ED. In practice, uncertainties in the estimation of performance incentives may lead to diversities in the application of the standard and thus reduce comparability of the financial statements.

Given the differences in regulatory models in different jurisdictions, the guidance provided in the ED on the components of total allowed compensation may not cover all situations in practice, we suggest the Board considering whether there are any other important components of total allowed compensation, and adding guidance on their accounting treatment.

We suggest the Board providing further guidance on the concept of total allowed compensation and further explanations and illustrative examples on its accounting treatment for practical application. The current definition of total allowed compensation in the ED is not clear enough, which may cause confusion and misuse in practice. The guidance on the accounting treatment of the components of total allowed compensation is quite principle-based and basic, and the illustrative examples provided are relatively standalone and simple situations.

[Korea]

While it is desirable that the concept of 'total allowed compensation' is introduced to recognise regulated assets and regulated liabilities, the guidance on each element is overly detailed and complex.

There exist various types of regulatory agreements and there may be a myriad of different cases that require judgement on when to include the total allowed compensation. Thus, it would be difficult to provide guidance on all of such cases.

Rather than setting out more additional guidance, it would be appropriate to provide more detailed explanation on the principle itself in the standard and provide various application examples.

In particular, it is necessary to clearly explain about performance incentives that constitute the total allowed compensation through detailed examples of how to consider the probability of achieving the performance standard and how to allocate to different periods, despite para B19.

[Malaysia]

(a) It is not clear whether total allowed compensation must include all three of the components described in paragraph B2.

(i) There may be cases where the regulatory agreement provides for a return on the regulatory capital base but does not provide for a profit component. We recommend that the IASB clarify whether it is necessary to have a return on an asset base and/or a margin on regulatory operations leading to a profit. If the regulatory agreement does not provide for either a return on the regulatory capital base or an operating margin, does the activity fall outside the scope of the Exposure Draft? We cannot see any reason why it is necessary for an agreement to contain a return above capital and operating costs in order to be classified as a regulatory agreement.

(ii) We do not agree with the proposed guidance related to regulatory returns by applying a return rate on a balance related to assets not yet available for use. We consider that the total allowed compensation should reflect the conditions of the regulatory agreement in relation to assets not yet available for use and not create timing differences. If the proposals in the Exposure Draft are retained, we recommend that the forthcoming Standard provide examples of how an allocation is expected to be done to depict the reasonable and supportable basis in determining how to allocate the return on the balance over those remaining periods in which the carrying amount of the asset is recovered through the regulated rates.

For example, a regulated entity providing network services may be undertaking major upgrades to its network. The network will continue to service the same number of customers before and after the upgrade. Deferring the relevant rate adjustment will not "match" future expenses with future income and therefore will not provide information that is useful to users.

(iii) There could be cases whereby it may not be possible to assess whether a performance incentive exists before preparing the financial statements for the period that gives rise

to a potential performance incentive. For example, performance incentives may not be established until one or two years following the period of performance. As the performance incentive cannot be included in the total allowed compensation for the performance period, it will be necessary to report the performance incentive in a later period.

We recommend that the IASB clarify that recognition of a performance incentive after the relevant reporting period should be reported in the reporting period in which the performance incentive is known as a change in an accounting estimate.

We consider that there may be merits in including a concept of constraining estimates akin to determining variable consideration under IFRS 15. Guidance in the Exposure Draft uses the most likely amount method or the expected value method in its estimation basis. However, because there may be complexities in making those assumptions and given that the total allowed compensation is expected to equate to the total revenue recognised, similar principles could be introduced in a standard, together with relevant disclosures.

(b) We agree with how the proposed guidance in paragraphs B3–B27 would treat all components of total allowed compensation not listed in question 3(a) as the guidance is in accordance with the general principles in the Exposure Draft.

(c) We consider that additional guidance is needed when the entity has the right to change the rates set by the regulator. This could arise through volume rebates or other discounts or where a regulated entity has the option not to take an approved price increase. Does this mean that this entity is not in the scope of the Exposure Draft? If the activity is within the scope of the Exposure Draft, should the regulatory rate or the actual rate charged to customers be used to identify total allowed compensation?

[Pakistan]

(a) We agree with the proposed guidance in the Exposure Draft with (i) and (iii). However, we do not agree with the proposed guidance on (ii), i.e. regulatory returns on a balance relating to assets not available for use. We understand that it would be more appropriate to include regulatory returns on a balance relating to assets not yet available for use at the time when the entity becomes entitled to it as per the terms of the regulatory agreement.

This is because the regulatory agreement might not necessarily base the regulatory return on assets under construction to the provision of goods or services from those assets. Therefore, delaying the inclusion of regulatory returns on assets under construction despite the regulatory agreement establishes the entity's entitlement to such returns would be an arbitrary deferral of income. Further, keeping the track of such returns and accounting for them when the asset becomes available for use would result in added costs which might not match the expected benefits to the users of financial statements.

(b) Except for concerns with regards to allowable expense discussed in next paragraph, we generally agree with how the proposed guidance would treat all the components of total allowed compensation not listed in question 3(a). We believe that the basis of inclusion of components in the total allowed compensation should be the terms of the regulatory agreement, which is also the approach taken in the proposed guidance.

With regards to the allowable expenses, we have concerns over definition of an allowable expense in paragraph B3 of the Exposure Draft, which states that an allowable expense is an expense as defined in the IFRS Standards, that a regulatory agreement entitles an entity to recover by adding an amount in determining a regulated rate. We note that a rate-regulator may not base an allowance of expense on whether it fulfils definition of an expense under the IFRS Standards. Accordingly, we suggest that this aspect should be further deliberated and inclusion of the allowable expenses in the total allowed compensation should be primarily driven by the terms of the regulatory agreement.

(c) Except for the matters highlighted in our responses to (b) and (c) above, at the moment we do not think any further guidance is necessary on how to apply the concept of total allowed compensation.

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?

AOSSG members' comments on Question 4

[Australia]

All regulatory assets and liabilities

The IASB noted in paragraph BC127 its understanding that if a regulatory asset or regulatory liability exists, the probability that it will give rise to an inflow or outflow of economic benefits is generally high because of the design of the regulated rate and because of regulatory oversight of an entity applying the regulatory agreement in determining the regulated rate. In the AASB's view, this supports the general approach of requiring an entity to recognise all its regulatory assets and liabilities (and the associated regulatory income and expenses).

However, the inclusion of a recognition threshold of 'more likely than not' in paragraph 28 of the ED immediately qualifies the "recognise all" requirement. This is considered in the following section.

Recognition threshold

The AASB notes that the *Conceptual Framework* no longer includes a probability threshold in the recognition criteria for assets and liabilities and resulting income and expenses. However, the CF does explain that judgement is required to assess whether recognition of an element will provide useful information to financial statement users (at an appropriate cost to the entity) – that is, relevant and representationally faithful information. Both existence uncertainty and outcome/measurement uncertainty affect this judgement.

It is open to the IASB to assist entities with these judgements through requirements or guidance in individual Standards. The AASB does not object to the proposed 'more likely than not' recognition threshold, which is consistent with the approach in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for provisions. In general, the AASB does not see a significant role for this threshold in rate regulation accounting, based on the expectation that existence uncertainty would normally be minor in the context of the enforceable rights and obligations under regulatory agreements.

However, it could be of significance in relation to some TAC components. For example, there might be scope under a regulatory agreement for an entity to seek approval from the regulator to recover through regulated rates certain expenses incurred during the regulatory period that were not addressed in the agreement. In this case, the entity would need to assess whether in its view the regulator would agree to the recovery of those additional expenses. This could be subject to significant uncertainty if there is no precedent regarding treating such expenses as allowable expenses.

Significant existence uncertainty might also arise in respect of performance incentives – especially those which are based on performance over a number of years or even the entire regulatory period.

[China]

We suggest that the Board consider providing exceptions or exemptions for the recognition of regulatory assets and regulatory liabilities with significant measurement uncertainties and for those don't meet the 'cost-benefit' principal. In practice, especially under the circumstance where the regulatory model is more framework-oriented, the outcomes of the future cash flows generated by the regulatory asset and regulatory liability are significantly uncertain, and the recognition of regulatory assets and liabilities will bring huge standards implementation costs in practice which makes the recognition of regulatory asset and regulatory liability does not meet the 'cost-benefit' principle, and compromise the faithful presentation of the financial statements.

We agree with the Board's proposal to apply the 'more likely than not' threshold for regulatory liability when its existence is uncertain; however, we do not agree to adopt the 'more likely

than not' threshold for the regulatory asset when its existence is uncertain, and suggest adopting more stringent recognition threshold for regulatory asset. For the regulatory asset when its existence is uncertain, applying the 'more likely than not' threshold may not conform to the principle of prudence. Meanwhile, it is inconsistent with the recognition criteria of contingent assets in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and the income generated by variable considerations in *IFRS 15 Revenue from Contracts with Customers*. In practice, regulators review the components of the total allowed compensation that create regulatory asset much more rigorously than those that create regulatory liabilities, and adopting more stringent recognition threshold for regulatory asset could better reflect the regulatory characteristics and the economic substance of rate regulated activities.

[Malaysia]

(a) We agree that an entity should recognise all its regulatory assets and regulatory liabilities as this is consistent with the principles in the Conceptual Framework.

(b) We agree that a 'more likely than not' recognition threshold should apply when it is uncertain whether a regulatory asset or regulatory liability exists, and an estimate can be made. However, as noted in question 3(a)(ii), it may not be possible to make an estimate if there is no history of the specific transaction and the actual amount is not determined until some years after the relevant reporting period. We consider that such circumstances, together with relevant disclosures, need to be addressed in the final Standard.

We consider that it would be useful to add a section on derecognition although derecognition is implicit in the unwinding of regulatory assets and regulatory liabilities. When there is no explicit mention of derecognition, it could lead to various interpretations. Furthermore, other IFRS Standards on assets such as IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IFRS 9 *Financial Instruments* have a section on derecognition and users of IFRS Standards would be looking for this in this proposed Standard.

[Pakistan]

(a) We understand that the proposal in the Exposure Draft for recognition of all regulatory assets and regulatory liability does not appear to be aligned with the Conceptual Framework. As stated in paragraphBC122 and the Conceptual Framework, an asset or

liability is recognised only if recognition of the asset or liability and any of resulting income, expenses or changes in equity provides users of financial statements with information that is useful, that is with:

(i) relevant information about the asset and liability and about any resulting income, expenses or changes in equity; and

(ii) a faithful representation of the asset or liability and of any resulting income, expenses or changes in equity.

Further, paragraph BC 123 states that in relation to relevant information, the Conceptual Framework says that recognition of a particular asset or liability and any resulting income, expenses or changes in equity may not always result in relevant information when:

(i) It is uncertain whether an asset or liability exists; or

(ii) An asset or liability exists, but the outcome is uncertain and the probability of an inflow or outflow of economic benefits is low.

Paragraph BC 124 further adds that if it is uncertain whether a regulatory asset or regulatory liability exists, an entity should recognise that item if it is more likely than not that it exists. Such recognition threshold is not in line with the Conceptual Framework which states that recognition of assets and liabilities with uncertainty about their existence, may not always result in relevant information.

We suggest that the Board should undertake further deliberations to explore the possibility of aligning the final approach with the Conceptual Framework.

(b) As discussed in our response to (a) above, we understand that a 'more likely than not' recognition threshold does not appear to be in line with the recognition threshold under the Conceptual Framework. Accordingly, we suggest that the Board should undertake further deliberations so that the final approach could be aligned with the Conceptual Framework.

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?

AOSSG members' comments on Question 5

[Australia]

The AASB agrees generally with the measurement proposals. Modified historical cost, using updated future cash flow estimates but an historical discount rate (unless changed in accordance with the regulatory agreement or otherwise by the regulator) is an appropriate general measurement basis.

The AASB received feedback from some stakeholders of concerns with the degree of estimations required by the proposals, noting that estimations can be very subjective. The AASB notes the regulatory environment often is dynamic as there may be numerous changes from the regulator during a regulatory period and, as a result, the proposals may create

volatility. For example, a regulator can make decisions within a pricing period that can change the basis of previous cash flow estimates.

Consequently, as noted in Question 3 regarding the basis for allocating a performance incentive to TAC across multiple reporting periods, consideration should be given to including a constraining limitation similar to that for estimates of variable consideration under IFRS 15, so that significant reversals in future cash flow estimates are highly unlikely.

Assets and liabilities extending beyond the regulatory period

The ED and illustrative examples generally assume that the regulatory period and the effective life of assets are reasonably similar. However, this normally will not be the case, as most infrastructure plant and equipment has a useful life much longer than the relatively short term of a regulatory agreement (typically two to five years), with some having very long lives, e.g. even ninety years and more for some network assets.

With such relatively short regulatory periods, an entity would have to assess whether it has regulatory assets and liabilities if the relevant cash flows are expected to occur beyond the term of the current regulatory agreement. That is, the entity needs to assess the boundary of the regulatory agreement (paragraph B28). This will be affected by provisions (if any) in the regulatory agreement as to the treatment of outstanding regulatory assets and liabilities at the conclusion of a regulatory period. Additional guidance and examples in this respect would be helpful, to clarify the recognition of regulatory assets and liabilities in relation to assets with useful lives extending well beyond the current regulatory period.

Impairment of regulatory assets

Paragraph BC141 indicates that there is no need for a separate impairment test for regulatory assets, since the future cash flows reflect the estimated changes caused by factors such as demand risk and credit risk. Paragraphs 37–38 address the uncertainty of cash flows and illustrate the effect of credit risk. The AASB considers that it could be useful to add a further example, perhaps labelled price risk. In some cases, although an entity has the right to add amount in setting future regulated rates, it might not be realistic in the light of public pressure regarding the rate of increase in regulated rates. Entities would need to consider such factors as well in estimating future cash flows, which adds to the subjectivity of the measurement basis.

[China]

Since estimating future cash flows involves a lot of subjective judgements and estimates, we suggest the Board providing more guidance on the forecasting methods and the calculation of future cash flows to help guide the practical applications.

[Korea]

Even if the existence of the regulatory assets and regulatory liabilities is almost certain, the estimation of when the future cash flows would be generated can be uncertain. Thus, we agree in principle to discounting the estimated future cash flows used in measuring regulatory assets and regulatory liabilities.

However, the costs would exceed the benefits if the present discounted value is applied to a case where the regulatory assets and regulatory liabilities are realized within a short period of time. Therefore, a practical expedient should be provided to exempt regulatory assets and regulatory liabilities that are to be realized within one year from being discounted.

[Malaysia]

(a) We agree with the principle that the proposed measurement basis should use historical cost for regulatory assets and regulatory liabilities. This reflects one of the measurement bases in the Conceptual Framework and would provide more useful information than current values. Further, requiring the use of current values would be subjective and difficult to calculate in the case of regulatory assets and regulatory liabilities.

We agree that it is appropriate to update estimates in accordance with conditions existing at reporting date.

(b) We agree with the proposed cash-flow based measurement technique.

However, we consider that there is a need for guidance on:

(i) *Demand risk* – There may be insufficient demand to recover the regulatory asset even if the rate charged to customers does not increase.

With an enforceable right to lift prices, demand risk is likely to increase. This was less of a problem in the early work for this project as defined rate regulation related to essential goods and services. The Exposure Draft provides no guidance on demand risk, in contrast to the provision of guidance on credit risk in paragraph 38.

(ii) *The boundary of the regulatory agreement.* The recovery of a regulatory asset or fulfilment of a regulatory liability may fall outside the boundary of the regulatory agreement.

We understand that some agreements comprise both an underlying long-term agreement such as a licence and consecutive short-term agreements within the long-term agreement. These short-term agreements would be regulatory agreements each with its own boundary, for relatively short period such as three years. In such cases, all parties to the long-term agreement may expect that some regulatory assets and regulatory liabilities will be settled outside the boundary of a specific regulatory agreement. However, such regulatory assets and regulatory liabilities are not enforceable as described in the Exposure Draft.

There is some guidance in paragraph B34 that might be applied by analogy to such situations. We recommend that the final standard provide guidance in situations where there is no guarantee from the regulator that outstanding balances will be reimbursed if the regulatory agreement is not renewed. In particular, we recommend that the explanation in paragraph BC155 be included in the Standard. Further, we recommend the development of an illustrative example that demonstrates how regulatory assets and regulatory liabilities are recognised if a new regulatory agreement creates them as if the regulatory agreement had been continuous.

(c) If cash flows arising from a regulatory asset or regulatory liability are uncertain, we agree with the proposal in Exposure Draft 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. It may be useful to add some of the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets in* determining the best estimate in conditions of uncertainty. This is especially relevant for new regulatory arrangements where there is no history of regulatory adjustments, or where the history of regulatory adjustments is so varied that it provides no guide to future cash flows.

[Pakistan]

(a) We understand that the proposed measurement basis is based on the 'historical cost' under the Conceptual Framework. This modified historical cost basis would require use of

discount rate. We also note that, in general, the discount rate would not require updation (discount rate would be updated when the regulatory agreement changes the regulatory interest rate).

However, we also note that the proposed measurement basis would require significant level of estimations, resulting in highly subjective outcomes. The uncertainty related to demand risk and the outcome of the regulatory decisions would add further complexity in the implementation of the proposed measurement basis. Therefore, we think that the cost of implementing proposed measurement basis might not match the expected benefits to the users of financial statements. We suggest that the Board should deliberate on developing a simpler measurement approach, similar to the approach taken in IAS 12 Income Taxes for measurement deferred tax assets and liabilities.

(b) As discussed in our response to (a) above, the uncertainty associated with the demand and regulatory decisions would make the cash flow estimation extremely complex and volatile. Further, there is a room for highly subjective measurements resulting in opportunities for earnings management. We suggest that a simplified measurement approach should be developed similar to approach taken in IAS 12 Income Taxes for measurement deferred tax assets and liabilities.

(c) We understand that the use of expected values or most likely amount to estimate the uncertain future cash-flows would add complexity, subjectivity and additional costs which might not be justified by the expected benefit to the financial statement users. As discussed in our response to (a) and (b) above, a simplified approach akin to measurement of deferred tax assets and liabilities would not warrant a need for use of such complex and subjective estimation techniques.

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?

AOSSG members' comments on Question 6

[Australia]

The AASB agrees generally with the proposal to use the discount rates specified in a regulatory agreement for the relevant regulatory assets and liabilities. The pricing proposals from entities in preparing for a new regulatory period typically go through a public consultation process with the regulator, resulting in public disclosure of an entity's proposed regulatory interest rates and the regulator's determinations. Using the regulatory rates would provide an objective basis for

the discount rates. Some stakeholders have suggested that typically there is not a significant difference between proposed and final regulatory interest rates.

Minimum interest rate for regulatory assets

The AASB has some concerns over the proposal to permit an entity to apply a "minimum", higher interest rate for a regulatory asset if it assesses the regulatory interest rate as insufficient to compensate for the time value of money and the uncertainty of the future cash flows. This adds subjectivity to the measurement basis, which might be reduced if further guidance is added as to suitable approaches to making that assessment and determining an alternative interest rate. An entity typically would not be able to look to similar assets within the same organisation that are not subject to rate regulation in order to estimate an alternative, minimum rate, given the specialised nature of most regulated assets.

An entity might elect to use the rate(s) of interest that it proposed in its pricing proposals, for example. At the least, the disclosure requirements would identify the rates applied and the regulatory agreement rates, if different, so that financial statement users could assess the entity's approach.

No alternative interest rate for regulatory liabilities

The proposals would require the regulatory interest rate to be used without exception for regulatory liabilities. Paragraphs BC169–BC170 explain this approach as avoiding unnecessary cost and complexity for entities. The IASB appears happy to accept lower (higher) regulatory interest expense over time instead of lower (higher) regulatory expense upon the initial recognition of a lower (higher) regulatory liability if a different interest rate was used.

The proposals therefore do not appear to be neutral in their treatment of regulatory assets and liabilities: regulatory assets should be measured using a minimum rate when higher than the regulatory rate so that the regulatory assets are reduced appropriately. This approach needs to be better justified, since using the regulatory interest rate without exception for regulatory assets might also be explained as avoiding unnecessary cost and complexity. Many regulatory agreements are likely to give rise to regulatory liabilities, with the recovery period shorter than the long useful life of assets covered by the regulatory asset base. The measurement of regulatory liabilities is just as important as the measurement of regulatory assets.

Other adjustment of regulatory interest rates

Some regulatory agreements specify the regulatory interest rate in real terms, i.e. adjusted for inflation, or possibly net of income tax effects. It would be useful to clarify that the relevant future cash flows should be estimated on a consistent basis, or else the regulatory interest rate should be adjusted to be consistent with the basis for the estimated cash flows.

Uneven regulatory interest rate

Paragraph 54 requires a series of different regulatory interest rates to be "translated" to a single discount rate to apply to that regulatory asset or liability throughout its life. It is not clear what translation process is contemplated without Illustrative Example 5. This example also covers a change to the regulatory interest rate, which paragraph 58(b)(i) also refers to paragraph 54 and translation to a single discount rate.

It would be preferable for paragraph 54 to state the principle to be applied, such as the single discount rate is the rate that discounts the (updated) estimated future cash flows to the carrying amount of the regulatory asset or liability at initial recognition or when the regulatory interest rate changes. Of course, if other methods were also contemplated, then Example 5 would not be regarded as providing interpretative guidance.

[China]

We do not agree with the proposal in the ED to use the minimum interest rate when the regulatory interest rate is insufficient to compensate the time value of money and uncertainties of future cash flows to discount the estimated future cash flows. When determining the regulatory interest rate in the regulatory agreement, the business characteristics of rate regulation activities have been considered, and the regulatory interest rate can reflect the time value of money and uncertainties of future cash flows generated by the regulatory assets or the regulatory liabilities. In practice, to judge whether the regulatory interest rate is sufficient to compensate for the time value of the money and the uncertainties of future cash flows of the regulatory assets and to determine the sufficient interest rate involve great subjectivity and difficulty, which may lead to accounting arbitrage. Besides, to apply different discount rates for regulatory assets and regulatory liabilities will affect the comparability and understandability of financial information.

The ED does not specify how to convert a series of different regulatory rates into a single discount rate, which may lead to diversities in the application of the standard in practice, and thus reduce the comparability of financial statements. We suggest the Board providing more guidance and illustrative examples on the conversion of different interest rates.

[Korea]

It would be more desirable in terms of maintaining consistency with other standards (e.g., IFRS 13 Fair value measurement) to set out a principle that the discount rate is determined by reflecting the risk of the item that generates cash flows, instead of the method set out in the ED where the regulated interest rate provided by the regulatory agreement is determined as the discount rate.

As for the exceptions related to regulatory liabilities, it would be more reasonable in terms of the structure of the standard to have the above principle as the basic rule and add practical exceptions for regulatory liabilities.

[Malaysia]

(a) We agree that the discount rate should be the regulatory interest rate provided in the regulatory agreement where the discount rate is clear, subject to the provision that discounting is not required for items recovered in less than 12 months.

However, the regulatory agreement may not state the discount rate clearly and it will need to be estimated. We would welcome guidance on whether that can be used such as the weighted average cost of capital (WACC) for regulatory liabilities or the incremental borrowing rate for regulatory assets. It would also be helpful inf the Basis for Conclusions explains why the Board did not consider the incremental borrowing rate as an alternative to the regulatory interest rate for regulatory liabilities. The concept of incremental borrowing rate is not new as it has been used in IFRS Standards such as IFRS 16 *Leases* and therefore is familiar to preparers and users of financial statements. In addition, it would be helpful to understand why the Board considered that regulatory liabilities should not reflect non-performance risk.

We recommend that the explanation in paragraph BC163(c) of the Basis for Conclusions be incorporated into the final Standard to clarify situations where regulatory assets or

regulatory liabilities form part of a larger base on which the regulatory agreement provides a regulatory return.

(b) It is not clear why different rates should be used for regulatory assets and regulatory liabilities in cases when the regulatory interest rate provided for a regulatory asset is insufficient. The proposals ensure that the discount rate of a regulatory asset reflects the time value of money and uncertainty in the amount and timing of future cash flows whereas the regulatory interest rate is used to discount regulatory liabilities in all circumstances. This distinction appears to be justified on the ground of cost and complexity, which appears anomalous given the requirement related to regulatory assets.

We recommend that the explanation in paragraph BC162(b) of the Basis for Conclusions be incorporated into the final Standard to clarify the approach where the regulatory interest rate for a regulatory asset is insufficient. We further recommend that the statement in paragraph BC167 that instances of insufficiency are expected to be rare be incorporated into the Standard to reduce concerns about the need to check sufficiency.

(c) 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.

(d) We agree with how 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.

[Pakistan]

(a) We have concerns regarding the proposed approach of discounting the cash flows related to regulatory assets and regulatory liabilities. As noted in our responses to question regarding measurement, we do not support the use of cash-flow based measurement technique given the complexity, subjectivity and additional cost. A simplified approach akin to measurement of deferred tax assets and liabilities would not warrant a need for use of discounting in measurement of regulatory assets and regulatory liabilities.

(b) Please refer our response to (a) above.

(c) Please refer our response to (a) above.

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. (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?

AOSSG members' comments on Question 7

[Australia]

The AASB has not determined a view on the accounting proposed for items affecting regulated rates only when related cash is paid or received – stakeholders did not comment either. Paragraphs 59–66 incorporate some complexities and it is only Illustrative Example 4 that assists in explaining the impact of the proposals. However, this is a simplified example, of the

regulatory recovery of an expense where the related liability (provision) is measured at present value under IAS 37. An example where the related asset or liability is not measured at present value could assist in understanding and applying the requirements.

Paragraph BC174 notes that these proposals could apply to items recognised as income or expenses through the application of IAS 12 *Income Taxes*, for example. An illustration of such application would also be useful to clarify whether the regulatory asset/liability reflects only current tax amounts, or else both current and deferred tax amounts – does this depend on the terms of the regulatory agreement?

Presentation outside net regulatory income or expense

Paragraph 69 provides an exception to presenting all regulatory income or expense in profit or loss: when the related asset or liability is remeasured through other comprehensive income, the regulatory income or expense is also recognised in other comprehensive income. This would make it easier for an entity to explain the circumstances, as contemplated in paragraphs 84–85. The question therefore arises whether regulatory effects related to income tax payments (or receipts) should similarly be recognised in income tax expense rather than in the net regulatory income or expense presented immediately below revenue.

[China]

We have no comments or suggestions.

[Korea]

With regard to the items that affect regulated rates only when cash is paid or received, there is a need to re-examine the relevant accounting treatments in the ED from the following points of view.

Some view that it is impossible for the entity to recognize the related assets or liabilities because there is a possibility that the entity does not have a current enforceable right according to the regulatory agreement until cash is paid.

As there exists a relatively long time gap between recognizing the cost in the book and reflecting the change in the rate, termination or renewal of the regulatory agreement (i.e., boundary of the contract) should be taken into consideration.

[Malaysia]

(a) In principle, we agree with the measurement proposals when items of expense or income affect regulated rates only when related cash is paid or received. However, we have not met this in practice.

In many jurisdictions, the proposal is consistent with the treatment for taxation where deferred tax assets and deferred tax liabilities represent the differences in timing of recognition between IFRS Standards and the taxation system. Consequently, the approach will be familiar to preparers and other stakeholders. We further note that deferred tax assets and deferred tax liabilities are not discounted.

However, there is a substantive difference between the approach applied for income tax in that, in many jurisdictions, deferred tax assets and deferred tax liabilities have an unlimited life. In contrast, under the proposals in the Exposure Draft, regulatory agreements may have a limited life determined by the boundary of the regulatory agreement. A consequence of this is that the cash flows allowed by the regulatory agreement may fall outside the boundary of the regulatory agreement.

For example, an entity may not expect to incur remediation cash flows for 30 years, and the boundary of the regulatory agreement is 5 years. The remediation obligation will be recognised in accordance with IFRS Standards, but the associated regulatory asset or regulatory liability will not be recognised because it is outside the boundary of the regulatory agreement. We recommend that the proposals in the Exposure Draft be amended to address such situations.

(b) We note the rationale in paragraphs BC183-BC186 for presentation of regulatory income and regulatory expense in other comprehensive income for items affecting regulated rates only when related cash is paid or received. In our view, it would be preferable for all regulatory income or regulatory expense to be presented in profit or loss. We consider that classifying all regulatory income and regulatory expense in the same part of the performance statement would provide better information for users in that expenses and income arising from regulatory activities are presented together.

[Pakistan]

Please refer our response to question 6 and 7.

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. 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?

AOSSG members' comments on Question 8

[Australia]

The AASB agrees with the presentation proposals.

[China]

We have no comments or suggestions.

[Korea]

Although in principle the gross amount should be presented, the current ED requirement of presenting regulatory income and regulatory expense in net amount. The reason for that should be specified.

The term 'regulatory income' should be replaced with another term like 'adjustment amount.'

According to the current ED, regulatory income is recognized as part of the gross income together with the income recognized by charging rates to customers. There is concern that this may lead to excessive recognition of the gross income.

[Malaysia]

(a) We agree that an entity should present all regulatory income minus all regulatory expense as a separate line item immediately below revenue.

(b) We agree with the proposed inclusion of regulatory interest income and regulatory interest expense within the line item immediately below revenue. In our view, regulatory income minus regulatory expense is appropriately recognised as part of operations. This will ensure that all regulatory impacts on profit or loss are presented in a single place in the statement of financial performance.

[Pakistan]

(a) We agree that an entity should present all regulatory income minus all regulatory expense as a separate line item immediately below revenue. We agree with the Board's rationale that regulatory assets and regulatory liabilities will affect the amount of revenue that an entity will recognise in future periods. Accordingly, all regulatory income minus all regulatory expense would be presented in a separate line item immediately below revenue.

(b) We agree with the proposed inclusion of regulatory interest income and regulatory interest expense within the line item immediately below revenue. We agree with the Board's rationale that the amounts relating to regulatory interest will be included in determining the future regulated rates charged to customers and hence included in revenue of future periods. Therefore, this presentation would coherently and understandably show the effects on revenue of regulatory assets and regulatory liabilities and changes in them.

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?

AOSSG members' comments on Question 9

[Australia]

The AASB agrees with the disclosure proposals. The specific disclosure objective relating to regulatory assets and liabilities in paragraph 79 is the same as the overall disclosure objective set out in paragraph 72(b). It would be more useful to generalise the overall disclosure objective, perhaps by reference to the statement of financial position. Otherwise, the need for both overall and specific disclosure objectives is unclear.

[China]

We consider that adding disclosures of the nature and key terms of the regulatory agreement and the risks associated with the regulatory agreement, can enable the users of financial statements to timely and fully understand and evaluate the effects of the regulatory agreement on the operating results, financial position and cash flows of the regulatory entities.

[Korea]

It should be clarified whether the disclosure requirement on contingent liabilities in IAS 37 should be applied if the recognition threshold for regulatory assets and regulatory liabilities is not met.

[Malaysia]

We wish to highlight that there may be legal restrictions on disclosures in some developing countries. There may not be the same level of maturity for rate-regulated activities in developing countries as in developed countries, which has led some regulators to impose such restrictions.

This is not the same as cases where legal disclosures and disclosures under IFRS Standards can be met through additional disclosures. In this case, there is no solution other than to fail to address requirements in an IFRS Standard. We would be very concerned if we are unable for legal reasons to assert compliance with IFRS Standards. The forthcoming Standard should make provision for cases where certain disclosures are legally prohibited.

(a) We agree that the overall disclosure objective should focus on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities.

(b) We have no comments on the proposed disclosure objective.

(c) We consider that the single line item should be disaggregated in the notes between regulatory income and regulatory expense as a net number may contain material regulatory assets and material regulatory liabilities.

We consider that, where an entity conducts both rate-regulated activities and other activities, IFRS 8 *Operating Segments* should require any segment that contains both rate-regulated activities and other activities to be disaggregated between those activities in the notes to the financial statements. Without such a requirement, it will be difficult for users of financial statements to fully understand the regulated and unregulated components of the entity's activities.

There may be cases where the boundary of a regulatory agreement is the only reason why a regulatory asset or regulatory liability cannot be recognised. We recommend disclosure of such cases, together with the entity's assessment of the likelihood of these items falling within the boundary of the regulatory agreement in the future. This will enable users of financial statements to understand the expected impacts of current period activities. The information is based on fact rather than estimates and is unlikely to trigger concerns about providing forward-looking information.

We consider that some of the required disclosures, such as those related to the discount rate, may be commercially sensitive. We recommend that consideration be given to

permitting non-disclosure of commercially sensitive information for rate-regulated entities competing with non-rate-regulated entities.

(d) We consider that the proposed overall and specific disclosure objectives and disclosure requirements are generally 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. However, there are problems in providing the disclosures that mostly related to:

(i) Differentiating between regulated and non-regulated items and tracking the regulatory OPEX and CAPEX items that are scoped in under the standard.

(ii) Tracking movement, recognition and derecognition of regulatory assets and regulatory liabilities might need to be done manually if system enhancements are limited.

(iii) Other unforeseen problems are likely to arise during actual implementation.

To assist in preparing the disclosures, we would support the addition of illustrative examples to assist in developing disclosures.

[Pakistan]

(a) We agree that the overall disclosure objective should focus on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities. The disclosure objective is sufficiently precise and consistent with the overall proposed objectives of the Exposure Draft.

(b) We do not have any other comments at the moment on the proposed overall disclosure objective. As we have concerns on the existing measurement proposals in the Exposure Draft, we are currently not commenting on the questions (c) and (d) as these relate to specific disclosure requirements.

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?

AOSSG members' comments on Question 10

[Australia]

The AASB received feedback from some stakeholders of concerns with the proposed retrospective application of a Standard, with some suggesting restricting the retrospective application to one previous regulatory period (usually 4 or 5 years). It was also noted that regulated entities can have assets with useful lives of 100+ years and some were concerned about how far back into their accounting they could go to identify depreciation expense differences, for example.

The AASB recommends the IASB seek ways to either simplify or better explain the implementation of a final Standard. Very few Australian entities have ever recognised regulatory balances previously (under the Australian equivalent of IFRS 14 *Regulatory Deferral Accounts* or otherwise), and the requirements of retrospective application appear to be unclear and onerous.

Perhaps a key point to be emphasised is that the objective of retrospective application is to identify and measure the regulatory assets and liabilities that exist at the date of transition (i.e. the beginning of the earliest comparative period presented in the first financial statements in which the Standard is applied). These regulatory assets and liabilities are unlikely to be measured based simply on any differences in accumulated depreciation for financial reporting versus regulatory purposes – if such regulatory balances were identified and could be related to the financial reporting amounts. If not, an entity could ignore any potential depreciation differences on transition on the grounds that timing differences arising from depreciation either would not arise (consistent with the comments at the end of the AASB's response to Question 3) or were impracticable to identify retrospectively.

Entities should already be aware of the limitations on their ability to set future prices for goods or services pursuant to a regulatory agreement. The regulatory assets and liabilities that exist at the date of transition would reflect those limitations – and any clause in expired regulatory

agreements requiring compensation for outstanding regulatory assets and unfulfilled regulatory liabilities. The implementation effort might therefore be directed to measuring the regulatory assets and liabilities that have arisen in reasonably recent time frames, as well as introducing accounting systems to enable compliance with any resulting Standard, without the need to reconsider the accounting of decades past. Clarification of what retrospective application means would help entities largely unfamiliar with rate regulation accounting.

[China]

We suggest the Board further clarifying how to apply the retrospective adjustments, making retroactive adjustments to every comparative period presented, or retrospectively presenting cumulative effect of initially applying the Standard recognized at the date of initial application.

[Korea]

When considering the cost-benefit of the transition requirements of the new standard, it may be worthwhile to consider allowing an adjusted retrospective method (reflecting the standard to the current retained earnings) instead of a full retrospective approach.

[Malaysia]

(a) We are concerned with the proposal to apply the Standard retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Given that some regulatory agreements may have been in place for some time, and the boundary of these agreements may have changed over that time, it may not be *practicable* to apply the Standard retrospectively. In addition, retrospective application would require extensive costs and effort without commensurate benefit to users of the financial statements.

Our preference is for prospective application. However, if retrospective application is retained, we recommend that some form of simplification be developed for cases where retrospective application would require undue cost or effort.

We recommend the development of more detailed guidance and an illustrative example for transition as was provided in IFRS 3 *Business Combinations*. This will be of great assistance to countries that have not recognised rate-regulated activities before the application of the forthcoming Standard.

(b) We consider that a transition period of no less than 36 months is necessary for the following reasons:

(i) Given the complexity of the proposals and that they are very different from the requirements in other IFRS Standards, we consider that a relatively long lead time will be necessary for entities to establish whether some of their activities are within the scope of the forthcoming Standard before developing the necessary systems.

(ii) For regulated entities, the operational consequences of implementing this Standard will be at least as complex as IFRS 9 *Financial Instruments* where a transition period of four years was provided.

(iii) Following our comment in question 7 that there may be legal restrictions on certain disclosures in some in developing countries, a longer transition period may provide the possibility for some of these legal difficulties to be resolved.

(iv) A future standard will impact on reported revenue with a likely impact on taxation. Taxation authorities do not usually consider the impact of new accounting requirements until they are enacted, and then need time to consider whether changes to the taxation rules are necessary before proposing any changes.

In relation to the transition date, we recommend flexibility in setting the date to permit entities to transition to a rate-regulated standard at the start of a regulatory period. We do not consider that this will materially impact comparability with other entities, and it will provide users with a clear change top the new reporting regime.

[Pakistan]

(a) We understand that the full retrospective approach as proposed in the transition requirements in the Exposure Draft, would require much effort and additional cost for the financial statement preparers. We suggest that the Board should deliberate on introducing a modified retrospective approach to facilitate the transition.

(b) We understand that similar to the IASB's past practice, the effective date should be set three years after issuance of final 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?

AOSSG members' comments on Question 11

[Australia]

The AASB has not considered the interaction with other IFRS Standards.

[China]

Paragraph B47 of the ED only provides a principal based guidance on how the proposed requirements would interact with the requirements of *IFRIC 12 Service Concession Arrangements*, which is hardly applicable in practice. We suggest the Board providing more guidance and illustrative examples on how to interact with *IFRIC 12 Service Concession Arrangements* and for practical application of the standard.

We suggest the Board amending *IFRS 8 Operating Segments* accordingly to incorporate the relevant effects of regulatory assets, regulatory liabilities, regulatory income and regulatory expense into the requirements of relevant disclosures of *IFRS 8 Operating Segments*.

[Malaysia]

(a) In our view, there are some interactions with IFRS Standards where further guidance would be useful:

   (i) IFRIC 12 *Service Concession Arrangements*: As regulatory assets and regulatory liabilities can arise under service concession arrangements; we recommend the development of an illustrative example to aid application and to clarify the interaction between IFRIC 12 and the forthcoming Standard.

(ii) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: We understand that there are arrangements where an entity is partly compensated for shortfalls in revenue by an increase in prices (similar to a rate-regulated activity) and partly through government assistance. Some discussion as to whether such arrangements could fall within the scope of the Standard would assist in ensuring consistent application.

(iii) IFRS 8 *Operating Segments:* As noted in question 9, we consider that rate-regulated activities should be reported separately from other activities by disaggregating a segment that combines rate-regulated activities and other activities.

(iv) IAS 1 *Presentation of Financial Statements:* The ED discusses regulatory assets and regulatory liabilities being presented separately as current and non-current in the statement of financial position in accordance. It is not clear how the amendments to IAS 1 which will be effective on 1 January 2023 would affect the classification of regulatory liabilities i.e., would there be a high probability that all regulatory liabilities be classified as current as there is no right to defer settlement).

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?

AOSSG members' comments on Question 12

[Australia]

The AASB has no comments in response to Question 12.

[China]

We suggest the Board seeking further opinions from the users of financial statements and carefully assessing the effects of the standard on the information provided by financial statements and on the quality of financial reports. Since the accounting model defined in the standard requires to use a lot of accounting estimates and judgments, which will be greatly influenced by subjectivity, the standard may be used as a tool for earnings management that may reduce the comparability and consistency of financial information, and thus affect the quality of accounting information.

We basically agree with the Board's analysis on the possible costs of implementing the standard. However, there are differences in regulatory environment and regulatory models in various jurisdictions, for the regulatory entities that currently don't recognize, measure or disclose regulatory assets, regulatory liabilities, regulatory income and regulatory expenses arising from rate regulated activities, there might be high costs for standard implementation, including significant increase in accounting recording costs, information management costs, disclosure and filing costs and audit costs.

In our view, the application of the standard for the recognition and measurement of regulatory assets and regulatory liabilities will involve relatively high uncertainties and more subjective estimates, so the requirement for the entities to discount the future cash flows to recognize and measure the regulatory assets and regulatory liabilities will bring in huge implementation costs to the entities. However, the users' need for relevant information of regulatory assets and regulatory liabilities is low, which does not meet the 'cost-benefit' principal. Therefore, we generally do not support the Board to publish accounting standard for regulatory assets and regulatory liabilities.

[Malaysia]

(a) Subject to our comments above, especially the scope of the proposals, we generally agree with the analysis of the likely effects of the implementation of the proposals. Specifically, we are of the view the Exposure Draft has merits based on the following:

(i) It enables rate regulators to monitor and assess the performance of companies clearly and in detail based on audited income statements; and

(ii) It enables investors and users to make a better assessment on the company's prospects based on the disclosure of detailed business activities.

However, we note that although a Standard addressing rate-regulated activities will provide better information to the markets, it is unclear how markets will react in those countries that have not recognised rate-regulated activities in the past. There is the potential for material changes in profit or loss and the balance sheet. Although efforts can be made to explain the meaning of the changes to sophisticated analysts, it will be very difficult (if not impossible) to provide the same understanding to retail investors.

(b) Paragraph BC247 states that the costs of implementing the proposals are not expected to be significant. We have some doubts about the accuracy of this statement.

We understand that the information about regulatory agreements is frequently held in separate systems and there may be significant costs to develop the necessary financial reporting systems and to train staff. There will be significant costs to analyse recoverable additional OPEX and CAPEX (which would need to be tracked at the individual project level), performance incentives and penalties and Discounting of regulatory assets and regulatory liabilities over multiple period'.

Further, the financial reporting period may differ from the regulatory reporting period and the availability of relevant data and decisions about adjustments to future rates may not be readily available in time to prepare the financial statements. It will also be necessary for an entity to explain the impact of the proposals to users of financial statements once the likely effect of the Standard is established.

(c) We have no additional comments.

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?

AOSSG members' comments on Question 13

[Australia]

The AASB has no other comments.

[China]

We have no other comments or suggestions.

[Malaysia]

We have no further comments.