



## THE 13<sup>th</sup> ANNUAL AOSSG MEETING

*Joining hands in regional cooperation and the development of IFRS*

*November 22-24, 2021, Virtual Meeting*

# Rate Regulated Accounting – International Developments and Pakistan Experience

**Sohail Malik**

**Institute of Chartered Accountants of Pakistan**

# IASB proposals

## Development and issuance of an IFRS (Superseding IFRS 14)

Provide relevant  
information

Measure regulatory  
assets and liabilities  
by discounting the  
estimated future  
cash flows

Recognition of regulatory  
assets, liabilities, income  
and expenses

Presentation of:

- Regulatory assets and regulatory liabilities as separate line items (with current / Non-current distinction)
- Regulatory income minus regulatory expense in a separate line item (immediately below revenue)

# Pakistan experience

## Regulatory agreement and tariffs

Regulatory agreement lacks bright line formulae/basis for determining total allowed compensation

Tariff regime involves varied tariffs for different customers (e.g. house-hold consumers, general industrial consumers - power-plants, fertilizer plants, textile etc)

Future tariff adjustments (timing and amount) are at the sole discretion of the regulator

The regulatory agreement does not contain regulatory interest rate / element

The regulatory process for determination and approval of total allowed compensation takes significant time (after the year-end)

# Pakistan experience

## Application of IFRS 14

IFRS 14 scopes-in entities that adopt IFRS for the first time (i.e. preparing IFRS compliant financial statements)

While in Pakistan companies prepare financial statements based on IFRS and few overriding requirements specified by the corporate regulator

Presentation of regulatory deferral balances, as per IFRS 14, has been a challenge for Pakistan utility companies

*(Presentation of regulatory deferral balances/amounts separately from asset, liabilities, income and expenses)*

# What we heard

## Company A



## Company B



### Challenge in application of proposed measurement approach

Estimation of timing of cash flows under proposed measurement approach would be practically challenging, involving uncertainty and complexity (volatility and subjectivity)

In the absence of a regulatory interest rate, determination of a discount rate would also be subjective

# Our proposal

- We support the development of IFRS on regulatory assets and regulatory liabilities
- We agree with the proposed recognition principle
- Our stakeholders note practical challenges on the application of proposed measurement approach

**We suggest measurement of regulatory assets and regulatory liabilities at historical cost, subject to review and impairment**

***(similar to deferred taxes – as these are not discounted)***

# Thank you



**CA**  
PAKISTAN