Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Berlin, 17 May 2021

Dear Andreas,

IASB Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* issued by the IASB on 28 January 2021 (herein referred to as 'ED').

We appreciate the opportunity to comment on the ED proposals and appreciate the IASB's effort to develop an accounting model for recognition, measurement, presentation and disclosure of regulatory assets and regulatory liabilities, and of regulatory income and regulatory expense.

[Summary of the response is pending.]

Our responses to the questions of the ED are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann (bultmann@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

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Appendix – Answers to the questions in the ED

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). The [draft] Standard would not apply to any other rights or obligations created by the regulatory agreement—an entity would continue to apply other IFRS Standards in accounting for the effects of those other rights or obligations.

Paragraphs BC78–BC86 of the Basis for Conclusions describe the reasoning behind the Board's proposals. They also explain why the Exposure Draft does not restrict the scope of the proposed requirements to apply only to regulatory agreements with a particular legal form or only to those enforced by a regulator with particular attributes.

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

(b) Do you agree with the proposed scope of the Exposure Draft? Why or why not? If not, what scope do you suggest and why?

(c) Do you agree that the proposals in the Exposure Draft are clear enough to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities? If not, what additional requirements do you recommend and why?

(d) Do you agree that the requirements proposed in the Exposure Draft should apply to all regulatory agreements and not only to those that have a particular legal form or those enforced by a regulator with particular attributes? Why or why not? If not, how and why should the Board specify what form a regulatory agreement should have, and how and why should it define a regulator?

(e) Have you identified any situations in which the proposed requirements would affect activities that you do not view as subject to rate regulation? If so, please describe the situations, state whether you have any concerns about those effects and explain what your concerns are.

(f) Do you agree that an entity should not recognise any assets or liabilities created by a regulatory agreement other than regulatory assets and regulatory liabilities and other assets and liabilities, if any, that are already required or permitted to be recognised by IFRS Standards?

Response to (a)

We agree with the objective of the ED. We welcome the IASB's efforts to develop a standard which would require an entity subject to a regulatory agreement to recognise regulatory assets and regulatory liabilities in its statements of financial position and regulatory income and regulatory expense in its statement(s) of financial performance. Since current IFRSs do not allow the recognition of regulatory assets, liabilities, income, and expense, we agree that the current financial statements of entities subject to a rate regulation do not present their activities fairly. Recognising regulatory assets, liabilities, income, and expense would result in financial statements providing a more complete picture of how regulatory income and regulatory expense affect the entity's financial performance, and how regulatory assets and regulatory liabilities affect its financial position.

However, in our view, the proposed requirements for determining the components of the total allowed compensation clearly contradict the objective of the ED as formulated in paragraphs 1 and 2. We deem that application of the proposals would not result in financial statements of entities subject to a regulatory agreement providing a clearer and more complete picture of the relationship between the revenue and expenses of those entities. In this regard, please refer to our comments to question 3.

Response to (b)

Our analysis indicates that entities within the utilities sector were clear on the scope of the ED. We did not note any uncertainties about the scope within this sector.

The few responses we received from entities beyond the utilities sector in Germany indicated that they were not affected by the proposed scope. Furthermore, no rate-regulated activities were mentioned which are not affected by the scope of the ED, but which should fall within the scope.

Response to (c)

From our point of view, the proposals in the ED are clear enough to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities are clear.

However, we have concerns from a conceptual and practical perspective about the detailed proposals on how an entity shall determine the components of the total allowed compensation for goods or services supplied in a period (paragraphs B2-B15). In this regard, please refer to our comments to question 3 below.

Further, we noted that permanent differences can arise if a recoverable expense relating to the supply of goods or services is larger/lower than an expense that the entity is allowed to recognise applying IFRS Standards and this over-/ under-recovery will never reverse. In our understanding, these permanent differences do not give rise to regulatory assets or regulatory liabilities according to the proposed model und thus, are not within the scope of the ED. While understanding the conceptual merits of the IASB's proposed definition of an allowable expense as an expense by applying IFRS Standards, we have economic and operational concerns about the outcome of the application of this proposal, which we outlined under our response to question 3(b) below. Therefore, we suggest the Board to explicitly state that permanent differences do not give rise to regulatory assets and regulatory liabilities as well as to explain how this treatment is consistent with the objective of the future Standard set out in paragraphs 1 and 2 of the ED.

Response to (d)

We agree that the requirements proposed in the ED 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.

Restricting the definition of a regulatory agreement to certain legal forms or certain characteristics of a regulator would narrow the scope of the ED without any discernible benefit. Moreover, it hardly seems possible to anticipate the diverse legal designs of regulatory agreements worldwide.

Response to (e)

We are not aware of any situations in which the proposed requirements would affect activities that should not be subject to the scope of the ED. However, as noted, we have received very limited feedback from entities outside the utilities sector.

Response to (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. However, in our view, regulatory assets and regulatory liabilities determined applying the proposed requirements would not faithfully represent the enforceable rights and obligations arising from a regulatory agreement. Please see our comments to question 3 below.

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 andBC233–BC244 of the Basis for Conclusions). Do you agree with the focus on total allowed compensation, including both the recovery of allowable expenses and a profit component? Why or why not?

(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 (paragraphsBC58–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?

Response to (a)

We agree with the proposed definition of regulatory assets and regulatory liabilities.

Response to (b)

In principle, we agree that total allowable compensation includes the recovery of allowable expenses and a profit component. However, we do not agree with proposed guidance on how an entity would determine the components of total allowed compensation. In this regard, please refer to our comments to question 3.

Response to (c)

We agree that regulatory assets and regulatory liabilities meet the definitions of assets and liabilities within the *Conceptual Framework for Financial Reporting*. Please also refer to our comments to question 4.

Response to (d)

We agree that an entity should account for regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement.

Response to (e)

Yes, we have identified 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. In this regard, please refer to our comments to question 3 below.

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.

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(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?

Overall response

In principle, we support the proposed basic concept and the definition of the total allowed compensation as proposed in paragraph 11 and in Appendix A. Further, we support the IASB's proposal in paragraph B2 that total amount compensation would comprise amounts that recover allowable expenses minus chargeable income, target profit, and regulatory interest income and regulatory interest expense. We also agree with the inclusion of three main components of target profit (profit margin, regulatory returns, and performance incentives) in the total allowed compensation as proposed in paragraph B11.

However, we suggest reconsidering the further guidance provided in Appendix B on how an entity would determine the components of total allowed compensation.

With the proposed detailed regulations regarding the calculation of the total amount compensation, the Board aims to create comparability among entities in different regulatory systems. This appears to be neither realistic nor necessary. Due to differences in regulatory requirements/laws in the individual jurisdictions and industries, we deem that complete comparability across jurisdictions and industries cannot be achieved. Comparability can only be achieved among entities of the same jurisdiction and same regulatory regimes. This comparability should be sought through the future standard on rate regulated activities. Also, it seems questionable whether in a regulated environment a comparison between entities of different industries and jurisdictions (e.g., comparison of an airport operator in one country with a network operator in the same or in another country) takes place in practice or could be desirable.

Furthermore, in our view, the application of the proposed requirements would result in information that does not faithfully represent how regulatory expense affects the entity's financial performance, and how regulatory liabilities affect the entity's financial position. Thus, we deem that the proposed requirements contradict the objective of the Exposure Draft laid down in paragraph 1.

Finally, generating the required information for applying the proposed guidance might impose a significant administrative and financial burden for the entities.

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In detail:

Response to (a)

(i) Regulatory returns calculated by applying a return rate to a base, such as a regulatory capital base

We agree with the Board's proposal that regulatory returns would form part of the total allowed compensation for goods or services supplied in the period in which the regulatory agreement entitles an entity to add those returns in determining a regulated rate for goods or services supplied in that periods. However, we do not support the exception for regulatory returns on assets not yet available for use. In this respect, please refer to our comments under (ii).

(ii) Regulatory returns on a balance relating to assets not yet available for use

We do not agree with the proposed guidance in paragraphs B15 and BC96–BC100 that the regulatory return on a balance relating to assets not yet available for use shall not be treated as forming part of total allowed compensation for goods or services supplied before the asset is available for use. Our view is based on the following considerations:

Conceptual considerations

In our view, regulatory return related to an asset not yet in use forms part of the total allowed compensation for goods or services supplied as defined in paragraph 11 of the Exposure Draft because:

- it represents an amount of compensation for goods or services supplied that
- a regulatory agreement entitles an entity to charge customers through the regulated rates,
- in either the period when the entity supplies those goods or services or a different period.

Consequently, contrary to the explanations in paragraph BC98(a), we consider the exception proposed in paragraph B15 to be inconsistent with the principle underlying the accounting model described in paragraph BC30. This model is based on the principle that an entity should reflect the total allowed compensation for goods or services supplied as part of its reported financial performance for the period in which the entity supplies those goods or services. Although the regulatory return related to an asset not yet in use forms part of the total allowed compensation for goods or services supplied, it may not be recognised under the Exposure Draft until the related asset is available for use.

The Board justifies the proposed exception by stating that in case of regulatory returns on a balance relating to an asset under construction, no goods or services are being supplied using that asset before it is available for use (paragraph BC98(a)). However: Although an entity has not delivered goods or services to the customer using that asset, by making an investment that has been defined and approved by the regulatory authority, it has provided and committed capital. On this capital, it will certainly receive a regulatory return. Even if – in the hypothetical case – the investment is not continued, the entity will not have to pay back this regulatory return (This is at least the case under the regulatory rules applying to German utilities.). Thus, in this case, it is not the matter of a service transfer within the meaning of IFRS 15 *Revenue from Contracts with Customers*, but the matter of a regulatory service provision. In contrast to non-regulated industries, an entity that is subject to price regulation is obliged to continuously make available an infrastructure that is ready for use. The German utilities, for example, are obliged to continuously provide a well-functioning network. This network consists of a combination of several assets (some available for use, some under construction) that provide services together. The Exposure Draft creates and defines the concept of 'regulatory revenue', which is distinct from the concept of revenue in IFRS 15, but it does not define the concept of 'regulatory service provision', which also should be distinct from service transfer within the meaning of IFRS 15.

Applying the guidance proposed in paragraph B15, an entity would have to recognise a regulatory liability that

- does not actually exist, either legally or economically: By making an investment approved by the regulatory authority, the entity has supplied services and received consideration in the form of a regulatory return, and
- does not meet the definition of a regulatory liability proposed in the Exposure Draft: According to paragraph 4 an enforceable present obligation to deduct an amount in determining a regulated rate to be charged to customers on future periods **should be created by a regulatory agreement** to meet the definition of a regulatory liability. If the regulatory agreement uses the approach described in paragraph BC96(b), it does not create an obligation relating to regulatory returns accumulated before the asset is available for use. Thus, this obligation would not arise from the regulatory agreement, but solely from the proposed model.

Furthermore, in our view, the proposals in paragraph B15 are inconsistent with the 'more likely than not' recognition threshold proposed in paragraph 28: While applying paragraph B15 an entity would not recognise regulatory assets relating to construction in progress, even though they are 100% certain, according to paragraph 28 it would recognise regulatory assets that do not relate to construction in progress if they are only more than 50% certain.

Finally, we believe that the proposed different treatment of regulatory returns related to construction work on the one hand and the performance incentives for performing construction work on the other hand is not justified. The Board recognises that the proposed treatment of performance incentives related to construction work as part or reduction of total allowed compensation during construction would not align with the principle underlying the model. Nevertheless, it accepts this and proposes to include the amounts relating to a performance incentive in the total allowed compensation even for incentives for performing construction work. Through this, the Board wants to achieve an aligned treatment of incentives for performing construction work and all other performance incentives. The Board justifies this by making the following arguments (set forth in paragraph BC106):

- The alignment would provide more useful and understandable information than applying different approaches for different types of performance incentives.
- The alignment would avoid unnecessary costs.

We are of the opinion that both arguments are equally valid for treating the regulatory returns on construction work in progress as part or reduction of total allowed compensation during construction. Consequently, we are in favour of treating regulatory returns related to

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construction work on the one hand and the performance incentives for performing construction work on the other hand in the same way.

Economic considerations

In the case of rapidly growing business and the associated high level of investment, applying the proposed requirements, a significant portion of the regulatory return earned for performing construction work would be shifted into the future. The users would be provided with information that does not faithfully represent how the effects of rate regulation affect the entity's financial performance and financial position. Thus, the proposed requirements contradict the intended objective of the Exposure Draft laid down in paragraph 1.

As part of the dynamic development in the energy sector, substantial investments will be required in the electricity network infrastructure in the coming years. Attracting investors to cover the related financing needs will become a key challenge for network operators. Experiences of German network operators in the context of investor communication show that investors are interested in the effects that have resulted from the regulatory framework in the reporting period and will result in further periods. In the case of utilities, these effects may amount to several hundred million euros. In this regard, the information provided based on proposed requirements, would not give investors a true and fair view of the financial position and performance of an entity, and would not be understood without insider knowledge. The overriding principle of fair presentation should then be questioned. The users of financial statements would have to obtain the relevant information they need to understand the financial effects of rate regulation on an entity's rate regulated activities from other sources, as they already do today.

Cost-benefit considerations

We do not consider the proposal on regulatory returns on a balance relating to an asset not yet available for use to be appropriate on cost-benefit grounds. Assets are applied on a portfolio basis to generate revenue. When the construction of an asset is completed, it becomes part of the regulatory asset portfolio. Other assets leave the portfolio because they no longer contribute to the entity's overall performance. Regulatory returns are not attributed to a single asset. In this respect, determining the amounts of regulatory returns on a balance relating to a single asset not yet available for use as proposed by the Board will be challenging for entities that have a high volume of assets under construction. In our view, this effort is not justified by any discernible benefit for the users.

Other considerations

It is unclear how to proceed if the investment made is not continued so that the asset under construction will be written off: Should the regulatory liability be derecognised, and regulatory income be recognised as a one-time effect at the time the asset is written off? In Germany, due to a close coordination between the price regulated entity and the regulatory authority, this case will probably have little practical relevance. Nevertheless, this issue seems unclear from a conceptual point of view.

For the above reasons, we suggest deleting paragraph B15.

(iii) Performance incentives

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We agree with the Board's proposal that amounts relating to a performance incentive would form part of or would reduce the total allowed compensation for goods or cervices supplied in the period in which an entity's performance gives rise to the incentive bonus or penalty.

Response to (b)

Amount that recovers allowable expenses minus chargeable income

As mentioned above, we support the proposed inclusion of the amounts that recover allowable expenses minus chargeable income in the total amount compensation. However, we consider the guidance on how an entity would determine these amounts would result in information that would not faithfully represent the effects of rate regulation on an entity's rate-regulated activities and thus would contradict the objective of the Exposure Draft.

The Board proposes that the amount that recovers an allowable expense forms part of the total allowed compensation for goods or services supplied in the same period in which the entity recognises the allowable expense by applying IFRS Standards. Entities subject to price regulation generally need to prepare regulatory accounts in accordance with the regulatory requirements in their jurisdictions. As stated in paragraph B5, the period when an entity recognises an allowance expense as an expense applying IFRS Standards may differ from the period in which this expense is allowed to be recovered according to regulatory rules. We noted that not only the periods of recognising but also the amounts of the recoverable expenses over the total period may be different whether applying IFRS Standards or regulatory requirements. The Board recognises this by saying in paragraph B13 that a regulatory agreement does not necessarily measure assets or liabilities on the same bases as IFRS Standards. This may, for example, be the case, when the regulatory agreement entitles an entity to recover the depreciation expenses for an item of plant based on its replacement value. If the replacement value differs from the acquisition costs, the total amount of allowed depreciation expenses of this item of plant applying IFRS Standards would differ from the total amount of depreciation expenses that is allowed to be recovered according to regulatory rules even in the case when a recovery period and the asset's useful life are the same. This results in permanent differences rather than timing differences.

In our understanding, these permanent differences do not represent allowable expenses because they are not recognised as expenses by applying IFRS Standards. Thus, even though a regulatory agreement gives the entity a right to recover this part of the expenses through the regulated rates to be charged to customers, according to IASB's proposals, they, nonetheless, do not give rise to an amount of total allowed compensation in any period. Consequently, the entity accounts for these permanent differences in any period by applying IFRS 15. This results in different accounting treatments for two parts of one and the same item with one and the same economic content: One part of the recoverable expenses would be accounted for applying the proposed model, where another part would be treated applying IFRS 15. As a result, users of financial statements would not receive a complete picture of the relationship between the revenue and the expenses of this entity. In our view, this clearly contradicts the objective of the proposed model as stated in paragraphs 1 and 2 and, moreover, is questionable from a cost-benefit perspective.

As stated in the Exposure Draft, differences in timing arise if a regulatory agreement includes part of the total allowed compensation for goods or services supplied in one period in determining the regulated rates for goods or services supplied in a different period (past or

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future). This is the case if the estimated input costs differ from the actual input costs. Assuming that an entity has complete information about all relevant processes of future periods, so that no timing differences arise between the estimated input costs and the actual input costs calculated based on the regulatory agreement, the entity would not have any rights or obligations arising from timing differences and would recognise revenue in each period applying IFRS 15. However, the Board proposed that the allowable expenses, which are one of the components of the total allowed compensation, are expenses as defined in IFRS Standards. In case that an expense under the term of a regulatory agreement differs from the expense applying IFRS Standards, this would lead to timing differences. Thus, even in the theoretical case of the existence of complete information and thus the congruence of regulatory estimated and actual input costs, applying the proposal, the entity would recognise a regulatory asset or a regulatory liability that do not actually exist.

Further, we are against the proposal based on misalignment with regulatory accounting because of cost-benefit considerations. Entities would have to keep parallel accounts to comply with the proposed requirements. However, the quality of information provided applying the proposed requirements is questionable because it could not be understood without insider knowledge.

Response to (c)

We recommend reconsidering the guidance on how to determine the components of the total allowed compensation to align the accounting treatment with the regulatory treatment. In our view, this can be achieved by retaining the paragraph 11 as it is and making the following amendments:

- Reconsidering the guidance in paragraphs B3-B8 to define an amount that recovers allowable expenses minus chargeable income as the expense or income by applying the regulatory requirements.
- Deleting the exception for regulatory returns on a balance relating to assets not yet available for use (proposed paragraphs B15 and BC96-100).

If the Board does not follow our recommendation, we suggest:

- clarifying how permanent differences arising because of the misalignment of the proposed approach in determining the components of the total allowed compensation with the regulatory requirements are to be accounted for,
- defining the term ‘regulatory service provision’.

Question 4 – Recognition

Paragraphs 25–28 of the Exposure Draft propose that:

- an entity recognises 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?

[Response is pending.]

Question 5 – Measurement

Paragraph 29 of the Exposure Draft specifies the measurement basis. Paragraphs 29–45of 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

[Response is pending.]

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?

[Response is pending.]

Question 7 – Items affecting regulated rates only when related cash is paid or receive

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?

[Response is pending.]

Question 8 – Presentation in the statement(s) of financial performance

Paragraph 67 of the Exposure Draft proposes that an entity present all regulatory income minus all regulatory expense as a separate line item immediately below revenue. Paragraph 68 proposes that regulatory income includes regulatory interest income and regulatory expense includes regulatory interest expense. ParagraphsBC178–BC182 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree that an entity should present all regulatory income minus all regulatory expense as a separate line item immediately below revenue (except in the case described in Question 7(b))? Why or why not? If not, what approach do you suggest and why?

(b) Do you agree with the proposed inclusion of regulatory interest income and regulatory interest expense within the line item immediately below revenue? Why or why not? If not, what approach do you suggest and why?

[Response is pending.]

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?

[Response is pending.]

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?

[Response is pending.]

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?

[Response is pending.]

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?

[Response is pending.]

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?

[Response is pending.]

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