IFRS Alert

Exposure Draft – Regulatory Assets and Regulatory Liabilities

February 2021 – IFRS Alert 2021-01

Executive Summary

The International Accounting Standards Board (IASB) has now published an Exposure Draft 'Regulatory Assets and Regulatory Liabilities' (the ED). The ED proposes to replace IFRS 14 'Regulatory Deferral Accounts' and require entities subject to rate regulation to give investors better information about their financial performance.

The proposed Standard would introduce a requirement for entities to give investors such information by reporting regulatory assets and regulatory liabilities in their statement of financial position, and related regulatory income and regulatory expense in their statement of profit or loss.

The ED is open for comment until 30 June 2021.

Current requirements

Rate regulation is common in some industries like utilities and public transport industries. It determines the amount an entity can charge its customers for goods or services supplied to them and the period when the reporting entity can charge that amount.

In some cases, the period when an entity supplies goods or services can be different from the period when the company can charge customers for those goods or services. Therefore, the supply can be different from the period when the entity recognises revenue in its statement of profit or loss.

When those differences in timing occur, the revenue an entity recognises for a period in its statement of profit or loss and the assets and liabilities it reports in its statement of financial position do not give the correction information of the amount that the rate regulation allows the company to charge for goods or services supplied in that period.

Currently, IFRS 14 does not require entities to disclose any information about those timing differences.

ED Proposals

The proposals will require entities to reflect the total compensation to which they are entitled for the goods or services supplied in a period as part of their reported financial performance for that period. This would be achieved by recognising regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

Supporting the ED is a comprehensive Basis for Conclusions document that includes a dissenting view expressed by one member of the IASB. The IASB has also provided 12 illustrative examples in a separate publication.

The table on the next page summarises the key elements to the ED:

Grant Thornton International Limited. All rights reserved

Topic	Detail of the proposals
Objective	To replace IFRS 14 'Regulatory Deferral Accounts' which was an interim standard for rate regulatory activities requiring entities subject to rate regulation to give users of the financial statements better information about their financial performance.
Scope	The Standard would apply to entities subject to rate regulation – ie situations where the rates entities can charge to customers for goods and services it provides are pre-determined.
Recognition	Regulatory assets and liabilities would be recognised as follows: • a regulatory asset, and corresponding regulatory income, when an entity has an enforceable present right under the regulatory agreement because it has already supplied goods or services to customers. • a regulatory liability, and corresponding regulatory expense, when an entity has an enforceable present obligation under the regulatory agreement because it has already charged an amount to customers, and hence included that amount in revenue already recognised. As a result, entities would be required to reflect the total allowed compensation for goods or services supplied in the same period in which it supplied those goods or services.
Measurement	Entities would measure regulatory assets and regulatory liabilities by estimating all future cash flows and discounting them to their present value. At the end of each reporting period, entities would update estimates of future cash flows to reflect any changes in their estimated timings or amounts.
Presentation	In the statement of financial position, entities would present regulatory assets and liabilities as separate lines items. In the statement of profit or loss, the ED proposes entities present regulatory income minus regulatory expense in a separate line item immediately below revenue.
Disclosure	The ED proposes entities disclose information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities, in the notes to the financial statements. This information, would provide users of financial statements with a basis for understanding: • the relationship between revenue and expenses for the reporting period, which would provide insights into the entities' possible future cash flows, and • regulatory assets and regulatory liabilities at the end of the reporting period, which would give insights into how regulatory assets and regulatory liabilities will affect the amount, timing and uncertainty of the entities' future cash flows.
Effective date	The ED does not propose an effective date but is likely to be effective up to two years after the new standard is published. The standard would be applied retrospectively with one transitional provision being included and early adoption would be permitted.

Next steps

The ED is open for comment until 30 June 2021.

Our thoughts

We believe this ED is an important step towards consistent accounting for rate regulated entities. IFRS 14 has served a good purpose as the interim standard but does accept several accounting approaches which makes it more difficult for the users of financial statements to analyse and compare results of different entities.

Contact

Fergus Condon
Partner, Financial Accounting and Advisory Services
E fergus.condon@ie.gt.com
T +353 (0)1 680 5610

Stephen Murray
Partner, Audit and Assurance
E stephen.murray@ie.gt.com
T +353 (0)1 680 5689

Louise Kelly
Partner, Audit and Assurance
E louise.kelly@ie.gt.com
T +44 (0)28 9587 1100

© 2021 Grant Thornton International Ltd.

IFRS Alerts are developed as an information resource summarising new pronouncements issued by the International Accounting Standards Board and the IFRS Interpretations Committee. This document is intended as a guide only and the application of its contents to specific situations will depend on the particular circumstances involved. While every care has been taken in its presentation, personnel who use this document to assist in evaluating compliance with International Financial Reporting Standards should have sufficient training and experience to do so. No person should act specifically on the basis of the material contained herein without considering and taking professional advice. Neither Grant Thornton International Ltd (GTIL), nor any of its personnel nor any of its member firms or their partners or employees, accept any responsibility for any errors this document might contain, whether caused by negligence or otherwise, or any loss, howsoever caused, incurred by any person as a result of utilising or otherwise placing any reliance upon it.

"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another’s acts or omissions.