



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

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(Submitted Electronically)

International Accounting Standards Board
London, United Kingdom

Comments on Exposure Draft (ED/2021/1): *Regulatory Assets and Regulatory Liabilities*

Dear Board Members,

The Accounting Standards Board of the Institute of Chartered Accountants of Pakistan is pleased to comment on the Exposure Draft (ED/2021/1): *Regulatory Assets and Regulatory Liabilities*, published by the International Accounting Standards Board (the Board) in January 2021.

We generally support the objectives and approach proposed by the Board and believe that project will provide the much needed guidance on the accounting of rate-regulated activities under the International Financial Reporting Standards. However, we have suggested few areas for the Board's further deliberations and reconsideration, including the proposed measurement requirements with the objective to reduce complexity and facilitate a cost effective implementation. We have also made suggestions for development of additional guidance on the proposed scoping and recognition requirements.

The *Appendix* to this letter contains our detailed responses to the questions in the Exposure Draft.

We hope that our comments would be helpful to the Board's deliberations on the Exposure Draft. For any questions concerning our comments, please contact the undersigned, at sohail.malik@icap.org.pk

Yours truly

Sohail Malik
Director Technical

Encls: as above

Comments on Exposure Draft (ED/2021/1): ‘Regulatory Assets and Regulatory Liabilities’

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, 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?

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.

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Comments on specific questions

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

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

We agree with the proposed scope of the Exposure Draft. We understand that the proposed scope of the Exposure Draft 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) 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?

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 formulae 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

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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 paragraph 8, 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) 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?

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) 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.

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) 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?

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.

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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?

Comments on specific questions

- (a) Do you agree with the proposed definitions? Why or why not? If not, what changes do you suggest and why?

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*.

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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) 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?

We agree with 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) 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?

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* exist in the case of regulatory assets and liabilities.

- (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?

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

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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) 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?

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.

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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?

Comments on specific questions

- (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)?

We agree with the proposed guidance in the Exposure Draft with respect to (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

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result in added costs which might not match the expected benefits to the users of financial statements.

- (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?

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) 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?

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.

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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?

Comments on specific questions

- (a) Do you agree that an entity should recognise all its regulatory assets and regulatory liabilities? Why or why not?

We agree that an entity should recognise all its regulatory assets and regulatory liabilities. In this regard, we consider that the regulatory assets and liabilities should be recognised when they provide the information to the users of financial statements that is useful. This principle has been outlined in *the Conceptual Framework* as well as mentioned in paragraph BC122 of the Exposure Draft.

The Conceptual Framework (in paragraph 5.14) also envisages that where there is uncertainty about the existence of an asset or liability, an entity might not recognise the possible asset in its financial statements. It notes that in some cases, that uncertainty, possibly combined with a low probability of inflows or outflows of economic benefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an asset or liability, necessarily measured at a single amount, would not provide relevant information.

We note that paragraph BC123 of the Exposure Draft also refers to *the Conceptual Framework*, and states 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:

- (a) it is uncertain whether an asset or liability exists; or
- (b) an asset or liability exists, but the outcome is uncertain and the probability of an inflow or outflow of economic benefits is low.

However, paragraph BC124 of the Exposure Draft adds that in case an entity is uncertain about the existence of a regulatory asset or regulatory liability, the entity should recognise that item if it is

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'more likely than not' that it exists. This recognition threshold seems to differ from the principle outlined in *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 developing recognition basis that is aligned with *the Conceptual Framework*.

- (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?

As discussed in our response to (a) above, we understand that a 'more likely than not' recognition threshold differs from the recognition principle under *the Conceptual Framework*.

Further, the recognition of regulatory assets based on 'more likely than not' threshold also differs from IAS 37, *Provisions, Contingent liabilities and Contingent asset*. IAS 37 specifies that contingent assets should not be recognised unless an inflow of economic benefits is 'virtually certain'. IAS 37, does not set the recognition threshold at more likely than not.

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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?

Comments on specific questions

- (a) Do you agree with the proposed measurement basis? Why or why not? If not, what basis do you suggest and why?

We understand that the proposed measurement basis is based on the ‘historical cost’, however, the historical cost basis has been modified requiring use of updated future cash flow estimates and a discount rate to account for the timing of future cash flows. Based on the proposed measurement basis the regulatory assets and regulatory liabilities would be measured at each reporting date on a basis that reflects an estimate of those future cash flows. The measurement would be based on updated estimates of future cash flows, including any estimated changes caused by, for example, demand risk or credit risk. We also note that, the discount rate would also be historical (i.e. unless a change in the regulatory agreement changes the discount rate).

Principally, we agree with the proposed measurement approach. However, we note significant practical issues in the application of this approach as the proposed measurement basis would require significant level of estimations, resulting in highly subjective outcomes. In Pakistan, the amounts of regulatory assets and liabilities are determined by the regulator after the reporting period and in certain cases with a significant delay. Further, significant delays and uncertainties

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have been noted in the adjustment of regulatory assets through rate/tariff adjustments. These delays could be due to political or policy decisions of the government or public pressure, generally not within the control of the regulator and regulatee. Further, there could be uncertainties about demand. Based on above factors, we consider that uncertainty in the timing and outcome of the regulatory decisions would add complexities in the implementation of the proposed measurement basis, especially where the history of regulatory adjustments is so varied that it provides no clarity on future cash flows or where there is no history of regulatory adjustments (in case of new regulatory arrangements).

The practical challenges around the proposed measurement basis also raise the concern that cost of implementing proposed measurement basis might not match the expected benefits.

We suggest that the Board should consider developing a simpler measurement approach. A possible simpler approach could be similar to the measurement of deferred tax assets and liabilities, under IAS, *Income Taxes*.

- (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?

As discussed in our response to (a) above, principally, we with agree with the proposed cash-flow-based measurement technique. However, as explained in our response to question (a), above, the uncertainties associated with the regulatory decisions and customer demand would make the cash flow estimation extremely complex and subjective. 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 for measurement deferred tax assets and liabilities.

- (c) Do you agree with the proposals? Why or why not? If not, what approach do you suggest and why?

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 similar to the measurement of deferred tax assets and liabilities would not warrant the use of such complex and subjective estimation techniques.

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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?

Comments on specific questions

- (a) Do you agree with these proposals? Why or why not? If not, what approach do you suggest and why?

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) 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?

Please refer our response to (a) above.

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(c) Do you agree with the proposal? Why or why not? If not, what do you recommend and why?

[Please refer our response to \(a\) above.](#)

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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?

Comments on specific questions

- (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?

[Please refer our response to question 5 and 6.](#)

- (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?

[Please refer our response to question 5 and 6.](#)

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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?

Comments on specific questions

- (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?

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) 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?

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.

Comments on Exposure Draft (ED/2021/1): ‘Regulatory Assets and Regulatory Liabilities’

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?

Comments on specific questions

- (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?

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) Do you have any other comments on the proposed overall disclosure objective?

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.

Comments on Exposure Draft (ED/2021/1): ‘Regulatory Assets and Regulatory Liabilities’

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?

Comments on specific questions

- (a) Do you agree with these proposals?

We understand that the full retrospective approach as proposed in the transition requirements in the Exposure Draft, would require efforts and additional cost for the financial statement preparers.

In Pakistan context, we believe that certain entities that fall within the scope of rate-regulated activities do not currently adopt accounting practices similar to those proposed in the Exposure Draft (Mainly due to the reason that the IFRS 14 *Regulatory Deferral Accounts* being an interim - standard allows entities a choice as to how they account for such regulatory agreements in their financial statements). We understand such entities may have to make significant changes to their accounting systems and processes to apply the proposed requirements of the Exposure Draft.

In consideration of above factors, we suggest that the Board should also include a modified retrospective approach (in latest issued IFRS Standards i.e. IFRS 15 and IFRS 16 Board provided modified retrospective approach). The modified retrospective approach would facilitate the transition in a simpler, cost-effective and timely manner.

- (b) Do you have any comments you wish the Board to consider when it sets the effective date for the Standard?

We understand that similar to the IASB’s past practice, the effective date should be set three years after issuance of final standard.