Exposure Draft
Regulatory Assets and Regulatory Liabilities

Questions for respondents

Question 1—Objective and scope Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity should provide relevant information that faithfully represents how regulatory income and regulatory expense affect the entity's financial performance, and how regulatory assets and regulatory liabilities affect its financial position.

Paragraph 3 of the Exposure Draft proposes that an entity apply the [draft] Standard to all its regulatory assets and all its regulatory liabilities. Regulatory assets and regulatory liabilities are created by a regulatory agreement that determines the regulated rate in such a way that part of the total allowed compensation for goods or services supplied in one period is charged to customers through the regulated rates for goods or services supplied in a different period (past or future).1 The [draft] Standard would not apply to any other rights or obligations created by the regulatory agreement—an entity would continue to apply other IFRS Standards in accounting for the effects of those other rights or obligations.

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

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

(b) Do you agree with the proposed scope of the Exposure Draft? Why or why not? If not, 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. Comments:

1.1 SIRC supports the Board's overall objective to develop an accounting model for regulatory assets and regulatory liabilities.

1.2 The proposed standard would enable users of financial statements to understand how the financial performance and the financial position of a reporting entity is affected by its rate-regulated activities.

1.3 It is necessary to define the term 'regulator' for better understanding of the scope of the standard.

1.4 To make out activities that will fall under this standard it is necessary to state the constituent part of regulatory agreement and the nature of the regulator. This is necessary in particular where structuring is done for intercompany arrangements.

1.5 SIRC is of the view that the proposal may have issues from stakeholders outside of the utilities sector.

1.6 Some preparers may be aware of rate adjustments related to concession arrangements where there was uncertainty on if these fell within the scope of the model instead of IFRIC 12[service concession arrangement]. Therefore, it is necessary to evaluate the interaction of the proposed model with IFRIC 12.

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?

2. Comments:

2.1 SIRC agrees with the proposed definitions of regulatory assets and regulatory liabilities.

2.2 SIRC further accept that the accounting model should focus on total allowed compensation, including the recovery of allowable expenses minus chargeable income, a profit component and regulatory interest which compensates or charges the entity for the time value of money.

2.3 The Board's reasoning that an entity should account for regulatory assets and regulatory liabilities separately from the rest of rights and obligations arising from the regulatory agreement is reasonable. Other than regulatory assets and regulatory liabilities that arise from the regulatory agreement to be recognised under existing IFRS Standards.

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?

3. Comments:

3.1 SIRC supports with few reservations on the proposed inclusion of the three components of target profit viz., profit margin, regulatory returns other than those related to assets not yet in use [CWIP], and performance incentives in the total allowed compensation, in the period when the regulatory agreement entitles an entity to add these components in determining a regulated rate for goods or services supplied in that period. The standard may also will contribute to comparability across entities regardless of how regulatory return is structured within regulatory agreements.

3.2 The reservations are as follows:

3.2.1 The proposal based on its misalignment with regulator accounting, associated operational challenges, and cost-benefit considerations.

3.2.2 There are concerns on the proposed treatment of CWIP regulatory returns in situations where the regulatory agreement allows regulatory returns to be charged to customers during construction.

3.2.3 The standard departs from the alignment of the accounting treatment with the regulatory treatment of regulatory returns.

3.2.4 The operational challenges of recognising regulatory returns related to construction work in progress only when the asset is in use. Assets are applied on a portfolio rather than individual basis to generate revenue and it is difficult to attribute revenue to a single asset.

3.2.5 Entities have high volumes of initiated assets under construction and high volumes of these that become operational- and it will be challenging for these entities to apply the proposed treatment of CWIP regulatory returns.

3.2.6 The proposed treatment of CWIP, the profit will be misleadingly understated when the asset becomes operational if the regulatory returns were to be recognised as part of the total allowed compensation during construction.

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?

4. Comments:

4.1 SIRC agrees with the proposal that an entity should recognise all its regulatory assets and regulatory liabilities.

4.2 Determining whether a regulatory asset or regulatory liability exists may need significant judgement and the collection of much information, including contractual documents, discussions with regulators, court rulings and/or information from other less straightforward sources.

4.3 The draft may explain at which point an entity would initially recognise a regulatory asset and a regulatory liability though all regulatory assets and regulatory liabilities shall be recognised at the end of the reporting period.

4.4 The Board may consider issuing application guidance on how to implement the various circumstances mentioned in the draft about how an entity would determine whether a regulatory asset and a regulatory liability exists.

4.5 It is further necessary to issue guidelines on de-recognition of regulatory assets and regulatory liabilities when regulatory assets and regulatory liabilities no longer qualify for recognition under the proposed Standard including guidance for when items transition from recognition under the proposed Standard to recognition under other IFRS Standards.

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?

5. Comments:

5.1 SIRC supports the proposed cash-flow measurement technique.

5.2 The requirement to both initially estimate and update the estimated future cash flows at the end of each reporting period may have a significant

impact on the systems, processes and procedures of entities that currently do not account for regulatory assets and liabilities.

5.3 The technique is closely aligned to the cash inflows and outflows associated with regulatory assets and regulatory liabilities which are based on regulated rates (prices), and thus with the amounts an entity is entitled to receive or obliged to fulfil under the regulatory agreement.

5.4 SIRC adds few suggestions:

5.4.1 The Board may provide guidance on how estimates of credit risk should be allocated to its individual regulatory assets.

5.4.2 The boundary of the regulatory agreement should be determined based on an entity's enforceable rights and enforceable obligations under the regulatory agreement rather than being an accounting judgement.

5.4.3 There is a possibility of an entity cannot recognise a regulatory asset or a regulatory liability because the approval of the regulator is still pending, and as a result the entity does not have an enforceable right or an enforceable obligation. In such an event, the guidance on the regulatory boundary should be included in the recognition part of the standard and not in measurement.

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?

6. Comments:

6.1 SIRC supports the proposal to require an entity to discount the estimated future cash flows to their present value in measuring regulatory assets and regulatory liabilities. The proposal is complex with reference to minimum rate.

6.2 But SIRC disagrees with the proposal for different discounting approaches for regulatory assets and regulatory liabilities.

6.3 SIRC adds few suggestions.

6.3.1 The definition of regulatory interest rate in the draft informs that it compensates only for time lag. The board may amend the definition so that it reflects what is commonly applied in regulatory regimes.

6.3.2 The concept of discounting is a fundamental part of general IFRS requirements where the effects of the time value of money are significant. The Board may consider introducing a practical expedient to exempt entities from discounting if the effects of discounting are not.

6.3.3 The standard may clarify the purpose of discounting.

6.3.4 The standard may say that the regulatory interest rate is negotiated with the regulator. This is because the discount rate agreed with the regulator represents the rate the entity is entitled to recover when measuring its regulatory assets and regulatory liabilities.

6.3.5 The application of a minimum adequate rate would not be relevant information for users to understand regulatory assets and regulatory liabilities.

6.3.6 The proposed application of a minimum adequate rate as the discount rate for regulatory assets, when the regulatory interest rate provided for a regulatory asset is insufficient. Discounting of regulatory assets and regulatory liabilities should follow the general discounting principles in IFRS Standards since the objective of discounting is to appropriately reflect the effects of the time value of money.

6.3.7 The regulatory interest rate might have a different objective. In cases where there is a significant financing component and the regulatory interest rate differs from the market rate, an entity should apply the requirements in IFRS 15 and use the prevailing interest rates in the relevant market.

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?

7. Comments:

7.1 SIRC agrees with the measurement exception proposals related to items of expense or income that affect regulated rates only when related cash is paid or received, or soon thereafter, instead of when the entity recognises that item as expense or income in its financial statements. However, it is observed that some items presented in other Comprehensive Income will not be recycled to profit or loss. As such, their impact on the performance reported in profit or loss will never be depicted.

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?

8. Comments:

8.1 SIRC agrees with the proposal to present all regulatory income minus all regulatory expense as a separate line item immediately below revenue and to include regulatory interest income and regulatory interest expense within this line item. It is consistent with the objective of reflecting in the statements of financial performance, the compensation that the entity is entitled to for a given period regardless of when the related amounts are reflected in the regulated rates charged to customers in that period.

8.2 New presentation requirements are proposed that will affect the layout of the income statement and the statement of financial position. This may be an opportunity to reassess the structure of the financial statements to improve usefulness.

8.3 The offsetting of the regulatory assets and liabilities on the statement of financial position appears to be little complicated.

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?

9. Comments:

9.1 SIRC agrees with the proposed overall disclosure objective and the specific disclosure objectives. The disclosure requirements will provide relevant information to users of financial statements to understand the relationship between an entity's revenue and expenses resulting from its rate-regulated activities and provide insights into its prospects for future cash flows.

9.2 Entities will need to consider the level of detail necessary to satisfy the overall disclosure objective. This may require dialogue with users to understand the specific information needs resulting from rate regulated activities.

9.3 SIRC has few reservations listed below:

9.3.1 The level of detail required to meet the specific disclosure objectives might impose a significant burden on reporting entities whenever such information is not readily available. Further the users need to have disclosures that explain main items and calculation methodology, and the rationale behind management judgment in determining regulatory assets and liabilities.

9.3.2 There will be a need to identify and prioritise from the proposed disclosures, only those that will be ascertained to be beneficial to users of financial statements and will not impose an undue burden for preparers.

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?

10. Comments:

10.1 SIRC is of the view that the effective date should be by Year 2024 or 30 months after the publication of the final Standard to allow the entities to adjust their accounting systems and gather necessary information. That apart, considering the pandemic Covid19 in most of the Asian countries, it is necessary to implement by year 2024 beginning. Also it is to be considered for implementation both by calendar year or financial year April to March as the case may be depending upon Accounting period being followed.

10.2 Further it advisable to avoid retrospective application of the proposals since it will have additional costs on the organizations and the exercise may be time consuming.

10.3 The simplification option for the past business combinations proposed by the Board relating to adjustments would be proper to charge to retained earnings rather than goodwill.

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?

11. Comments:

11.1 SIRC if of the view that the Board may examine some more interaction of the proposed standard with some more IAS like IAS 12, IAS 36, IFRS 1, IFRS 3, IFRIC 12.

It is felt that the draft has to specify that tax cash flows should form part of regulatory income and regulatory expense and should be presented in the 'regulatory income minus regulatory expense' line item.

It is not clear whether the reclassification of goodwill-related regulatory balances to goodwill in IFRS 1 would result in the correct depiction of the entity financial performance. This is because when the goodwill-related revenues are charged to customers but goodwill balances remain on the balance sheet.

The board may give detailed guidance on how the interaction with a CGU [Cash Generating Units] included regulatory assets would work in practice, in respect of separating the cash flows from regulatory assets from the total cash flows generated by a CGU for impairment test purposes.

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?

12. Comments:

12.1 SIRC agrees with the Board's analysis of the likely effects of the proposals on the quality of financial reporting. However, the cost of implementing the standard may not be insignificant as stated by the Board.

12.2 Further implementation hurdles may be faced by the stakeholders with reference to disclosure requirements, measurement and discounting, application of the notion of regulatory boundary, and the complexity associated with model's requirements for CWIP regulatory returns. increased

complexity and potential for confusion in the IFRS financial statements as a result of the proposals are quite possible.

12.3 Any proposal of new standard to have the objective of positive cost-benefit relationship from implementing the proposals for both users and preparers.

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?

13. Comments:

13.1 SIRC suggests that much more detailed Illustrative Example of the disclosure requirements, may be attempted by the Board where complexity is involved.

13.2 In the power and utilities industry complete liberalisation of utilities is not practical because of the physical infrastructure required for the transmission and distribution of the commodity. Privatisation and the introduction of competition are often balanced by price regulation. Some utilities continue as monopoly suppliers with prices limited to a version of cost plus margin overseen by the regulator. The regulatory regime is often unique to each country. The two most common types of regulation are incentive-based regulation and cost-based regulation. The regulator governing an incentive-based regulatory regime usually sets the “allowable revenues” for a period with the intention of encouraging cost efficiency from the utility. A utility entity operating under cost based regulation is typically permitted the recovery of an agreed level of operating costs, together with a return on assets employed. Therefore, any asset or liability arising from regulation to be recognised under IFRS should be evaluated based on applicable IFRSs or the Framework.