IFRS Accounting

Staff paper

Agenda reference: 9B

IASB® meeting

Date	**May 2024**
Project	**Rate-regulated Activities**
Topic	**Amendments to IAS 8 and suggested amendments to other IFRS Accounting Standards**
Contacts	Mariela Isern (misern@ifrs.org)

Objective

1. This paper sets out staff analysis and recommendations in relation to the amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* that were proposed in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft).[1] It also considers some comments about other IFRS Accounting Standards for which the Exposure Draft does not propose any amendments.

Staff recommendations

2. The staff recommend that the final Accounting Standard retain the proposal to delete the temporary exception in paragraph 54G of IAS 8.

[1] When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements.*

Structure of the paper

3. This paper is structured as follows:

   (a) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraphs 4–7); and

   (b) other comments (paragraph 8).

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Proposals in the Exposure Draft

4. The Exposure Draft proposes to delete paragraph 54G of IAS 8 because it provides a temporary exception that would no longer be needed when applying the proposals in the Exposure Draft.[2]

5. The temporary exception in paragraph 54G was introduced following the issuance of the revised *Conceptual Framework for Financial Reporting* in 2018 (2018 *Conceptual Framework*). It was intended to prevent unhelpful and unnecessary disruption for users of financial statements and entities, pending the development of a new IFRS Accounting Standard on rate-regulated activities.[3] It required entities developing an accounting policy for regulatory account balances after considering paragraph 11 of IAS 8 to refer to the *Framework for the Preparation and Presentation of Financial Statements* rather than the 2018 *Conceptual Framework.*

Feedback

6. There was no feedback on the proposed amendment to IAS 8.

[2] The Exposure Draft also proposes to delete the footnote to paragraph 11 of IAS 8 (which refers to paragraph 54G) and the footnote to paragraph 54G.

[3] Paragraphs BC38–BC40 of the Basis for Conclusions accompanying IAS 8.

Staff analysis and recommendation

7. We think the proposed amendment to IAS 8 remains appropriate. We recommend that the final Accounting Standard retain the proposal to delete the temporary exception in paragraph 54G of IAS 8.

Question for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 7?

Other comments

8. A few respondents raised comments about other IFRS Accounting Standards for which the Exposure Draft does not propose any amendments. Table 1 sets out those comments and the staff response. We have not identified any additional amendments that are required.

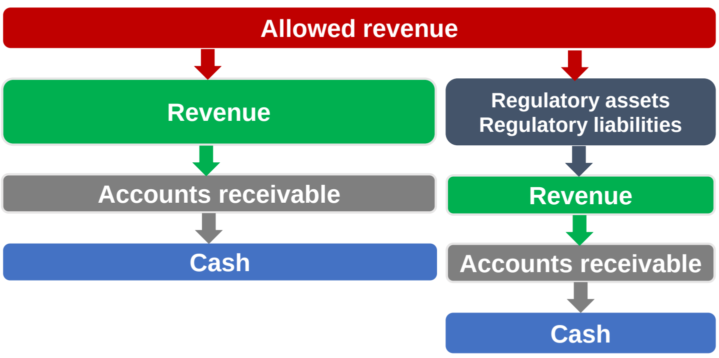
Table 1—Other comments and staff response	
Comments received	Staff response
IAS 7 *Statement of Cash Flows*	
An accounting firm and a national standard-setter from North America suggested the IASB include guidance in IAS 7 on how an entity should consider its regulatory assets, regulatory liabilities, regulatory income and regulatory expense in its statement of cash flows. One of these respondents suggested the final Standard could amend IAS 7 to include the explanation in paragraph BC223 of the Basis for Conclusions accompanying the	The guidance in paragraphs 19 and 20 of IAS 7 (on reporting cash flows from operating activities using the direct and the indirect methods) refers to making adjustments for: • changes during the period in inventories and operating receivables and payables; • other non-cash items; and • other items for which the cash effects are investing or financing cash flows.[4] If the guidance in IAS 7 were to refer to making adjustments for changes in regulatory assets and regulatory liabilities, the question is whether such

[4] Table 1 refers to the text of paragraphs 19 and 20 of IAS 7 prior to the IFRS 18 amendments. IFRS 18 amends paragraph 20 (to refer to the operating category in various statements). Our recommendation not to amend IAS 7 at this time remains unchanged.

Table 1—Other comments and staff response

Comments received	Staff response
Exposure Draft. That paragraph states (**emphasis added**): BC233 An entity recovers regulatory assets or fulfils regulatory liabilities indirectly by increasing or decreasing regulated rates charged to customers, not directly by receiving or paying cash. Consequently, the **proposals would not affect the cash flows that an entity reports in the statement of cash flows**. If the entity uses the indirect method for reporting cash flows from operating activities, the entity would determine their amount by deducting regulatory income from, or adding regulatory expense to, profit or loss for the period.	changes should be grouped with one of the existing categories in paragraphs 19 and 20 of IAS 7, or mentioned as a separate adjustment. We think changes in regulatory assets and regulatory liabilities share some similarities with operating receivables and payables. Regulatory assets, regulatory liabilities and accounts receivable/ payable all form part of the same transaction cycle (see Figure 1 below). Contract assets and contract liabilities can also form part of this transaction cycle; however IAS 7 does not refer to them. We do not consider that there is a need to amend paragraphs 19 or 20 of IAS 7 to refer to regulatory assets and regulatory liabilities. Any improvements to the guidance in IAS 7 could be considered as part of the project on 'Statement of Cash Flows and Related Matters' (currently in the research pipeline).

Figure 1



IAS 34 *Interim Financial Reporting*

An accounting firm suggested the IASB provide guidance on how an entity should account for its regulatory assets and regulatory liabilities in the interim financial statements.	An entity may be required to apply more judgement in recognising and measuring regulatory assets and regulatory liabilities at the end of an interim reporting period than at the end of an annual reporting period. This could be because of greater reliance on estimates and the need to consider cyclical or seasonal items. These issues are not

Table 1—Other comments and staff response	
Comments received	Staff response
	confined to regulatory assets and regulatory liabilities and IAS 34 already contains some guidance on these matters. Paragraph 37 of IAS 34 states that revenues that are received seasonally, cyclically, or occasionally within a financial year should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of an entity's financial year. Paragraph 21 of IAS 34 encourages an entity whose business is highly seasonal to disclose financial information relating to the twelve months up to the end of the interim period, and comparative information for the equivalent twelve-month period in the prior year. We do not think the final Standard should amend IAS 34 to provide guidance on the measurement of regulatory assets or regulatory liabilities at the end of an interim period.
A preparer and a national standard-setter said that some of the inputs affecting the recognition and measurement of regulatory assets and regulatory liabilities are available only on an annual basis. Regulatory agreements are often negotiated on the basis of annual data—consequently, information for shorter periods may not have previously been considered. As a result, the respondents said some entities may not have processes to collect data during the reporting period and that preparing interim financial statements could be difficult or costly.	Entities may need to modify their systems and processes to support the recognition and measurement of regulatory assets and regulatory liabilities in interim financial statements. This would, however, be a one-off implementation cost.
IFRS 8 *Operating Segments*	
A national standard-setter from Asia-Oceania suggested the IASB amend IFRS 8 to require	The IASB considered disaggregation of information at its meeting in February 2024. The IASB tentatively decided that the final Standard should:[5]

[5] IASB Update February 2024.

Table 1—Other comments and staff response	
Comments received	Staff response
an entity to report rate-regulated activities separately from other activities.	(a) retain the proposals on aggregation or disaggregation of disclosures in paragraphs 75–76 of the Exposure Draft; and (b) include examples of the characteristics an entity could use to aggregate or disaggregate disclosures, including items relating to the different revenue categories an entity discloses by applying paragraph 114 of IFRS 15 *Revenue from Contracts with Customers*.
Another national standard-setter from Asia-Oceania suggested the IASB require an entity to disclose the financial effects of regulatory assets and regulatory liabilities for each reportable segment.	We do not think it is appropriate to amend IFRS 8 for the following reasons: (a) IFRS 8 is based on a management approach. Mandating disclosure of specific items would be inconsistent with the management approach. (b) IFRS 8 is not routinely amended to reflect the disclosure requirements in new standards.[6] (c) IFRS 8 already requires disclosure of specified amounts for each reportable segment. For example, paragraph 23(f) of IFRS 8 requires the disclosure, for each reportable segment, of material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (or paragraph 42 of IFRS 18 *Presentation and Disclosure in Financial Statements*). During the Post-implementation Review of IFRS 8 some users requested that the IASB mandate the disclosure of specific items. The IASB subsequently issued Exposure Draft ED/2017/02 *Improvements to IFRS 8 Operating Segments* (ED/2017/02) which included a proposal to clarify that an entity may disclose segment information, in addition to that reviewed by, or regularly provided to, the chief operating decision maker if that helps the entity satisfy the core principle in paragraphs 1 and 20 of IFRS 8. The IASB did not propose to

[6] The items listed in paragraph 23 of IFRS 8 are similar to the items that were required to be presented separately by paragraph 82 of IAS 1 (at the time that IFRS 8 was published).

Table 1—Other comments and staff response	
Comments received	Staff response
	mandate disclosures of specific items because to do so would be inconsistent with the management approach underlying IFRS 8. The IASB decided not to proceed with the proposals in ED/2017/02. The IASB agreed with respondents that it was unnecessary to provide clarification in IFRS 8, given the requirements in IAS 1 (to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance).[7] The IASB acknowledged that an entity was not prohibited from providing additional disclosures on segment information.

Question for the IASB
2. Does the IASB have any questions or comments on Table 1?

[7] See also paragraph 20 of IFRS 18.