IFRS Accounting

Staff paper

Agenda reference: 9D

IASB® meeting

Date	**July 2024**
Project	**Rate-regulated Activities**
Topic	**Transition reliefs**
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Objective

1. This paper sets out staff analysis and recommendations on transition reliefs for entities applying the modified retrospective approach recommended in Agenda Paper 9C. It considers transition reliefs for entities already applying IFRS Accounting Standards and for first-time adopters of IFRS Accounting Standards.

Staff recommendations

2. The staff recommend that the final Accounting Standard:

   (a) require an entity using the modified retrospective approach to state that fact, disclose which transition reliefs it has applied and where appropriate, describe how it has applied those reliefs;

   (b) permit an entity using the modified retrospective approach whose regulatory capital base has a direct relationship with its property, plant and equipment to limit the application of the requirements regarding regulatory returns on assets not yet available for use, to assets not yet available for use that exist at the beginning of the comparative annual period;

(c) permit an entity using the modified retrospective approach:

(i) to use hindsight; and

(ii) to use the regulatory interest rate at the beginning of the comparative annual period as the regulatory interest rate for the purpose of applying the requirements dealing with discounting estimates of future cash flows, including the minimum interest rate and the uneven regulatory interest rate requirements;

(d) require an entity using the modified retrospective approach to present the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*[1] for the annual period immediately preceding the first annual period for which the final Standard is applied (and permit but not require such an entity to present the quantitative information required by paragraph 28(f) of IAS 8 for the current annual period or for earlier comparative periods presented); and

(e) permit an entity applying the final Standard retrospectively in accordance with IAS 8 to use the relief from paragraph 28(f) of IAS 8 in paragraph (d) above.

3. We recommend that the final Accounting Standard amend IFRS 1 *First-time Adoption of International Financial Reporting Standards*:

(a) to permit a first-time adopter to apply any of the transition reliefs in the final Standard, with one exception. Instead of applying the transition relief described in paragraph 2(b), a first-time adopter that applies the exemption in paragraph D8B of IFRS 1 is required to apply the requirement to account for a regulatory asset arising from regulatory returns on assets not yet available for use prospectively; and

[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.*

(b) to require an entity applying any transition reliefs in the final Standard to disclose which reliefs it has applied and where appropriate, describe how it has applied those reliefs.

Structure of the paper

4. This paper is structured as follows:
   (a) proposals in the Exposure Draft (paragraph 7);
   (b) feedback (paragraphs 8–10);
   (c) reliefs considered (paragraphs 11–32);
   (d) modified retrospective approach (paragraphs 33–34);
   (e) full retrospective approach (paragraphs 35–36); and
   (f) first-time adoption (paragraphs 37–41).
5. Appendix A summarises the IASB's tentative decisions on regulatory returns on assets not yet available for use. Many of the reliefs analysed in this paper deal with these requirements.
6. Appendix B provides analysis of the reliefs relating to regulatory returns on assets not yet available for use.

Proposals in the Exposure Draft

7. The proposals in the Exposure Draft regarding retrospective application are explained in Agenda Paper 9C. The Exposure Draft does not propose any transition reliefs apart from the proposed relief for past business combinations (see Agenda Paper 9E).

Feedback

8. This section includes the feedback on the Exposure Draft that we have considered in developing the transition reliefs.

9. As mentioned in Agenda Paper 9C, most respondents, across all stakeholder types, who commented did not support the proposal for full retrospective. In particular:

   (a) some respondents said it would be difficult:

      (i) to calculate the carrying amount of a regulatory asset or regulatory liability arising because of the regulatory recovery period being longer or shorter than the useful life of an asset; and

      (ii) to calculate the carrying amount of a regulatory liability associated with regulatory returns on assets not yet available for use if the returns charged to customers were included in revenue during the construction of the assets.

   (b) some respondents said that full retrospective application would, in some cases, be impracticable without using hindsight. They said that hindsight might be required for the following proposals:

      (i) determining whether it is more likely than not that a regulatory asset or a regulatory liability existed;

      (ii) recreating the circumstances in which an entity would have made the significant assumptions and judgements required to measure regulatory assets and regulatory liabilities (for example, estimating the future cash flows of regulatory assets or regulatory liabilities relating to performance incentives); and

      (iii) assessing whether the regulatory interest rate is sufficient for a regulatory asset.

10. Respondents suggested various reliefs to help address these concerns. For example, in respect of accounting for a regulatory liability relating to the regulatory returns on an asset not yet available for use (paragraph 9(a)(ii)), a preparer from Asia-Oceania suggested an exemption to limit application of the proposed requirements to assets not yet available for use existing at the date of initial application of the final Standard.

We received similar feedback from a respondent to the survey on the direct (no direct) relationship concept.[2]

Reliefs considered

11. This section discusses possible reliefs from retrospective application we identified considering feedback received on the Exposure Draft:

    (a) reliefs relating to the proposals that raised most concerns (paragraphs 12–20);

    (b) relief relating to the use of hindsight (paragraphs 21–22);

    (c) relief relating to discounting estimated future cash flows (paragraphs 23–25); and

    (d) relief relating to paragraph 28 of IAS 8 (paragraphs 26–32).

Reliefs relating to the proposals that raised most concerns

12. As mentioned in Agenda Paper 9C, many respondents said that full retrospective application would involve undue cost or effort (paragraph 9). These comments mainly focused on the proposals to account for:

    (a) regulatory assets and regulatory liabilities arising from differences between regulatory recovery period and assets' useful lives; and

    (b) regulatory liabilities arising from regulatory returns on assets not yet available for use included in regulated rates charged during construction.

13. We have considered whether the final Standard should provide transition relief for either of these proposals, bearing in mind the IASB's tentative decisions about the direct (no direct) relationship concept (Appendix A). We have considered the impact of the IASB's tentative decisions on:

[2] Agenda Paper 9A discussed by the IASB at its meeting in October 2023.

(a) entities that have a regulatory capital base that has no direct relationship with their property, plant and equipment (paragraphs 14–15); and

(b) entities that have a regulatory capital base that has a direct relationship with their property, plant and equipment (paragraphs 16–20).

No direct relationship

14. Many of the respondents that expressed concerns about the proposals in paragraph 12 have a regulatory capital base that has **no direct relationship** with their property, plant and equipment. Their concerns have been largely addressed by the IASB's tentative decisions which mean that their transition to the final Standard will be simpler than originally proposed. Such entities would not be required to account for:

(a) regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives (paragraph 9(a)(i)); or

(b) regulatory liabilities arising from regulatory returns on assets not yet available for use included in regulated rates charged during construction (paragraph 9(a)(ii)). To the extent that entities have an enforceable present right to regulatory returns on assets not yet available for use, those regulatory returns would form part of the total allowed compensation for goods or services supplied during the construction period of those assets.

15. We do not think that entities that have a regulatory capital base that has **no direct relationship** with their property, plant and equipment require any transition relief in relation to the proposals in paragraph 12.

Direct relationship

16. In the case of entities that have a regulatory capital base that has **a direct relationship** with their property, plant and equipment, the regulatory recovery periods and useful

lives of assets are often aligned.[3] Consequently, in many cases these entities would not have significant regulatory assets and regulatory liabilities arising from differences between regulatory recovery periods and assets' useful lives. We do not think these entities require any transition relief in respect of differences between regulatory recovery periods and assets' useful lives.

17. However, we think entities whose regulatory capital base has a direct relationship with their property, plant and equipment could require transition relief in relation to the accounting for regulatory assets or regulatory liabilities relating to regulatory returns on assets not yet available for use. Following the IASB's tentative decisions, the regulatory returns on assets not yet available for use will give rise to differences in timing for such entities depending on whether these returns:

    (a) are included in regulated rates charged during construction or during operation of the assets; and

    (b) consist of both debt and equity returns or only debt returns.

18. Appendix B includes analysis of possible transition reliefs for regulatory returns on assets not yet available for use. It considers:

    (a) the information required for retrospective application of the requirements regarding regulatory returns on assets not yet available for use; and

    (b) the likelihood of an entity having that information.

19. Based on the analysis in Appendix B, we think the final Standard should permit an entity whose regulatory capital base has a direct relationship with its property, plant and equipment to apply the requirements regarding regulatory returns on assets not yet available for use to assets being constructed at the beginning of the annual reporting period immediately preceding the date of initial application (date of transition). Entities using the reliefs described in Appendix B would not be required to apply

[3] In their responses to the direct (no direct) relationship survey, many of the entities that concluded their regulatory capital base has a direct relationship with their property, plant and equipment said that the recovery period of their regulatory capital base is closely aligned with the assets' useful lives. See Agenda Paper 9B discussed at the September 2023 IASB meeting.

those requirements to assets in use. This would be consistent with the suggestion received from a respondent (paragraph 10).

20. We think an entity should be permitted to apply any of the reliefs in Appendix B that are relevant to its circumstances in applying the final Standard at the date of transition.

Relief relating to the use of hindsight

21. Paragraph 53 of IAS 8 states that an entity shall not use hindsight when applying a new accounting policy. This is not always possible. IFRS Accounting Standards deal with such situations by not requiring retrospective application or allowing entities to make use of current information for specific requirements. For example, paragraph C10 of IFRS 16 *Leases* permits lessees applying the modified retrospective approach in paragraph C5(b) of IFRS 16 to use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

22. Some respondents said that it would be difficult to apply some of the proposals retrospectively without the use of hindsight. We acknowledge that the application of the proposals to the examples provided by respondents in paragraph 9(b) without the use of hindsight would be difficult. The recommendations in Agenda Paper 9C to permit the use of a modified retrospective approach and to limit the requirement for restated comparative information to the annual reporting period immediately preceding the date of initial application of the final Standard may help in addressing these comments. However, consistent with the approach taken in IFRS 16, we think the final Standard should permit the use of hindsight on transition for entities applying a modified retrospective approach. We think the option to use hindsight should be available to all entities applying a modified retrospective approach, regardless of whether they have previously recognised regulatory balances.

Relief relating to discounting estimated future cash flows

23. Some respondents suggested that the IASB permit an entity to measure regulatory assets and regulatory liabilities using the regulatory interest rate at a specified date.

24. An entity is required to update estimated cash flows and the discount rate for changes in the regulatory interest rate. If there has been a change in the regulatory interest rate since initial recognition of a regulatory asset or regulatory liability, we think the regulatory interest rate of that regulatory asset or regulatory liability at the date of transition will often be the same as the discount rate determined in accordance with the discount rate requirements. However, we think a transition relief could be helpful to avoid an entity having to consider multiple regulatory interest rate changes and assess whether:

    (a) previous regulatory interest rates provided sufficient compensation for the time value of money and uncertainty in the future cash flows;[4] or

    (b) a single discount rate should be computed because, for example, a regulatory asset recognised before the date of transition and still outstanding on transition started attracting a regulatory interest rate more than 12 months after the regulatory asset was recognised.[5]

25. We recommend that an entity using the modified retrospective approach be permitted to use the regulatory interest rate at the beginning of the comparative annual period as the regulatory interest rate for the purpose of applying the discount rate requirements. This relief would mean that an entity would be allowed to apply the minimum interest rate requirement and the requirement to calculate a single discount rate (the uneven regulatory interest rate requirement) prospectively as of the beginning of the comparative annual period.

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[4] For minimum interest rate, the related proposals are in paragraphs 50–53 of the Exposure Draft. For uneven regulatory interest rate, the related proposals are in paragraph 54 of the Exposure Draft.

[5] The IASB tentatively decided to exempt an entity from applying paragraph 54 of the Exposure Draft if the entity expects that the period between recognition of a regulatory asset or regulatory liability and the date from which regulatory interest starts to accrue is 12 months or less. See IASB Update for March 2024.

Relief relating to paragraph 28 of IAS 8

26. When initial application of an IFRS Accounting Standard has an effect on the current period or any other period, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected, and if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share.

27. We have considered whether entities applying the final Standard should be granted relief from presenting the information required by paragraph 28(f) of IAS 8. Our understanding is that the costs and benefits of applying paragraph 28(f) of IAS 8 are generally considered when developing the transition requirements for an IFRS Accounting Standard and that IFRS Accounting Standards often provide relief from this requirement (paragraph 31).

28. In some cases, specific disclosures are required, tailored to the transition requirements of a new IFRS Accounting Standard, instead of the information required by paragraph 28(f) of IAS 8. For example, paragraph C12 of IFRS 16 states:

> C12 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall disclose information about initial application required by paragraph 28 of IAS 8, except for the information specified in paragraph 28(f) of IAS 8. Instead of the information specified in paragraph 28(f) of IAS 8, the lessee shall disclose:
>
> (a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and
>
> (b) […]

29. *Granting relief* from paragraph 28(f) of IAS 8 would avoid an entity from having to run parallel systems to generate the information required about the effect on the current period.

30. *Against giving relief* from paragraph 28(f) of IAS 8 are:

    (a) the requirements in paragraph 28(f) of IAS 8 may not be particularly onerous for entities applying the final Standard because the new requirements will affect a limited number of financial statement line items; and

    (b) paragraph 28(f) of IAS 8 says that the information is required 'to the extent practicable'.

31. We think entities applying the final Standard, particularly those that have previously recognised regulatory balances, could benefit from this relief. Although the final Standard might affect a limited number of line items, we think that entities that had previously recognised regulatory balances would incur costs in identifying the amount of the adjustments to their regulatory balances (and having that information audited) or in demonstrating that it is not practicable to obtain the information. For example, when IFRS 15 *Revenue from Contracts with Customers* was being developed, stakeholders expressed concern that without an exemption to paragraph 28(f) of IAS 8, this disclosure requirement would result in an entity being required to continue providing revenue information under legacy revenue guidance in the first year of application. Consequently, paragraph C4 of IFRS 15 provides partial relief from paragraph 28(f) of IAS 8 for entities applying IFRS 15 retrospectively.

32. We think that the partial relief from paragraph 28(f) of IAS 8 in IFRS 15 could be useful for entities applying the final Standard. We think that the final Standard should grant relief from presenting the quantitative information required by paragraph 28(f) of IAS 8 for the current annual period or for earlier comparative periods presented. We think this relief should be available to entities using a modified retrospective approach and entities using a full retrospective approach to save entities incurring implementation costs, similar to those described in paragraph 31. An entity would still be required to present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the first annual period for which the final Standard is applied.

Modified retrospective approach

33. We think an entity should be permitted to use any of the transition reliefs recommended in this paper that are relevant to its circumstances. We think an entity using the modified retrospective approach should be required to disclose that fact and explain which transition reliefs it has applied and how.

Staff recommendations

34. We recommend that the final Accounting Standard:

    (a) require an entity using the modified retrospective approach to state that fact, disclose which transition reliefs it has applied and where appropriate, describe how it has applied those reliefs;

    (b) permit an entity using the modified retrospective approach whose regulatory capital base has a direct relationship with its property, plant and equipment to limit the application of the requirements regarding regulatory returns on assets not yet available for use, to assets not yet available for use that exist at the beginning of the comparative annual period;

    (c) permit an entity using the modified retrospective approach:

        (i) to use hindsight; and

        (ii) to use the regulatory interest rate at the beginning of the comparative annual period as the regulatory interest rate for the purpose of applying the requirements dealing with discounting estimates of future cash flows, including the minimum interest rate and the uneven regulatory interest rate requirements; and

    (d) require an entity using the modified retrospective approach to present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the first annual period for which the final Standard is applied (and permit but not require such an entity to present the quantitative information required by paragraph 28(f) of IAS 8 for the current annual period or for earlier comparative periods presented).

Question for the IASB
1. Does the IASB agree with the staff recommendations in paragraph 34?

Full retrospective approach

35. We think that the partial relief from paragraph 28(f) of IAS 8 should be available to an entity electing to apply the final Standard retrospectively in accordance with IAS 8 for cost saving reasons (paragraph 32).

36. We recommend that the final Accounting Standard permit an entity applying the final Standard retrospectively in accordance with IAS 8 to use the relief from paragraph 28(f) of IAS 8 in paragraph 34(d) of this paper.

Question for the IASB
2. Does the IASB agree with the staff recommendation in paragraph 36?

First-time adoption

37. We think the transition reliefs recommended in paragraphs 34(a)–(c) would help first-time adopters avoid the cost and difficulty of applying the requirements of the final Standard when transitioning to IFRS Accounting Standards. We therefore think they should be permitted to apply any of those reliefs that are relevant to their circumstances.

38. Having said that we think relief C described in Appendix B may conflict with paragraph D8B of IFRS 1. Relief C would require entities to recognise a regulatory asset in relation to regulatory returns in excess of capitalised borrowing costs only for assets not yet available for use at the date of transition.[6] Using that relief an entity would not be required to recognise that regulatory asset for assets that are in use.

39. IFRS 1 permits an entity to use the carrying amount of an item of property, plant or equipment determined under previous generally accepted accounting principles (GAAP) as the deemed cost at the date of transition to IFRSs. In such a case, an entity may have already capitalised regulatory returns in excess of capitalised borrowing costs for assets not yet available for use that existed before the date of transition to IFRSs. Applying paragraph D8B these items would form part of the deemed cost of the entity's property, plant and equipment when transitioning to IFRSs. Consequently, we think first-time adopters that have applied paragraph D8B of IFRS 1 should be prohibited from applying relief C in Appendix B. Instead such entities should be required to apply the requirements regarding regulatory returns on assets not yet available for use prospectively.

40. The proposed relief from paragraph 28(f) of IAS 8 is not relevant for first time adopters. IAS 8 does not apply to the changes in accounting policies an entity makes when it adopts IFRS Accounting Standards. IFRS 1 requires an entity to explain how the transition from its previous GAAP to IFRS Accounting Standards affected its reported financial position, financial performance and cash flows.

Staff recommendations

41. We recommend that the final Accounting Standard amend IFRS 1:

(a) to permit a first-time adopter to apply any of the transition reliefs in the final Standard, with one exception. Instead of applying the transition relief

[6] Agenda Paper 9C recommends retaining the proposal that a first-time adopter present comparative information in accordance with the requirements in IFRS 1 (and the definition of the date of transition to IFRSs in IFRS 1).

described in paragraph 38, a first-time adopter that applies the exemption in paragraph D8B of IFRS 1 is required to apply the requirement to account for a regulatory asset arising from regulatory returns on assets not yet available for use prospectively; and

(b) to require an entity applying any transition reliefs in the final Standard to disclose which reliefs it has applied and where appropriate, describe how it has applied those reliefs.

Question for the IASB
3. Does the IASB agree with the staff recommendations in paragraph 41?

Appendix A—Regulatory returns on assets not yet available for use

Proposals in the Exposure Draft			
Regulatory returns included during construction of the assets		**Regulatory returns included during the operation of the assets**	
Entities should reflect these returns during the operation period. Consequently, an entity should account for these returns as a regulatory liability during the construction period. The regulatory liability would be fulfilled during the regulatory period in which the assets are recovered.		Entities should reflect these returns during the operation period. Consequently, no differences in timing arise during the construction period. During the operation, regulatory returns will be included in regulated rates charged and will be reflected in revenue.	
Redeliberations—Direct relationship and entity capitalises borrowing costs during construction period applying IAS 23 *Borrowing Costs*[7]			
Regulatory returns included during construction of the assets		**Regulatory returns included during the operation of the assets**	
Returns include both debt and equity returns	*Returns include only debt returns*	*Returns include both debt and equity returns*	*Returns include only debt returns*
Entity should account for returns that are equal to the capitalised borrowing costs as a regulatory liability during construction. Returns in excess of capitalised borrowing costs included in regulated rates charged during construction and reflected in revenue recognised	Entity should account for the debt returns as a regulatory liability during construction.	Entity should account for the returns in excess of capitalised borrowing costs as a regulatory asset during construction.	No difference in timing arises during construction.

[7] IASB Update November 2022.

would form part of the total allowed compensation for goods or services supplied during construction.			
Redeliberations—No direct relationship			
Regulatory returns form part of the total allowed compensation for goods or services supplied during construction.			

Appendix B—Reliefs relating to regulatory returns on assets not yet available for use

<table>
<tr><th colspan="2">Transition reliefs relating to regulatory returns on assets not yet available for use for entities with a direct relationship between regulatory capital base (RCB) and property, plant and equipment (PPE)</th></tr>
<tr><td colspan="2">Regulatory returns in regulated rates charged during construction: debt and equity returns</td></tr>
<tr><td colspan="2">Requirements based on the IASB tentative decision (A)—Entities in this situation would need to account for the regulatory returns equal to the capitalised borrowing costs as a regulatory liability during the construction period. That regulatory liability would be fulfilled over the useful lives of the assets once they are in operation and the capitalised borrowing costs are expensed as part of the depreciation expense of the assets.</td></tr>
<tr><td>Information required for retrospective application

At the beginning of the annual reporting period immediately preceding the date of initial application (date of transition), an entity will be required to identity:

42. cumulative capitalised borrowing costs allocated to assets not yet available for use;

43. cumulative capitalised borrowing costs previously allocated to assets in use that are not yet fully depreciated (at a time when these assets were not yet available for use); and

• cumulative capitalised borrowing costs already expensed via depreciation expense for assets in use that are not yet fully depreciated.

Each period after transition an entity will be required to identify:

• the amount of capitalised borrowing costs included in the carrying amount of assets that become available for use in that period; and</td><td>Information availability

We think an entity should have information about the amount of cumulative capitalised borrowing costs allocated to assets not yet available for use at the date of transition.[8]

However, both entities currently reporting regulatory balances and those not reporting such balances may not have information about the amount of capitalised borrowing costs previously allocated to assets which are now in use (at a time when these assets were not yet available for use) and still included in the carrying amount of those assets. Some entities may have ceased to track those capitalised borrowing costs once the assets became available for use.

Recommended relief (A)

Limit the application of the requirements in tentative decision (A) to assets that are not yet available for use at the date of transition. That is, require an entity to recognise a regulatory liability for the regulatory returns equal to the capitalised borrowing costs included in regulated rates charged during construction for</td></tr>
</table>

[8] Paragraph 26(a) of IAS 23 requires that an entity discloses the amount of borrowing costs capitalised during the period.

<table>
<tr><th colspan="2">Transition reliefs relating to regulatory returns on assets not yet available for use for entities with a direct relationship between regulatory capital base (RCB) and property, plant and equipment (PPE)</th></tr>
<tr><td>the amount of capitalised borrowing costs included in depreciation expense for that period.</td><td>assets that are not yet available for use at the date of transition.</td></tr>
<tr><td colspan="2">Regulatory returns in regulated rates charged during construction: debt returns</td></tr>
<tr><td colspan="2">Requirements based on the IASB tentative decision (B)—Entities in this situation would need to account for the debt returns as a regulatory liability during the construction period. That regulatory liability would be fulfilled over the useful lives of the assets once they are in operation.</td></tr>
<tr><td>Information required for retrospective application
At the date of transition, an entity will be required to identify:
cumulative regulatory returns the entity has included in regulated rates charged for assets not yet available for use; and
44. the portion of the cumulative regulatory returns the entity has included in regulated rates charged for assets in use that are not yet fully depreciated.
Each period after transition an entity will be required to identify:
the amount of the regulatory returns associated with the carrying amount of assets that become available for use in that period; and
the amount by which the regulatory liability is fulfilled in that period as the assets are depreciated.</td><td>Information availability
Both entities currently reporting regulatory balances and those not reporting such balances may not have the information required for retrospective application. An entity may not have tracked the regulatory returns included in regulated rates charged during construction and may be unable to allocate these returns to individual items of property, plant and equipment.
This information may be available, or more readily recreated, for assets not yet available for use at the date of transition.
Recommended relief B
Limit the application of the requirements in tentative decision (B) to assets that are not yet available for use at the date of transition. That is, require an entity to recognise a regulatory liability in relation to regulatory returns included in regulated rates charged during construction for assets that are not yet available for use at the date of transition.</td></tr>
<tr><td colspan="2">Regulatory returns in regulated rates charged during operation: debt and equity returns</td></tr>
<tr><td colspan="2">Requirements based on the IASB tentative decision (C)—Entities in this situation would need to account for the regulatory returns in excess of the capitalised borrowing costs as a regulatory asset during the construction period. That regulatory asset would be recovered as the regulatory returns are included in regulated rates charged over the useful lives of the assets once the assets are in operation and the capitalised borrowing costs are expensed as part of the depreciation expense of the assets.</td></tr>
</table>

<table>
<tr><th colspan="2">Transition reliefs relating to regulatory returns on assets not yet available for use for entities with a direct relationship between regulatory capital base (RCB) and property, plant and equipment (PPE)</th></tr>
<tr><td>Information required for retrospective application

At the date of transition, an entity will be required to identify:
cumulative regulatory returns in excess of capitalised borrowing costs that relate to assets not yet available for use and that have not yet been included in regulated rates charged; and
cumulative regulatory returns in excess of capitalised borrowing costs that relate to assets in use (earned at a time when these assets were not yet available for use) and that have not yet been included in regulated rates charged.
Each period after transition an entity will be required to identify the amount of regulatory returns in excess of borrowing costs that have been included in regulated rates charged in that period for assets that become available for use during that period and for assets that are in use.</td><td>Information availability

Both entities currently reporting regulatory balances and those not reporting such balances may not have the information required for retrospective application.

An entity may not be able to link the excess of regulatory returns over the capitalised borrowing costs at an asset level, particularly in relation to assets that are in use. For example, a regulator may determine the regulatory returns based on the annual average balances of the assets not yet available for use. In such a case, an entity may be able to allocate the regulatory returns at an asset level only prospectively. The difficulties in linking the excess of regulatory returns over the capitalised borrowing costs at an asset level would affect the entity’s ability to account for the recovery of the regulatory asset.

Recommended relief C

Limit the application of the requirements in tentative decision (C) to assets that are not yet available for use at the date of transition. That is, require an entity to recognise a regulatory asset in relation to regulatory returns in excess of capitalised borrowing costs for assets not yet available for use at the date of transition.</td></tr>
<tr><th colspan="2">Regulatory returns in regulated rates charged during operation: debt returns</th></tr>
<tr><td colspan="2">No differences in timing would arise during construction. No transition reliefs are needed.</td></tr>
</table>