International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RAAD VOOR DE JAARVERSLAGGEVING

Secretariaat:
Antonio Vivaldistraat 2, 1083 GR Amsterdam
Postbus 7984, 1008 AD Amsterdam

T +31(0)20 301 03 91
secretariaat@rjnet.nl
www.rjnet.nl

Our ref: RJ-IASB 501 A
Date: Amsterdam, 26 July 2021
Re: Comment letter on ED/2021/1 'Regulatory Assets and Regulatory Liabilities'

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on your draft comment letter published on 12 April 2021 in response to the Exposure Draft 'Regulatory Assets and Regulatory Liabilities' ("ED").

The DASB welcomes the IASB's efforts to draft an accounting standard for Regulated Activities, with a focus on the accounting for Regulatory Assets and Liabilities. We support the concept and (overlay) approach of the ED and generally support standardization as it enhances consistency over time and comparability between entities as opposed to the non-GAAP measures some entities currently provide on a voluntary basis.

At the same time we note, including feedback that we received during further outreach that we performed, that the reality is (much) more complex than the relative stylized starting point of the ED and examples currently included in the ED. We emphasize that we strongly feel that the practical application of the standard needs to be explored in more detail. We believe that further development of the standard is needed which address the practical application difficulties in more detail and encourage a re-exposure of the new draft version. If additional exploration indicates that further development of a (draft) Standard that addresses these issues is not possible, we would be in favour of a disclosure-only approach as an alternative.

Taking into account our introductory statement above, we generally agree with EFRAG's response to the ED, except (or in addition) as set out below (in the same order as the ED):

- We would be in favour of having a scoping that is clear on those activities that are not in scope, and would therefore not be recognized, with for example the suggestion to explicitly out scope insurance contracts (Q1).
- Clarify in the scoping whether the standard is applicable to regulated activities for which there is not a direct relationship between the companies own costs and its allowable income (Q1).
- In the Netherlands the total allowable compensation is sometimes determined on the average cost base of the sector, from the current definition it is not clear whether the concept of total allowable income still applies, and if so how to determine which component should be identified as allowable compensation and which component should be identified as incentive (Q3).

- We believe that in respect of CWIP alternative 1 (recording the return on CWIP during the construction phase) would conceptually best reflect the economic reality (Q3).
- In situations of a very high level of measurement uncertainty (unreliability), especially when due to lack of data and insight in the information being used by the regulator, a threshold of measurement uncertainty should be incorporated into the recognition criteria of regulatory assets and liabilities (Q4).
- Within our regulatory environment, there is much debate regarding the enforceability of rights and obligations for the current/next tariff period(s) only or also beyond these periods based on the overall legal framework. These topics should be further explored and clarified by the IASB (Q4).
- We observe situations where a regulated entity would be entitled to recharge certain timing difference, but may decide not to do so for commercial reasons. Making a best estimate would be difficult and commercially sensitive. We believe these aspects should be further addressed by the IASB (Q5).
- Uncertainty with respect to the timing of settlements, might create significant estimation uncertainty when the regulatory return on the timing difference would be different from the discount rate applied (Q5).
- With respect to discount rates we generally tend to support View 1 of EFRAG with the following remarks (Q6):
    - The ED suggests that there is a singular regulatory rate, while we observe different rates of return for different timing differences.
    - We believe that a clear objective rate should be prescribed if the regulatory rate is deemed not to appropriately reflect the risk and time value of money (the rebuttable presumption being that it would do so).
    - We believe that the discounting concepts should be symmetrical for regulatory assets and liabilities.
- We ask attention for certain items (like actuarial remeasurement of pensions) are not later recycled into P/L, it is not clear to us how the realization of the respective regulatory asset or liability is recognized (Q7).
- With respect to offsetting we deem the current model to be too strict due to the requirement to assess that the amounts offset are expected to be settled in the same period (Q8).
- We believe that the description of the separate line item regulatory income minus all regulatory expense may be confusing (Q8).
- We believe that the disclosures should focus on the recognized assets and liabilities at year-end (Q9).
- We believe that the main movements and/or developments should be disclosed and explained, not a full reconciliation schedule (Q9).
- We believe that some practical expedients are needed for first time adoption, especially in light of accounting for any returns on CWIP (Q10).
- With respect to goodwill transition we suggest to align as much as possible with IFRS 1 exemptions in respect of past business combinations (Q10).
- We are strongly of the opinion that regulatory assets and liabilities should be included in the IAS 36 impairment test on CGU-level (Q11).
- We have a concern in respect of the interaction between the proposed model and the fair valuation of for example PP&E, refer to the detailed example included in our response (Q11).

Our further feedback, including some additional comments raised in our comment letter to the IASB, is provided in the appendix.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

drs. Gerard van Santen
Chairman Dutch Accounting Standards Board.

Appendix – Views on EFRAG Draft Comment Letter

Question 1 – Objectives 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?

The DASB support EFRAG's comments and have in addition the following comments:

- The scoping seems currently more descriptive than truly defining whether certain activities are within the scope; the latter is more addressed through the recognition and measurement requirements. We would be in favor of having a scoping that is clear on those activities that are not in scope, and would therefore not be required to further analyze whether any regulatory assets or liabilities would need to be recognized. For example given the introduction of IFRS 17 we propose to explicitly scope out insurance contracts from this

standard. We have had specific conversations with a railway operator and telco; and concluded that they would not be in scope, which aligns with expectations and their current business models.

- The scoping, as well as recognition and measurement requirements, seem to imply that a one to one relationship exists between the companies own costs and its allowable income. We have identified regulatory regimes where the allowable income is based on the industry average costs and not the individual company's cost base. The ED is unclear whether these type of activities would be in scope and/or whether regulatory assets/liabilities would need to be recognized (see also our response on subsequent questions).

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?

We support EFRAG's comments and have in addition the following comments:

- We refer to our response on question 3, as the definition of regulatory assets and liabilities cannot be seen separately from the definition of total allowable compensation.

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?

We support EFRAG's comments and have in addition the following comments:

- In the Netherlands for certain regulated entities the total allowable compensation is not determined based on the entity's individual cost base, but on the average cost base of the sector. The current definitions are unclear on whether or not in such situation the concept of "total allowable compensation" still applies; and secondly what part of the regulated revenue should be seen as a cost compensation (allowable expenses) and what should be seen as an incentive. This distinction is crucial in the accounting model as the concept of timing differences primarily relates to the cost compensation.
- In respect of CWIP we prefer alternative 1 and believe that recording the return on CWIP during the construction phase in line with regulatory treatment would be most practical and also conceptually represents an actual return the entity is allowed to make during this construction phase by the regulator.

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?

We support EFRAG's comments and have in addition the following comments:

- In our specific regulatory environment, the entity may be entitled to compensation, but the entity does not have sufficient insight into the regulatory rates and the future compensation that it will receive until the regulator provides such rates to the entity. For example, for certain of the regulatory regime the regulated entity provides opex/capex input to the regulator, but the regulatory asset base (RAB) is recorded and determined by the regulator. The respective entities only have limited insight in the RAB and are for example not allowed to share or receive information from the other regulated entities to be informed about the RAB and sector efficiencies. In situations this would highly increase the measurement uncertainty (unreliability) of any estimate to be made. Therefore we are of the view that a measurement uncertainty threshold (the reliability of any estimate to be made) should be incorporated into the recognition criteria of regulatory assets and liabilities; i.e. they would not be recognized to the extent they would not be able to be reliably measured.
- There is much discussion in the Netherlands on whether or not enforceable rights and obligations exists for the current/next tariff period (generally 3-5 years) only or also beyond these periods based on the overall legal framework. This may also depend on the nature of the item where for example for volume differences there is only clarity on the rights and obligations during the tariff period, while for timing differences related to depreciation there may be clarity that rights and obligations also exist beyond the current tariff period based on the regulatory framework. Finally, the information on rights and obligations also depend on the distinction between what is seen as "allowable expenses" versus "incentives". We believe these topics should be further clarified by the IASB.

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?

We support EFRAG's comments and have in addition the following comments:

- We refer to our answers on Q4 in respect of the criterium of reliability, as well as whether enforceable rights and obligations exist beyond the current tariff period.
- We identified situations where a regulated entity would be entitled to recharge certain timing differences to their clients, but may decide not to do so for commercial reasons, especially in abnormal periods such as Covid-19. Making a best estimate of such factor would be difficult and commercially sensitive. Limiting disclosures in such situation would probably not be sufficient in this scenario. We believe that such aspects should be further addressed by the IASB.
- There may also be uncertainty in respect of the timing of certain settlements; this would possibly create significant estimation uncertainty when the regulatory return on this timing difference would be different from the discount rate applied (see also our answer to Q6).

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?

We support EFRAG's comments and have in addition the following comments:

- We generally tend to support View 1 as expressed by EFRAG with the following additional remarks:
    - The ED suggests that generally there is just one singular regulatory rate (for example based on WACC); however we note that for different timing differences, the regulator allows for different rates of return; for example a WACC-based regulatory rate for timing difference on PP&E, and an interest-based regulatory rate for opex/volume-related timing differences settled within a reasonable short time frame (< 5 years). We are of the opinion that the appropriate regulatory rate should be used, and since this rate impacts both the future cash flows and discounting, effectively the nominal value of the timing differences is recognized.
    - If indeed it is objectively evidenced that the regulatory rate does not appropriately reflect the risk and time value of money (the rebuttable presumption would be that it would do so), we believe that a clear objective rate should be prescribed, similarly to for example the incremental borrowing rate in IFRS 16.
    - We believe that the discounting concepts should be symmetrical for regulatory assets and liabilities (including the concept of minimum rate) to prevent distortions in the accounting model and to limit the effect on whether certain timing differences are assessed on a gross or net basis.

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?

We support EFRAG's comments and have in addition the following comments:

- We would like to ask attention for situations where certain items, such as actuarial remeasurements of pensions are not later recycled into P&L. It is unclear to us how the realization of the respective regulatory asset or liability is recognized. It seems from the proposals that this would follow the accounting for the related item. However, the actual revenue charged to customers would always be recognized in P&L.

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?

We support EFRAG's comments and have in addition the following comments:

- In respect of the offsetting of regulatory assets and liabilities we agree that the current proposal is too strict due to the requirement to assess that the amounts offset are expected to be settled in the same period. We believe that similar criteria as for deferred tax and liabilities, where expected simultaneous settlement in the future is not a requirement, would be used.
- We have received feedback that some of our constituents find the description of the separate line item regulatory income minus all regulatory expense confusing. As this may raise the impression that all of the income generated through their regulated activities is presented in this line item, while it should only reflect the net effect of the overlay approach in addition to the revenue already reported applying IFRS 15. Additionally, the wording of regulatory expense effectively refers to "negative" income, and not any actual expense. We recommend that appropriate description is used which avoids such confusion.

Question 9 – Disclosures

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?

We support EFRAG's comments and have in addition the following comments:

- We believe that the primary focus of the disclosure should be on the recognized assets and liabilities at year-end, as well as those balances that have not been recognized.
- We believe that a full reconciliation schedule for the movement during the year would not be necessary, as long as the main movements and/or developments are disclosed and explained.

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?

We support EFRAG's comments and have in addition the following comments:

- Depending on the final choices to be made in respect of especially the accounting for any returns on CWIP during the construction phase, we believe the IASB should consider to provide some practical expedients in respect of transition on this matter to limit the administrative burden to make this specific adjustment fully retrospective.
- In respect of the goodwill transition, we would suggest to align as much as possible with the IFRS 1-exemptions in respect of past business combinations.

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?

We support EFRAG's comments and have in addition the following comments:

- We are strongly of the opinion that - both for practical and conceptual reasons - regulatory assets and liabilities and their related cash flows should be included in the IAS 36 impairment tests on CGU-level. First of all we believe that this is the most practical way to perform a robust IAS 36 impairment test, additionally this provides additional safeguards that the IAS 36 impairment test is performed in a consistent way and that on an overall CGU-level the total net amount of assets (including regulatory assets and liabilities) is recoverable.
- We have identified a concern in respect of the interaction between the proposed model and the fair valuation of for example PP&E, when either the IAS 16-revaluation model or IFRS 3 purchase price accounting is applicable. We further elaborate on this topic below.

Interaction between fair value measurement of PP&E (IAS 16 or IFRS 3) and recognition of regulatory assets and liabilities.

One of our concerns in respect of the ED and other standards is how any measurement of for example PP&E at fair value (either under IAS 16 – revaluation model or as a result of a PPA under IFRS 3) would interact, if any, with the recognition of regulatory assets and liabilities. In the ED and the examples provided, one of the "timing differences" is a difference between the timing of the depreciation under IFRS and the timing of the depreciation for determining the regulated revenue.

For example, PP&E: IFRS book value is 80, and regulatory book value is 100. This means that 20 of depreciation will be included in future rates and represents a "timing difference" for which a regulatory asset is recorded in line with the ED (for simplicity not considered any further regulatory return and/or discounting). Let's assume that a PPA is performed as a result of an acquisition and it is concluded that based on an income approach the fair value of the PP&E amounts to 100. This would effectively mean that no timing difference would exist anymore.
The cost of the future services to be provided would amount to 100, and the future revenue from regulatory purposes would amount to 100 as well.
However, the ED may be read in such a way, that in such situation there is still a timing difference of 20 based on the original book values. If the latter would be the case, PP&E would be recorded for 100 and a regulatory asset of 20, while in the future only a cash inflow related to this asset and services to be provided of 100 would be received. This would indicate clearly a "double counting".

Based on the above we believe that the IASB should further clarify the interaction between any re-measurement to FV and the identification and recognition of regulatory assets and liabilities in respect of timing differences.

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?

We support EFRAG's comments and have no addition comments.

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?

The DASB generally agrees with EFRAG's other comments (as set out in its Draft Comment Letter).

Furthermore we strongly feel that the standard would benefit from a re-exposure after the IASB has addressed the comments received on the current ED.

The DASB does not have any further comments.