The topics discussed at the IASB’s March 2020 meetings were on the following:

1. Rate-regulated Activities
2. Management Commentary
1. Rate-regulated Activities

The Board met to discuss the treatment of ‘target profit’ in the accounting model it is developing for regulatory assets and regulatory liabilities. Target profit is the profit that an entity is entitled to include in the regulated rate. Principles that the Board had already discussed establish when the following elements of target profit are part of total allowed compensation:

- regulatory interest - over the period in which the related regulatory asset or regulatory liability is outstanding; and
- profit margins that vary with the amount of an expense, for example, a fixed percentage mark-up on the expense - when the related expense is recognised in accordance with IFRS Standards.

The Board discussed how an entity should determine when other elements of target profit are part of total allowed compensation. The Board tentatively decided that:

a. regulatory returns on a construction work-in-progress base included in the regulated rates charged to customers during the construction period form part of total allowed compensation only during the period when the asset is in operation and is being used to supply goods or services.

b. performance incentives (whether construction-related or non-construction-related) form part of total allowed compensation for goods or services supplied in the period over which the relevant performance criteria are monitored and evaluated.

c. all other elements of target profit that a regulatory agreement entitles an entity to charge customers in a period, including regulatory returns on a regulatory capital base, form part of total allowed compensation for goods or services supplied in that period.

Next step

The Board expects to publish an exposure draft in the second half of 2020.

2. Management Commentary

The Board met to discuss the objective of management commentary. The Board tentatively decided that the revised Practice Statement should:

a. retain the statement that management commentary is prepared for existing and potential investors, lenders and other creditors and refer to them as ‘primary users’; and

b. explain that primary users are expected to have a reasonable knowledge of business and economic activities and to review and analyse the information
diligently; but such users are not expected to have knowledge of the entity to which the management commentary relates.

The Board also tentatively decided that the revised Practice Statement should describe the objective of management commentary as supporting primary users in assessing an entity’s prospects for future cash flows and management’s stewardship of the entity’s economic resources by providing useful information and analysis that:

a. enhance the primary users’ understanding of the entity’s performance and position as depicted in the related financial statements; and
b. give insight into factors that could affect the entity’s prospects.

The Board also discussed a working draft of guidance on the objective of management commentary to be included in the revised Practice Statement, including guidance on:

a. the notion of ‘management’s view’;
b. types of information in management commentary; and
c. the link between the notions of ‘an entity’s prospects for future cash flows’ and ‘value creation’.

**Next step**

The Board’s next discussion is expected to cover business model, resources and relationships, strategy and opportunities.

*For further information: [http://www.ifrs.org](http://www.ifrs.org)*

*Financial Reporting Council*

*April 2020*