- They are impaired, or in the case of a regulatory liability, they are eliminated by the regulator
- The separable portion of the business generating the regulated cash flows no longer meets the criteria for application of ASC 980

ASC 980-20-35-8 through 35-9 also provide similar guidance that permits capitalization of future regulatory assets and liabilities (i.e., not just those that existed at the date of discontinuation) arising from a deregulatory legislation or a transitional rate order. Similar to the guidance for the recognition of existing regulatory assets and liabilities, the potential future regulatory assets and liabilities must be specified in the legislation or transitional rate order. Furthermore, the related costs must be incurred after ASC 980 is discontinued.

It may be difficult to distinguish when it is appropriate to retain existing regulatory assets or liabilities or to record future regulatory assets and liabilities, once a reporting entity has discontinued the application of ASC 980. Unless there is specific transitional legislation or a rate order permitting such accounting, a reporting entity should record only balances and transactions related to the separable portion of the business pursuant to U.S. GAAP applicable to entities in general.

Question 17-18

Are securitized stranded costs financial assets?

PwC response

No. Reporting entities may sometimes securitize their enforceable right to impose a surcharge or tariff. When a reporting entity securitizes its stranded costs, it obtains cash from investors in exchange for future regulated cash flows representing the surcharge or tariff. Such securitizations are typically set up through a trust that sells the securities and administers the ongoing cash flows related to those securities.

ASC 860, *Transfers and Servicing*, provides specific guidance on securitized stranded costs and states that they do not meet the definition of a financial asset. ASC 860-10-55-7 through 55-8 indicate that securitized stranded costs are not financial assets because they are imposed on ratepayers through the surcharge or tariff (i.e., imposed by the government) and do not represent a right to receive payments from another party as a result of a contract. Therefore, reporting entities should evaluate transfers of stranded costs in a securitization transaction as a borrowing and consider consolidation requirements related to the securitization trust.

17.9 Reapplication of regulatory accounting

After a reporting entity has discontinued application of rate-regulated accounting, facts and circumstances may change such that ASC 980 should be reapplied. For example, a reporting entity may discontinue rate-regulated accounting due to uncertainty during a long rate freeze period. However, it may subsequently conclude that it is appropriate to reapply ASC 980 as a result of a return to full cost-based