IFRS Accounting

Staff paper

Agenda reference: 2

Accounting Standards Advisory Forum meeting

Date	**July 2025**
Project	**Rate-regulated Activities**
Topic	**Redeliberations in May 2025 and Effects Analysis**
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Purpose of this session

- Share with ASAF members:
  - the IASB's tentative decisions in May 2025 relating to a sweep issue identified during the drafting of the prospective IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities* (prospective Standard).
  - an assessment of the likely effects (benefits and costs) of the prospective Standard.

Question for ASAF members

- Slide 27 includes a question for ASAF members.

IASB's tentative decisions May 2025

Sweep issue related to minimum interest rate (1/2)

Purpose IASB meeting—Discuss approaches to dealing with difficulties identified when drafting one of the exemptions from discounting in the prospective Standard.

Background—In July 2024 the IASB tentatively decided to exempt an entity from discounting regulatory assets and regulatory liabilities in specified circumstances.[1] The minimum interest rate (MIR) requirements would have applied to regulatory assets to which the IASB intended the discounting exemption to apply.

Discussion—The IASB discussed four approaches:

1) Develop a replacement for the exemption from discounting or add guidance on estimating future cash flows.
2) Remove the exemption from discounting and instead extend the existing exemption from the MIR requirements.
3) Remove the MIR requirements, except in a few specified circumstances.
4) Remove the MIR requirements completely and include enhanced disclosure requirements to help users understand the time value effects on regulatory assets and regulatory liabilities for which the regulatory agreement does not specify a regulatory interest rate.

The IASB also clarified assumptions relating to market variables to reduce the difficulty in estimating future cash flows.

1: At its May 2025, the IASB also discussed other minor sweep issues. See Appendix C of Agenda Paper 9 and May 2025 IASB Update.
2: See July 2024 IASB Update (bullet (b)).

Tentative decisions related to the sweep issue (2/2)

The IASB tentatively decided that the Standard would:

a) include no requirements for a minimum interest rate.

b) include a requirement for an entity to disaggregate the quantitative information, using time bands, about when it expects to recover regulatory assets and fulfil regulatory liabilities. The entity would be required to disaggregate the quantitative information between regulatory assets and regulatory liabilities for which the regulatory agreement:
   i) provides or charges a regulatory interest rate; and
   ii) does not provide or charge a regulatory interest rate.

c) include a requirement for an entity to provide the quantitative information in b) using:
   i) undiscounted cash flows; and
   ii) reasonable and supportable assumptions about the timing of future cash flows that are consistent between periods.

d) clarify that assumptions about market variables used in the estimates of future cash flows:
   i) should be consistent with observable market prices at the measurement date; and
   ii) should not include any effects of possible changes in market variables in the future.

Effects analysis

The problem—lack of information about differences in timing

A regulatory agreement establishes

The compensation an entity is entitled for the regulatory goods or services supplied in a period

WHEN the entity can charge that compensation to customers through regulated rates

In the period of supply

Compensation in rates

Supply regulatory goods or services

No difference in timing

In a **different period** from the period of supply

Past period

Current period

Future period

Difference in timing arises—incomplete information about financial performance and financial position

How does the prospective Standard solve the problem?

Problem	Without information about differences in timing, investors have insufficient information to understand the effects of those differences in timing on an entity's financial performance and financial position—and hence, the entity's prospects for future cash flows.
Objective	Provide information about the effects of regulatory income, regulatory expense, regulatory assets and regulatory liabilities on an entity's financial performance and financial position.
Principle	Reflect compensation for regulatory goods or services supplied in a period in an entity's financial performance for that period.

Supplement information provided by applying IFRS Accounting Standards—including IFRS 15 *Revenue from Contracts with Customers*

What is an Effects Analysis?

The IASB publishes an effects analysis when a major new IFRS Accounting Standard is issued. The Due Process Handbook requires the IASB to assess:[3]

the likely costs of implementing new requirements*

the likely ongoing associated costs and benefits*

the costs and benefits are collectively referred to as effects

The effects are assessed by the IASB…

in the light of its objective of reporting transparency

in comparison to existing requirements

throughout the development of a new or amended Standard

* Initial and ongoing costs and benefits are likely to affect different parties in different ways.

3: Paragraphs 3.76–3.81 of the Due Process Handbook.

Examples of matters to consider in an Effects Analysis[4]

EFFECTS on reported information (see slide 12)	BENEFITS (see slide 16)	COSTS (see slides 20, 21 and 24)
how the proposed changes are likely to affect the information reported in financial statements applying IFRS Standards	how **comparability** will be improved both between different reporting periods for the same entity and between different entities in a particular reporting period	how **compliance costs for preparers** will be affected, both on initial application and on an ongoing basis
	how the **ability of users to assess** the amount, timing and uncertainty of an entity's **future cash flows** will be affected	how **costs of analysis for users** will be affected (including any costs of extracting data, identifying how the data has been measured and adjusting data for the purposes of including them in, for example, a valuation model)
	whether the proposed changes will result in **better economic decision-making**	

4: Paragraph 3.79 of the Due Process Handbook.

Information gathered to assess the expected likely benefits and costs of the prospective Standard

- Information has been gathered throughout the development of the prospective Standard.
- Gained insights on the likely effects through:
  - analysing comment letters from stakeholders on three consultation documents;
  - meeting with advisory bodies and the Consultative Group for Rate Regulation;
  - meeting with stakeholders, including preparers, users, regulators, standard-setters and accounting firms; and
  - conducting two rounds of fieldwork—that is, surveys on:
    - a new concept that requires entities to assess the relationship between their regulatory capital base and property, plant and equipment; and
    - the likely effects of the prospective Standard (see slide 31 for more information).
- Staff papers discuss the likely benefits and costs of recommendations.

Effects on reported information

Statement(s) of financial performance

- Entities will present regulatory income minus regulatory expense as a separate line item classified as revenue in the statement of profit or loss or in other comprehensive income in limited cases.
- That information, together with information from other IFRS Accounting Standards, will result in entities providing information about the total allowed compensation for regulatory goods or services supplied in a reporting period.

Statement of financial position

- Entities will present current and non-current regulatory assets, and current and non-current regulatory liabilities.

Notes

- Entities will disclose information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense.
- Information disclosed will include a reconciliation, a maturity analysis of regulatory assets and regulatory liabilities and the risks and uncertainties affecting the recovery or fulfilment of those regulatory assets and regulatory liabilities.

Effects on reported information—observations[5]

- Current diversity in practice—some entities currently recognise regulatory balances, some do not.[6]
    - Greater expected effect for entities that do not currently recognise regulatory balances than entities that currently recognise regulatory balances.
- The effect of the prospective Standard:
    - in the statement of financial position—will generally give rise to the both regulatory assets and regulatory liabilities.
    - in the statement of profit or loss—the regulatory income and regulatory expense balances can vary significantly between different reporting periods, depending on origination of new regulatory assets and regulatory liabilities and reversal of existing regulatory assets and regulatory liabilities.
    - in the statement of comprehensive income might vary—some entities do not expect to include regulatory income or regulatory expense in other comprehensive income, while others do.

5: The data presented in slides 13–15 are based on fieldwork participants' preliminary assessments. Actual effects might be different.
6: Regulatory balances may not meet the definitions of a regulatory asset or regulatory liability in the prospective Standard.

Effects on reported information—observations—*continued*

- The prospective Standard might have dissimilar effects on entities. For example, the expected impact on total assets, total liabilities, and profit or loss might vary significantly among entities:
  - regulatory assets/total assets—impact could range from below 5% or up to 30% based on fieldwork participants' preliminary estimates.
  - regulatory liabilities/total liabilities—impact could range from below 5% or up to 40% based on fieldwork participants' preliminary estimates.
  - regulatory income or regulatory expense/revenue from regulated activities—impact could range from below 5% or up to 40% based on fieldwork participants' preliminary estimates.
- Some entities whose regulatory capital base is not related to their property, plant and equipment expect to have significant unrecognised regulatory assets and unrecognised regulatory liabilities.

Effects on reported information—observations—*continued*

- The prospective Standard:
  - will affect some of the financial metrics that entities currently report (for example, EBITDA, operating profit, working capital, liquidity and leverage ratios).
  - might affect other financial-related items (for example, debt covenants, distributable reserves and remuneration policies) although the extent of the effect depends on whether the items are computed using information resulting from applying IFRS Accounting Standards.
  - might affect non-GAAP measures by:
    - reducing their use or changing the computation as some effects would already be captured in the financial statements by applying the prospective Standard.
    - increasing their use to capture effects of rate regulation that might not be fully addressed by the prospective Standard.

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Benefits

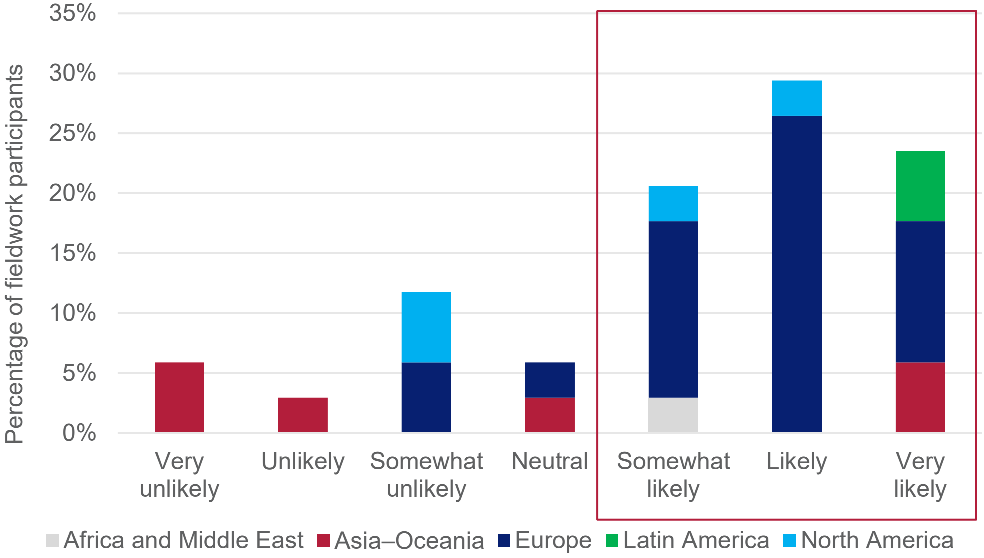
Complete information	More complete information about **total allowed compensation** for regulatory goods or services supplied in a reporting period will provide insights into an entity's prospects for future cash flows.
Understandability	A coherent and prominent presentation of regulatory income, regulatory expense, regulatory assets and regulatory liabilities will improve users' understanding of how differences in timing affect an entity's **financial performance** and **financial position**. Such understanding will help users better assess the amount, timing and uncertainty of the entity's future cash flows.
Comparability	Improved comparability because entities will apply one single set of requirements for reporting all regulatory assets and regulatory liabilities.

Information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense will make financial statements more complete, comparable and understandable, which will lead to better economic decision-making and decrease users' costs of gathering information from other sources.

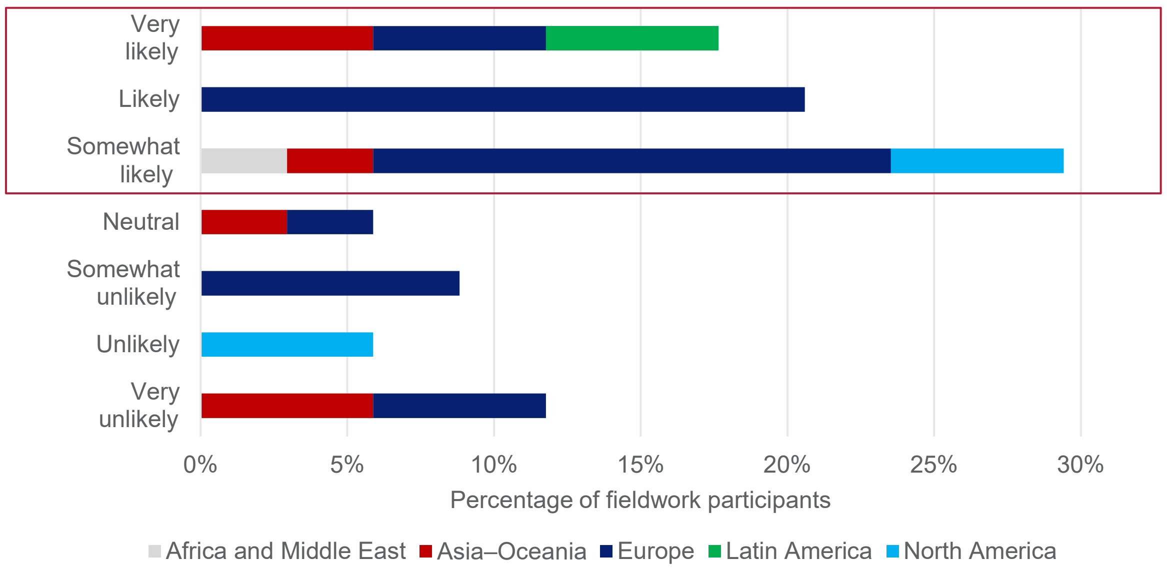
Benefits—observations

Thirty-four fieldwork participants shared their views on whether the prospective Standard will provide useful information and improve comparability. Most participants said that the prospective Standard will at least 'somewhat likely' provide useful information and improve comparability.

Will IFRS 20 provide useful information?



Will IFRS 20 improve comparability of financial information?



Benefits—observations—*continued*

Comments received about the information resulting from the application of the prospective Standard

- Prospective Standard will fill a gap in existing IFRS Accounting Standards.
- More accurate view of the year-on-year financial performance of entities subject to regulatory agreements.
- Entities will have an opportunity to demonstrate how the economics underpinning regulation translate into the financial statements.

Comments received on limitations about the usefulness of the information

- The market already accounts for differences between the regulatory capital base and property, plant and equipment in the assessment of risk and earnings multiples.
- Although the prospective Standard will provide useful information, the incremental effect might be lower for entities that already report regulatory balances than entities that do not.

Benefits—observations—*continued*

Comments received about the accessibility and understandability of the information by users

- The prospective Standard will make information available in the financial statements that users might currently need to source elsewhere.
- Users are expected to understand better the effect of the regulatory agreement on entities' future financial performance.

Comments received about comparability

- The prospective Standard is likely to improve the comparability of the financial information of entities that are subject to similar regulatory schemes.
- However, comparability might still be limited by differences in local regulatory practices and by potential inconsistencies in implementation of the prospective Standard.

Costs for entities

The cost to implement IFRS 20 will vary because of the current diversity in practice for recognising regulatory balances. Entities that currently recognise regulatory balances are expected to incur less implementation costs relative to entities that do not currently recognise regulatory balances.

Types of implementation costs	Entities that do not currently recognise regulatory balances	Entities that currently recognise regulatory balances
Systems and processes	Implement new systems and processes.	Make changes as needed to current systems and processes.
External education	Effort to communicate the impact of the prospective Standard on financial statements.	Effort to explain how results reported under the prospective Standard differ from previous reporting.
Internal education	Effort to educate internal stakeholders about the requirements and about how the application of the prospective Standard will affect their current and future results.	
Audit	Incremental audit costs, particularly for those requirements that require the application of judgement (for example, assessing enforceability, estimating future cash flows, assessing the relationship between an entity's regulatory capital base and its property, plant and equipment).	

Consideration of the nature of costs vary across entities. Some entities consider some of these costs to be one-time implementation costs only, while other entities might consider the same costs to be also ongoing. Ongoing costs are generally expected to gradually decrease over time.

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Cost mitigations for entities

Cost mitigations	Description
Scope clarifications	These clarifications reduce uncertainty about the applicability of the prospective Standard: • IFRS 17 *Insurance Contracts*—scope exemption. • An entity applies other IFRS Accounting Standards first before applying the prospective Standard. • Existence of a regulator included as part of conditions necessary for a regulatory asset or regulatory liability to exist.
Recognition prohibitions	Some of the requirements in the prospective Standard respond to concerns raised by entities subject to incentive-based schemes. These entities said that tracking differences between their regulatory capital base and their property, plant and equipment would be costly or highly judgemental—even impracticable. Therefore, recognition of specific regulatory assets and regulatory liabilities is prohibited if an entity's regulatory capital base does not have a direct relationship with its property, plant and equipment.
Measurement simplification and relief	• Use the regulatory interest rate as the discount rate. • If the regulatory agreement provides or charges regulatory interest unevenly over the life of a regulatory asset or regulatory liability, discounting is not required in the period between recognition and the date when regulatory interest starts to accrue if that period is expected to be one year or less.
Transition reliefs	• Application of the prospective Standard (a) retrospectively in accordance with IAS 8 or (b) using a modified retrospective approach. • Regardless of the approach, the requirement to present adjusted comparative information is limited to the annual reporting period immediately preceding the date of initial application. • Transition reliefs available for those entities applying the prospective Standard using a modified retrospective approach.

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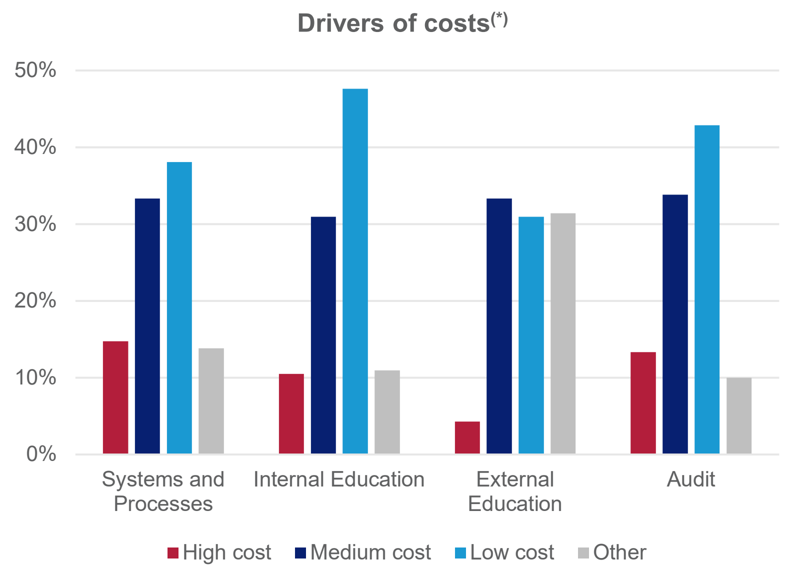
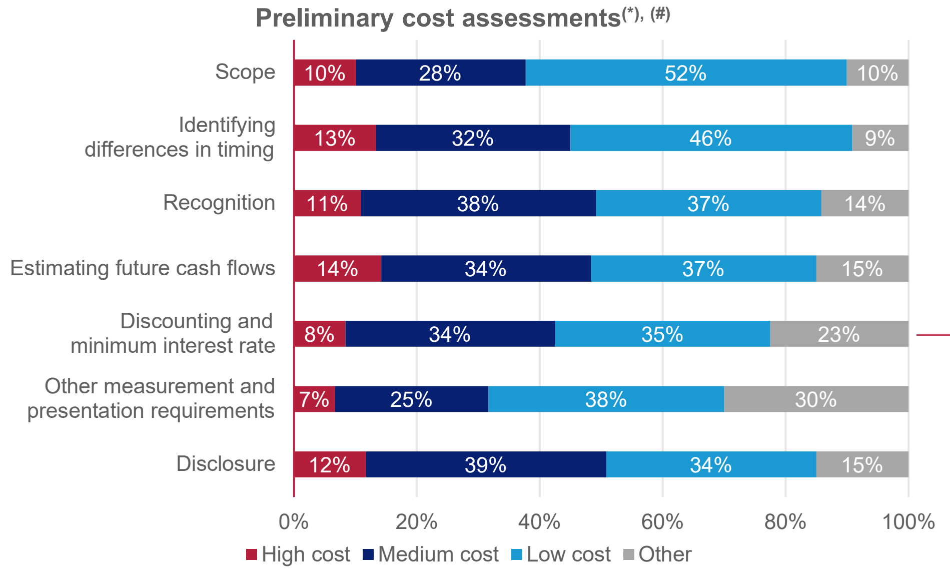
Costs—observations

Thirty fieldwork participants shared their views on the four types of implementation costs and the costs of applying specific sections in the prospective Standard. Majority of fieldwork participants expect implementation costs to be low or medium, after considering simplification and reliefs in the prospective Standard.





The IASB's recent decision to remove the minimum interest rate requirements should make the prospective Standard simpler to apply, reducing costs for entities.

(*) 'Other' includes fieldwork participants who provided no response or said there would be no cost in relation to a particular section of the prospective Standard.
(#) 'Other measurement and presentation requirements' include (a) the requirement for measuring a regulatory asset or regulatory liability using the measurement basis of the related liability or related asset, (b) the discounting exemption discussed in slide 4 and (c) presentation of regulatory income or regulatory expense in other comprehensive income in limited cases.

Costs—observations—*continued*

- More fieldwork participants ranked costs relating to systems and processes and audit to be high compared to internal and external education.
  - Expecting to incur significant costs to develop new systems and processes to apply the prospective Standard. For example, implementing systems and processes to identify differences in timing.
  - Audit costs expected to be higher when applying areas of the prospective Standard that require estimates and judgement or when additional effort is needed to obtain persuasive audit evidence. For example, estimating future cash flows will involve significant estimates and judgements.
- A few fieldwork participants noted there could be other costs. For example:
  - Additional staff costs to ensure coordination between finance and regulatory departments.
  - Costs for external professionals (for example, inquiries to legal advisors or involving actuaries to perform specific computations such as regulatory assets and regulatory liabilities relating to employee benefits).
  - Changes in the regulatory requirements caused by the prospective Standard. These changes might give rise to costs for entities to fulfil the new regulatory requirements.

Costs identified for users and other stakeholders

- Users will incur initial costs to adjust their analyses and models to capture the information provided by the prospective Standard. For example:
  - new line items in the entity’s statement of financial position and financial performance; and
  - new information in the notes.
- If an entity currently reports regulatory balances, users will need to understand how financial results differ from the entity’s previous reporting.
- Because entities will be required to report regulatory assets and regulatory liabilities in their financial statements, the prospective Standard should reduce costs associated with users having to source information outside the financial statements.
- Regulators might incur costs if they use information from financial statements prepared in accordance with IFRS Accounting Standards to determine the regulated rates.
  - However, the information provided by the prospective Standard might help to complement and enhance a regulator’s understanding of the data that it collects from entities through other channels.

Other likely effects identified—effects on digital reporting

The prospective Standard is expected to contribute to improving the quality of digital reporting. For example:

- Classification and presentation requirements will reduce the diversity in tagging, which will facilitate easier extraction and analysis of information. Previously, tagging of amounts may not be comparable because of diverse accounting practices in reporting regulatory balances.
- Some disclosures can be presented in a structured format (for example, the reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities). Such structure improves the useability of digital financial information.
- The same financial statement line items and disclosures will be consistently available when entities report using the prospective Standard, which would facilitate information to be tagged consistently from period to period.

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Overall assessment

- Users will benefit from better information—information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense will make financial statements more complete, comparable and understandable—leading to better economic decision-making and decreasing costs of gathering information from other sources.
- Users and entities will incur some costs related to the prospective Standard. For entities, the extent of costs will vary depending on whether they currently report regulatory balances. Clarifications, simplifications and reliefs provided in the prospective Standard are expected to help entities reduce some implementation costs while maintaining usefulness of information provided to users.
- The prospective Standard is also expected to improve the quality of digital reporting.

The prospective Standard fills an information gap in current IFRS Accounting Standards

The benefits of the prospective Standard are expected to outweigh its costs

Question for ASAF members

Do you have any comments or questions on:

- the sweep issue and related tentative decisions (slides 4–5)?
- the assessment of the expected benefits and costs of the prospective Standard (slides 6–26)?

Next steps

Next steps

Q2 2025

Sweep issues and external review draft

Address comments from external review draft

Ballot and Production

H2 2025

IFRS X

Regulatory Assets and Regulatory Liabilities

Replaces IFRS 14

Effective date

1 Jan 2029

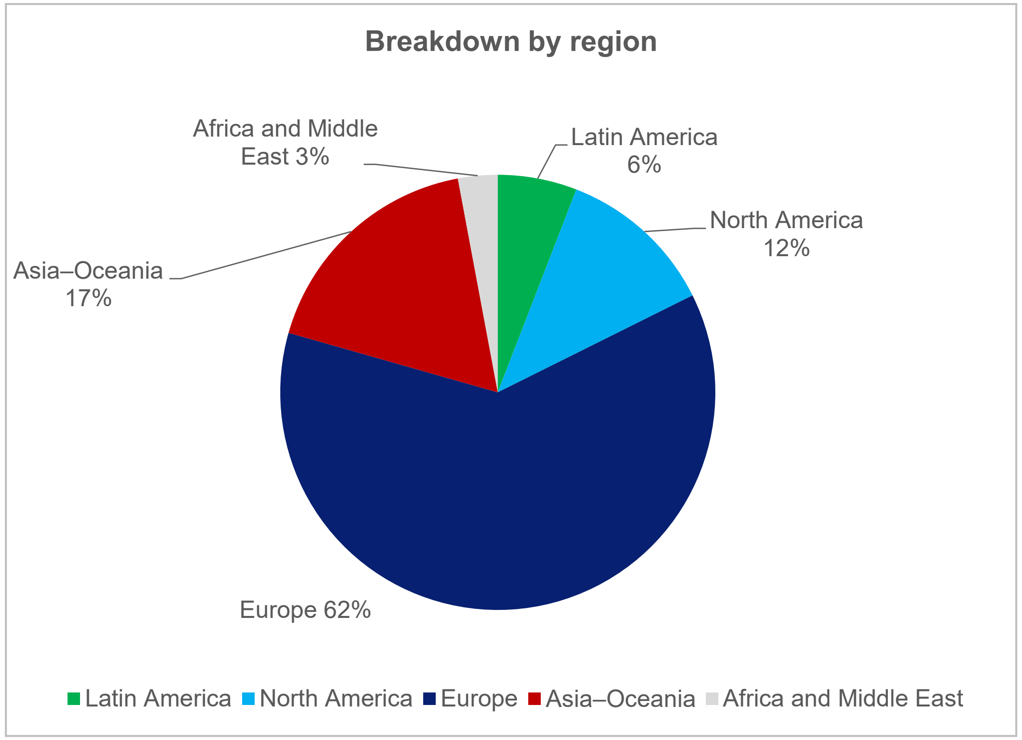
IFRS X

Regulatory Assets and Regulatory Liabilities

Appendix

Information about the fieldwork conducted on the likely effects of the prospective Standard

- The purpose of the survey was to confirm the IASB's understanding of the likely effects of the requirements in the prospective Standard.
- The survey sought participants' preliminary assessments of:
  - the likely effects on the information reported in financial statements;
  - the likely effects on the quality of financial reporting by understanding the benefits users would derive from the information provided by entities applying the prospective Standard; and
  - the likely costs of implementing the prospective Standard.
- Staff received 34 completed surveys representing 30 entities in 22 jurisdictions. The chart to the right shows the breakdown of surveys received by geographic region.



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