



May 2026

Effects Analysis

IFRS[®] Accounting Standards

IFRS 20 Regulatory Assets and Regulatory Liabilities

This Effects Analysis accompanies, but is not part of, IFRS 20 *Regulatory Assets and Regulatory Liabilities*.

What is the purpose of this Effects Analysis?

This Effects Analysis describes the likely benefits and costs of IFRS 20. The International Accounting Standards Board (IASB) gains insights into the likely effects of new or amended IFRS Accounting Standards through its formal exposure of proposals and through its fieldwork, analysis and consultation with stakeholders. This document describes the IASB's consideration of the likely effects of IFRS 20.

Background

IFRS 20 was issued in May 2026 and completes the IASB's Rate-regulated Activities project.

IFRS 20 will be effective from 1 January 2029. However, a company is permitted to apply IFRS 20 before that date.¹

IFRS 20 supersedes IFRS 14 *Regulatory Deferral Accounts*.

¹ In this document, the term 'company' refers to an entity that prepares financial statements applying IFRS Accounting Standards.

Executive summary

Improved financial reporting for companies subject to rate regulation

IFRS 20 is expected to improve the quality of financial reporting by requiring companies to provide information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

IFRS 20 helps to fill a gap in IFRS Accounting Standards. It supplements the requirements in IFRS 15 *Revenue from Contracts with Customers* by requiring companies to provide information that gives insights into the total amount of compensation to which a company is entitled for regulatory goods or services supplied in the period (thereby giving a more complete picture of the revenue earned from those goods and services).

Companies are expected to incur costs in implementing and applying the requirements in IFRS 20. The IASB has included some simplifications and reliefs in IFRS 20 to reduce costs for companies while maintaining the usefulness of the information provided to users of financial statements.

What is IFRS 20?

IFRS 20 is a new IFRS Accounting Standard that requires a company subject to a regulatory agreement to provide information about its regulatory assets, regulatory liabilities, regulatory income and regulatory expense. Companies applying IFRS Accounting Standards were previously not required to report such information.

Why develop IFRS 20?

Regulatory assets and regulatory liabilities are a subset of the rights and obligations created by a regulatory agreement. These rights and obligations can affect a company's financial performance and financial position, and users of financial statements' assessment of the company's future cash flows.

Regulatory agreements that create regulatory assets and regulatory liabilities:

- entitle a company to an amount of compensation for regulatory goods or services supplied in a period (described in IFRS 20 as 'total allowed compensation'); and
- specify that part or all of that compensation for regulatory goods or services supplied in a period is charged to customers through regulated rates in a different period, creating a difference in timing.

IFRS 20 requires a company to provide information that will enable users of financial statements to understand how such differences in timing affect the company's financial statements.

This information will supplement the information provided in accordance with IFRS 15 by giving users a more complete picture of a company's compensation for regulatory goods or services, enabling them to better assess the company's prospects for future cash flows.

Some companies already report information about regulatory balances in their financial statements using various accounting practices (for example, companies that apply IFRS 14 *Regulatory Deferral Accounts*). Those regulatory balances may (or may not) meet the definitions of a regulatory asset or regulatory liability in IFRS 20. Other companies do not report information about regulatory balances in their financial statements but might provide this information elsewhere, such as in regulatory filings.

IFRS 20 is expected to reduce diversity in accounting practice. Companies applying IFRS Accounting Standards will apply the same set of requirements for providing information about regulatory assets and regulatory liabilities in their financial statements.

Who will apply IFRS 20 and when?

Companies subject to a regulatory agreement that creates regulatory assets and regulatory liabilities are required to apply IFRS 20.² IFRS 20 will be effective from 1 January 2029, with earlier application permitted.

What are the main changes for companies on application of IFRS 20?

Table 1 identifies the main changes to a company's financial statements. Section 3 *Benefits* describes the benefits of these changes.

IFRS 20 will not affect the total net cash flows that a company reports in the statement of cash flows but could result in limited changes to the line items presented in that statement. Furthermore, some companies' financial metrics are expected to change because of the financial effect that IFRS 20 has on a company's financial performance and financial position.

The extent of change will depend on a company's specific facts and circumstances, including whether the company already reports regulatory balances.

Table 1—Main changes to a company's financial statements

| Financial statements | Main changes |
|---------------------------------------|---|
| Statement(s) of financial performance | Companies present all regulatory income minus all regulatory expense (regulatory income or regulatory expense) as a line item classified as revenue in the statement of profit or loss. ³ |
| Statement of financial position | Companies present: <ul style="list-style-type: none">• current and non-current regulatory assets; and• current and non-current regulatory liabilities. |
| Notes | Companies disclose information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense. Information disclosed will include: <ul style="list-style-type: none">• reconciliations of regulatory assets and regulatory liabilities; and• maturity analyses of regulatory assets and regulatory liabilities. |

² A regulatory agreement is an agreement that creates a set of enforceable rights and enforceable obligations that prescribes how a regulator determines a regulated rate (or a range for the regulated rate).

³ In limited circumstances, a company would include some regulatory income or regulatory expense in other comprehensive income.

The IASB expects the benefits of IFRS 20 to outweigh its costs.

What are the likely benefits?

IFRS 20 is expected to improve the quality of financial reporting by:

- requiring companies to provide more complete information about the compensation to which they are entitled for regulatory goods or services supplied in a period. This information will provide users of financial statements with better insights into companies' financial performance and prospects for future cash flows.
- ensuring companies provide more transparent and understandable information about the effects of differences in timing (as described on page 3) by requiring companies to recognise regulatory assets and regulatory liabilities, regulatory income and regulatory expense.⁴
- improving the comparability of financial information by requiring all companies to apply the same set of requirements for reporting regulatory assets and regulatory liabilities. Variations in accounting outcomes would reflect different circumstances, for example, differences between the terms in regulatory agreements.

Information resulting from applying IFRS 20 is expected to lead to better economic decision-making and decrease users' costs of gathering information from other sources.

What are the likely costs?

Costs for companies

The IASB expects the main drivers of costs for companies implementing IFRS 20 to relate to changing internal systems and processes, educating staff, communicating financial reporting changes to external parties, and incremental audit fees. The IASB expects these costs to decrease over time.

Companies that already report regulatory balances might have lower implementation costs than companies that do not yet report regulatory balances. Companies that report regulatory balances might be able to use their current systems and processes to obtain the information necessary to apply IFRS 20.

The IASB has sought to balance the cost of applying the new requirements to a variety of regulatory agreements with the expected benefits of the resulting new information.

For example, in some cases, companies may find it difficult, or even impracticable, to track how cash flows arising from some regulatory assets and regulatory liabilities are recovered or fulfilled. Such regulatory assets or regulatory liabilities would be difficult to identify or subject to significant measurement uncertainty, meaning that their recognition might not provide useful information. In addition, companies would be likely to incur significant costs or be unable to account for these regulatory assets or regulatory liabilities.

To respond to this issue, IFRS 20 requires a company to recognise some regulatory assets and regulatory liabilities only if a specified criterion is met (see page 27).

The IASB also provided simplifications and reliefs that are expected to reduce costs for companies applying IFRS 20 without compromising the usefulness of the information provided.

Costs for users

Users of financial statements might incur some initial costs when analysing information provided by companies applying IFRS 20. These costs are expected to arise mostly from users needing to understand the new information provided and adjust their financial models. However, the IASB expects that IFRS 20 will lead to lower costs for users because of improved financial reporting by companies.

⁴ The recognition of some regulatory assets and regulatory liabilities is conditional on the existence of a direct relationship between a company's regulatory capital base and related items ('direct relationship' concept). The 'direct relationship' concept is described in the Project Summary.

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1—Introduction

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What is an effects analysis?

Before the IASB issues an IFRS Accounting Standard, it assesses the likely benefits and costs (collectively referred to as ‘effects’) of the new requirements, including the effects for companies that prepare financial statements and for users of financial statements. This assessment is based on research, analysis, consultations with stakeholders and feedback on the proposed requirements in an exposure draft.

The IASB also considers that preparers often develop information that users of financial statements need more accurately and at a lower cost than users of financial statements can do themselves. One of the main objectives of developing a single set of high-quality global accounting standards is to improve the allocation of capital. The IASB therefore considers the benefits of better economic decision-making that result from improved financial reporting.

When the IASB issues a major Standard, it publishes a separate report that summarises the likely effects and how the IASB made its assessment (an effects analysis).

Consultation process

Consultations with stakeholders are central to the IASB’s analysis of the effects of new or amended IFRS Accounting Standards.

The IASB gained insights into the likely effects of IFRS 20 through feedback on three consultation documents. The IASB published these consultation documents to gather:

- information about whether various regulatory agreements create regulatory assets and regulatory liabilities; and
- comments on a proposed model to account for such regulatory assets and regulatory liabilities in companies’ financial statements.

The IASB also gained insights into the likely effects of IFRS 20 by:

- carrying out fieldwork;
- meeting with IFRS Foundation advisory bodies; and
- consulting stakeholders such as users of financial statements, preparers, accounting firms, regulators and standard-setters.

The IASB set up a Consultative Group for Rate Regulation (Consultative Group). The Consultative Group consisted of senior professionals with extensive practical experience in the operation of a variety of regulatory schemes. These professionals provided the IASB with specialist input from several perspectives, including those of users of financial statements, preparers and auditors.

Consultation process for IFRS 20

- More than 300 comment letters received and analysed in response to:
 - the 2013 Request for Information *Rate Regulation*;
 - the 2014 Discussion Paper *Reporting the Financial Effects of Rate Regulation*; and
 - the 2021 Exposure Draft *Regulatory Assets and Regulatory Liabilities*.
- Two rounds of fieldwork with 54 companies. The IASB received:⁵
 - 34 completed survey responses on the likely effects of IFRS 20; and
 - 48 completed survey responses on assessing the relationship between a company's regulatory capital base and related items.
- Stakeholder engagement, including:
 - more than 40 meetings with IFRS Foundation advisory bodies and the Consultative Group; and
 - more than 200 meetings with stakeholders, which included eight discussion forums and public roundtables.

Consultation process—Fieldwork

During its redeliberations of the requirements proposed in the 2021 Exposure Draft, the IASB completed two rounds of fieldwork in the form of surveys. For both rounds of fieldwork, the IASB asked members of the Accounting Standards Advisory Forum to help identify participants from their jurisdictions or regions. The IASB complemented this sample of participants with companies represented in the Consultative Group and with other preparers.

Fieldwork—Survey 1

This survey gathered input to allow the IASB to confirm its understanding of the likely effects of the requirements in IFRS 20, including the requirement for companies to determine the relationship between their regulatory capital bases and related items.

In particular, this survey sought participants' initial views on:

- the likely effects on the information reported in financial statements;
- the likely effects on the quality of financial reporting—specifically, by seeking companies' views on the benefits users of financial statements would get from the information provided by companies applying IFRS 20; and
- the likely costs of implementing IFRS 20.

The IASB received 34 completed survey responses representing 30 companies from 22 jurisdictions.

⁵ Some companies completed more than one survey response, providing a response for each of their subsidiaries subject to various regulatory agreements. Some companies also participated in both rounds of fieldwork.

Figure 1 shows the breakdown of the Fieldwork—Survey 1 responses by geographical region.

Some of the data presented in this Effects Analysis represents views on the likely effects of IFRS 20 gathered from participants in Fieldwork—Survey 1 (referred to as ‘fieldwork participants’ in other sections of this document).

Fieldwork—Survey 2

This survey gathered input on the ‘direct relationship’ concept (whereby the relationship between a company’s regulatory capital base and related items determines whether a company recognises some regulatory assets and regulatory liabilities).

Specifically, this survey gathered input on whether participants would be able to determine that relationship using a set of indicators provided with the survey.

The IASB used the input gathered from this survey to develop application guidance to help companies determine the relationship between their regulatory capital bases and related items (such as their property, plant and equipment).

The IASB received 48 completed survey responses representing 39 companies from 16 jurisdictions.

Figure 2 shows the breakdown of the Fieldwork—Survey 2 responses received by geographical region.

Figure 1—Breakdown by region (Fieldwork—Survey 1)

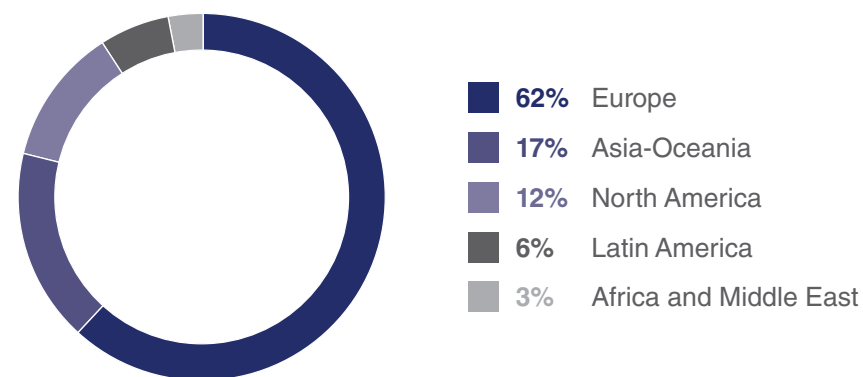
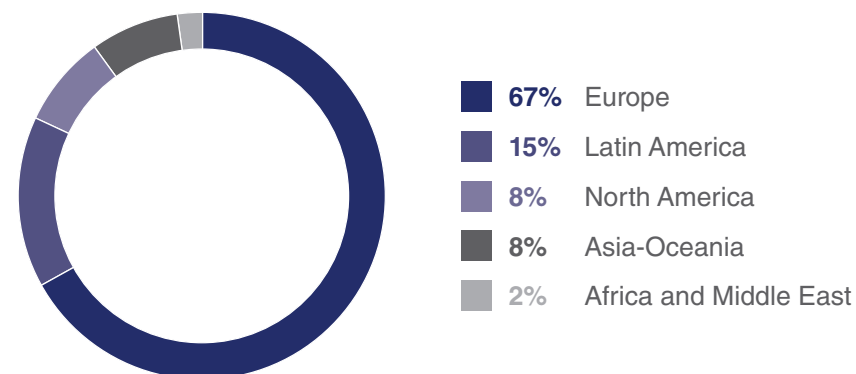


Figure 2—Breakdown by region (Fieldwork—Survey 2)



Methodology used for this Effects Analysis

The IFRS Foundation's *Due Process Handbook* describes the IASB's process for assessing the likely effects.⁶

Quantifying benefits and costs is an inherently subjective and difficult process. Furthermore, there are no well-established techniques for quantifying benefits or costs in this type of analysis. Therefore, this document provides a qualitative evaluation of the likely effects of IFRS 20.

The analysis in this document covers the likely effects of the new accounting requirements instead of the actual effects, which cannot be known until after companies apply the new requirements. The actual effects will be evaluated during the IASB's post-implementation review of IFRS 20.⁷

In evaluating the likely effects of applying IFRS 20, the IASB has considered:

- the likely benefits (see Section 3 *Benefits*) including:
 - how the ability of users of financial statements to assess a company's financial performance, financial position and future cash flows will be affected;
 - how the comparability of financial information will be affected—both between different periods for the same company and between different companies for the same period; and
 - whether better decision-making will be possible because of improved financial reporting.
- the likely costs of applying IFRS 20 (see Section 4 *Costs*) such as:
 - compliance costs for companies, both on initial application and on an ongoing basis; and
 - costs of analysis for users of financial statements and other stakeholders.
- the changes to how companies applying IFRS Accounting Standards will report differences in timing in the financial statements (see Section 5 *Changes to the financial statements*).

⁶ See paragraphs 3.78–3.83 of the IFRS Foundation's [Due Process Handbook](#).

⁷ A post-implementation review is a review of a new IFRS Accounting Standard or major amendment to a Standard. This review is carried out by the IASB and is an opportunity to assess the effect of the new requirements on users of financial statements, preparers, auditors and securities regulators (see paragraphs 6.52–6.66 of the [Due Process Handbook](#)).

2—Overview of the requirements and the companies affected

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IFRS 20 sets out requirements that a company applies in reporting information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

IFRS 20 is effective from 1 January 2029 with earlier application permitted.

Objective of IFRS 20

The objective of IFRS 20 is to provide relevant information that faithfully represents how regulatory income and regulatory expense affect a company's financial performance, and how regulatory assets and regulatory liabilities affect its financial position. This information, together with information required by other IFRS Accounting Standards, will provide insights into a company's prospects for future cash flows.

IFRS 20 helps to fill a gap in IFRS Accounting Standards.

Before IFRS 20, no Standard required companies to recognise the financial effect of differences in timing that arise when:

- a regulatory agreement entitles a company to compensation for regulatory goods or services supplied in a period (total allowed compensation); and
- part or all of that compensation is charged to customers through regulated rates in a different period (past or future).

To fill this gap, IFRS 20 is based on the principle that a company recognises the compensation for regulatory goods or services in the same period that the company supplies those regulatory goods or services.

Summary of the requirements in IFRS 20

The IASB has published a Project Summary to give stakeholders a summary of the main requirements in IFRS 20. The Project Summary covers the objective, scope and key definitions of IFRS 20 before explaining the new requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense. It also provides an illustration of a difference in timing.

Table 1 on page 4 summarises the main changes to the companies' financial statements.

Which companies will be affected?

A company applies IFRS 20 if the company is a party to a regulatory agreement that creates regulatory assets and regulatory liabilities. The IASB expects that IFRS 20 will mainly affect companies in industries such as utilities, energy and transportation.

How will companies be affected?

Companies' accounting practices for regulatory balances are diverse. Some companies do not currently recognise regulatory balances in their financial statements, and some do.

Companies that do not currently recognise regulatory balances

Companies that do not currently recognise regulatory balances might start recognising regulatory assets and regulatory liabilities when these companies apply IFRS 20. The IASB expects that these companies will experience greater change to their financial statements when applying IFRS 20 than companies that currently recognise regulatory balances.

Companies that currently recognise regulatory balances

Companies that currently recognise regulatory balances are those that apply one of these accounting practices:

- the requirements in IFRS 14 *Regulatory Deferral Accounts*. IFRS 14 was an interim Standard that permitted first-time adopters of IFRS Accounting Standards to continue to account for regulatory deferral account balances using their previous generally accepted accounting principles (GAAP).⁸ IFRS 20 supersedes IFRS 14.
- accounting policies developed for recognising regulatory balances in accordance with IAS 8 *Basis of Preparation of Financial Statements*.

On applying IFRS 20, companies that currently recognise regulatory balances will need to assess whether such balances meet the definitions of regulatory assets or regulatory liabilities. These companies will also need to:

- consider if they have any unrecognised rights and unrecognised obligations that meet the definitions of regulatory assets or regulatory liabilities.
- recognise and measure regulatory assets and regulatory liabilities in accordance with the requirements in IFRS 20.

First-time adopters of IFRS Accounting Standards

The IASB is aware that some companies that will apply IFRS 20 will be first-time adopters of IFRS Accounting Standards. Some of these first-time adopters currently recognise regulatory balances by applying other accounting frameworks—for example, United States (US) GAAP.

First-time adopters that currently recognise regulatory balances will need to make the same assessment described in this section under the heading '*Companies that currently recognise regulatory balances*'.

First-time adopters will experience changes to their financial statements from applying all the other IFRS Accounting Standards, in addition to applying IFRS 20.

⁸ IFRS 14 *Regulatory Deferral Accounts* defined a regulatory deferral account balance as 'the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers.'

3—Benefits

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Benefits for users of financial statements

IFRS 20 is expected to improve the quality of financial reporting by:

- requiring companies to provide **more complete information about the compensation** to which they are entitled for regulatory goods or services supplied in a period (thereby giving a more complete picture of the revenue earned from those regulatory goods and services). This information will provide users of financial statements with better insights into companies' financial performance and prospects for future cash flows.
- ensuring companies provide **more transparent and understandable information** about the effects of differences in timing by requiring companies to recognise regulatory assets, regulatory liabilities, regulatory income and regulatory expense.⁹
- improving the **comparability of financial information** by requiring all companies to apply the same set of requirements for reporting regulatory assets and regulatory liabilities.

The IASB expects these improvements will lead to better economic decision-making by users of financial statements.

More complete information about a company's compensation

More complete information about the compensation to which a company is entitled for regulatory goods or services supplied in a period helps users:

- to connect the costs incurred by the company in the supply of regulatory goods or services with the company's related compensation; and
- to understand how and when the company is compensated, which enables better insight into the company's regulatory agreements and future cash flows.

The global energy crisis in 2022 caused many European electricity and gas transmission system operators (TSOs) to incur increased fuel and energy costs to ensure grid stability. Often regulatory agreements would give these TSOs enforceable present rights to recover those costs through regulated rates charged to customers in subsequent periods.

Before IFRS 20, the TSOs have not been recognising these rights as assets, resulting in upfront losses, which could be misinterpreted by users of financial statements. Recognition of regulatory assets in accordance with IFRS 20 will enable users to better understand how TSOs are compensated for the regulatory goods or services they supply in a period.

⁹ 'Differences in timing' are explained on page 3 of this Effects Analysis and in greater detail in the Project Summary.

Applying IFRS 20, companies will provide information that supplements the information they already provide by applying other IFRS Accounting Standards, primarily:

IFRS 15 revenue—this line item reflects the revenue a company recognises in a reporting period, based on the regulated rate charged for goods or services supplied to customers in that period.

Companies will provide more complete information about the compensation to which they are entitled for regulatory goods or services supplied in a reporting period (described in IFRS 20 as ‘total allowed compensation’) by reporting:

Regulatory income or regulatory expense—this line item reflects the effects of differences in timing—that is:

- compensation to which the company is entitled for regulatory goods or services supplied in the reporting period that is included in IFRS 15 revenue in a different period; and
- amounts included in IFRS 15 revenue in the reporting period that provides compensation for regulatory goods or services supplied in a different period.

Companies will also provide information about their enforceable rights and enforceable obligations arising from regulatory assets and regulatory liabilities.

This information will supplement the information companies already provide through the recognition of other assets and liabilities.

More transparent and understandable information

The IASB expects IFRS 20 to provide users of financial statements with more transparent and understandable information about the effects of regulatory agreements on a company’s financial performance and financial position. Classifying all regulatory income and all regulatory expense as revenue in accordance with IFRS 20 will ensure that companies provide a more transparent picture of the compensation to which they are entitled for regulatory goods or services.

Requiring companies to present regulatory income or regulatory expense as a separate line item in the statement of profit or loss will help users understand that this item is different from other sources of revenue.¹⁰

Companies applying IFRS 20 will also present regulatory assets and regulatory liabilities as line items in the statement of financial position.

The prominent presentation of these line items, together with the objective-based disclosures in IFRS 20, will give users of financial statements a better understanding of:

- both the amount charged to customers—and included in IFRS 15 revenue—in a period and the compensation to which a company is entitled for regulatory goods or services supplied in that period; and
- how differences in timing affect the company’s financial performance and financial position.

Improved comparability

The IASB expects IFRS 20 to improve the comparability of financial information provided by companies subject to regulatory agreements—both between periods for a company and between companies for a period.

Companies will be required to apply the same set of requirements to report regulatory assets and regulatory liabilities.

Variations in accounting outcomes among companies will reflect different circumstances, for example, differences between the terms of their regulatory agreements. IFRS 20 will reduce diversity in reporting for companies subject to similar regulatory agreements.

¹⁰ In limited circumstances, some regulatory income or regulatory expense would be included in other comprehensive income (see Section 5.1 *Changes to the statement(s) of financial performance*).

The IASB expects IFRS 20 to make it easier to compare companies subject to regulatory agreements with companies that are not subject to such agreements. The supplementary nature of IFRS 20, together with the prominent presentation of the financial effects of differences in timing, will enable users to understand the financial effect of regulatory agreements on companies' financial performance and financial position.

The IASB also expects that users of financial statements will be able to better compare companies applying IFRS Accounting Standards with companies applying other accounting frameworks that provide information about regulatory balances.

Thirty-four fieldwork participants provided input on the comparability of financial information across companies that are subject to similar regulatory agreements. The common view was that IFRS 20 is likely to improve such comparability (see Figure 3).

Examples of what fieldwork participants said about comparability:

'[IFRS 20] is likely to improve the comparability of financial information across entities subject to similar regulatory schemes. The standardisation of accounting treatment for regulated activities can provide greater transparency and consistency in the reporting of key cost drivers and revenue streams.'

'Some entities use alternative performance measures based on total allowed compensation rather than revenue according to IFRS 15, while others do not. [IFRS 20] will most likely result in all entities basing their performance measures on total allowed compensation.'

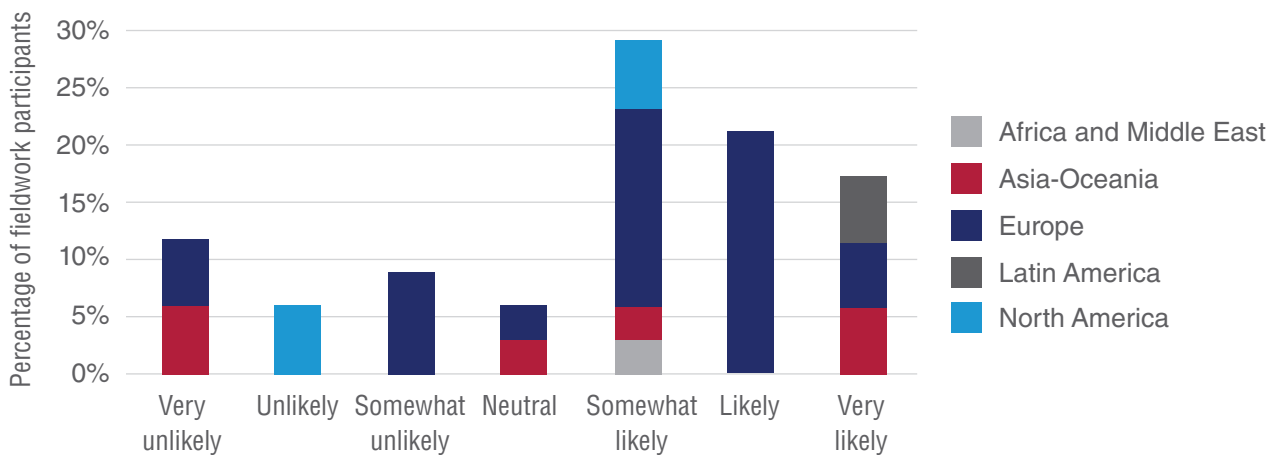
Other benefits to users of financial statements

By improving the quality of the financial statements, IFRS 20 is expected to decrease the cost to users of gathering information from other sources.

Furthermore, regulators might consider the requirements introduced by IFRS 20 when developing methodologies for determining regulated rates, which might result in a closer link between regulation and financial reporting.

This closer link might improve users' understanding of the effects of a company's regulatory agreements on its financial statements.

Figure 3—Will IFRS 20 improve comparability of financial information?



IFRS 20 is also expected to improve the quality of digital reporting. IFRS 20 will require standardised presentation of line items in the statement(s) of financial performance, statement of financial position and comparable note disclosures, leading to more consistent electronic tagging.

Benefits for companies

Companies are also expected to benefit from the improvements in the quality of financial statements listed on page 16. In particular, companies are expected to provide more complete and more comparable information about their financial performance which, in turn, might help to lower their cost of capital.

Gathering the information to implement and apply IFRS 20 is likely to require a company's financial reporting and regulatory teams to work more closely together. This cooperation between teams may result in better communication, improved decision-making and enhanced financial reporting.

Feedback from fieldwork participants

The IASB expects that IFRS 20 will help companies provide useful information. This expectation is supported by input from participants in the fieldwork on the likely effects of IFRS 20. The common view across participants was that IFRS 20 is likely to provide useful information (see Figure 4).¹¹

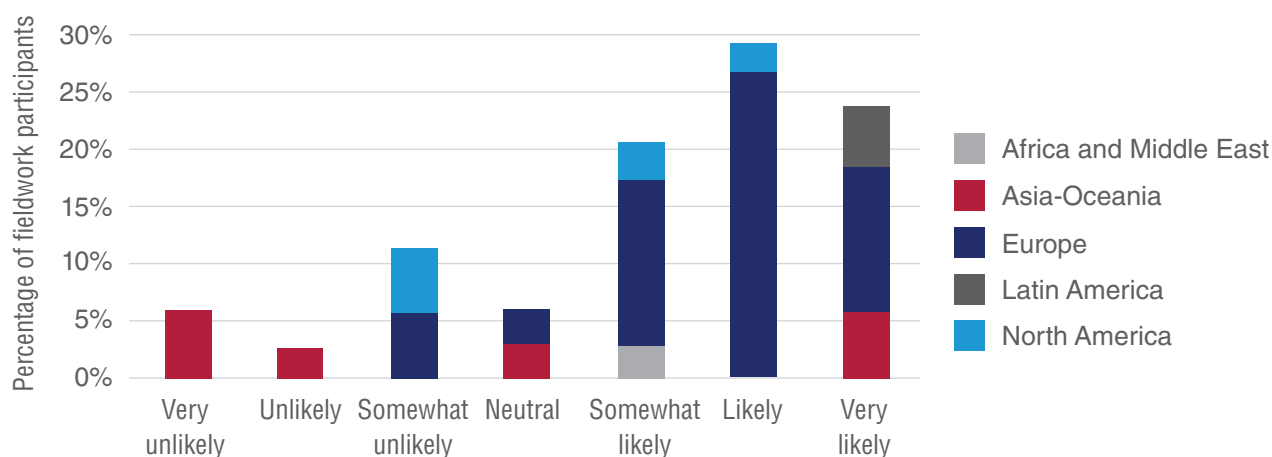


Example of what fieldwork participants said about usefulness of information:

'[IFRS 20] should help investors to better understand the performance because it will enable them to “match” incurred expenses with the related compensation and accordingly, enhance the understanding of the relationship between both. Moreover, [IFRS 20] will [be] used for explaining to investors:

- the bridge between budget and actuals, concerning volume variances (because these volumes will be compensated);
- outlook and future cash flows...'

Figure 4—Will IFRS 20 provide useful information?



¹¹ This data is from the fieldwork on the likely effects of IFRS 20 *Regulatory Assets and Regulatory Liabilities* (Fieldwork—Survey 1). Most participants expect IFRS 20 to provide useful information. Only a small number of participants noted that the information provided in accordance with IFRS 20 would be unlikely to provide useful information—for example because, in their case, it was not material or was already available to users, for example in alternative performance measures.

How recognition requirements contribute to better financial information

The definitions of regulatory assets and regulatory liabilities in IFRS 20 are based on the principle that a company recognises compensation for regulatory goods or services in the same reporting period that the company supplies those regulatory goods or services.

The recognition of some regulatory assets and regulatory liabilities is conditional on a specified criterion being met—that is, the existence of a direct relationship between a company’s regulatory capital base and related items (‘direct relationship’ concept).¹²

Under some regulatory agreements a company might find it difficult—sometimes even impracticable—to identify a link between:

- the regulatory depreciation to which the company is entitled in a period; and
- the amounts arising from related items—such as depreciation expense—for which the regulatory depreciation provides compensation or makes a deduction.

In such cases, regulatory assets or regulatory liabilities might not exist, or assessing whether they exist might be difficult. In addition, any such regulatory assets or regulatory liabilities that exist might be subject to significant measurement uncertainty because companies would be unable to track an amount of regulatory depreciation that provides compensation, or makes a deduction, for amounts arising from related items (see also Section 4.2 *Cost mitigations for companies*).

Therefore, recognising such regulatory assets or regulatory liabilities would be likely to be costly, subjective or even impracticable. For these reasons, recognition:

- would not, ultimately, provide useful information about the compensation to which a company is entitled for a period; and
- would not provide useful information about the relationship between compensation (regulatory depreciation) and the amounts arising from related items (for example, depreciation expense).

The differing accounting outcomes produced by recognition requirements based on the ‘direct relationship’ concept reflect differences in circumstances, for example, differences in the terms of regulatory agreements and in the methodologies regulators use to determine companies’ regulatory capital bases and regulatory depreciation.

IFRS 20 requires a company to disclose:

- the type of relationship (direct or not direct) between the company’s regulatory capital base and related items and the reasons for its conclusion; and
- information about unrecognised regulatory assets and unrecognised regulatory liabilities.

Consequently, the IASB expects IFRS 20 to help companies provide information that enables users of financial statements to make informed comparisons across companies subject to various regulatory agreements.

¹² The ‘direct relationship’ concept is described in the Project Summary. A related item is an item that gives rise to amounts for which a regulatory agreement creates a right to compensation to be provided, or an obligation for a deduction to be made, through regulatory depreciation.

4—Costs

4.1—Costs for companies

Implementation costs

The IASB has identified four types of implementation costs:

- *systems and processes costs*—costs of changing or developing systems, processes and controls to gather information to identify and track differences in timing, to make estimates and to provide required disclosures;
- *external communication costs*—costs of communicating with users of financial statements about the financial effect of the requirements in IFRS 20 on the financial statements;
- *internal education costs*—costs of educating management, finance staff, regulatory staff and other staff about the requirements in IFRS 20; and
- *audit costs*—incremental costs charged by auditors for auditing new information in the financial statements.

The IASB expects that all companies implementing IFRS 20 will incur implementation costs, but that the costs will vary. Furthermore, the IASB expects that, in many cases, companies that apply IFRS 20 will be able to use information already collected by their finance and regulatory teams.

The costs of implementing IFRS 20 will depend on different factors. One of these factors relates to whether a regulator uses inputs from IFRS Accounting Standards to determine a company's regulated rates.

If a regulator uses inputs or criteria that are similar to those in IFRS Accounting Standards, the IASB expects the company to incur lower IFRS 20 application costs than if the inputs or criteria differ.

For example, if the inputs or criteria differ, a company might need to incur costs to analyse how differences between the accounting and regulatory requirements affect the origination and reversal of differences in timing.

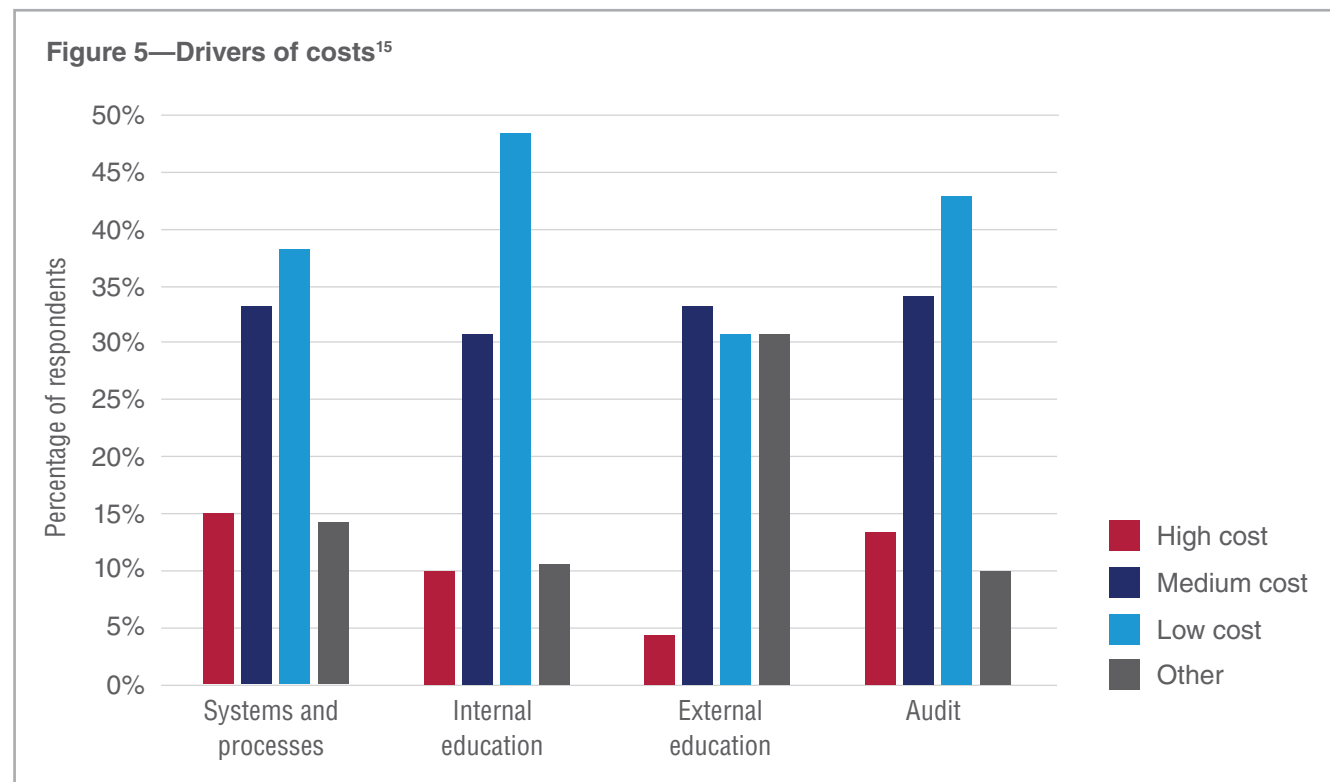
The costs of implementing IFRS 20 will also depend on whether a company currently recognises regulatory balances. The IASB expects companies that currently recognise regulatory balances to incur lower implementation costs than companies that do not. For example, companies that recognise regulatory balances might be able to use, or modify, their current systems and processes to identify and account for differences in timing.

Table 2 describes expected costs for companies based on their existing accounting practice.

Table 2—Expected costs associated with implementing IFRS 20

| Types of implementation costs | Companies that do not currently recognise regulatory balances | Companies that currently recognise regulatory balances |
|-------------------------------|---|---|
| Systems and processes | <p>Companies might need to make significant changes to systems, processes and controls to gather information:</p> <ul style="list-style-type: none"> • to identify differences in timing; • to estimate and discount future cash flows; • to track the recovery of regulatory assets and fulfilment of regulatory liabilities; and • to apply the disclosure requirements. | <p>Companies might need to make some changes to their current systems, processes and controls to gather the information necessary to apply IFRS 20—for example, to capture additional information required for disclosures and to apply the new measurement requirements. However, the costs of making those changes are expected to be lower than the costs for companies that do not currently recognise regulatory balances.</p> |
| External communication | <p>Companies are expected to incur costs to communicate to users of their financial statements the financial effect of IFRS 20 on the companies' financial statements.</p> | <p>Companies are expected to incur costs to communicate to users of their financial statements how IFRS 20 has changed the reporting of their regulated activities in the companies' financial statements.</p> |
| Internal education | <p>All companies are expected to incur costs to educate internal stakeholders about the requirements in IFRS 20, and about the financial effect of the Standard on companies' financial performance and financial position. Lower costs might be incurred by companies that currently recognise regulatory balances.</p> | |
| Audit | <p>All companies will incur incremental audit costs on implementing IFRS 20, particularly relating to requirements in IFRS 20 that involve companies applying judgement. For example, the requirements:</p> <ul style="list-style-type: none"> • to assess the enforceability of the rights and obligations arising from differences in timing; • to estimate future cash flows, which includes estimating how uncertainties such as demand risk and credit risk might affect the amount and timing of future cash flows; and • to assess whether a company's regulatory capital base has, or does not have, a direct relationship with related items. | |

Thirty fieldwork participants shared their views on the four types of implementation costs (see Figure 5).^{13,14}



Although some fieldwork participants expect implementation costs to be high, most expect low or medium implementation costs after considering the simplifications and reliefs in IFRS 20 that these participants expect to use in applying the Standard (see Section 4.2 *Cost mitigations for companies*).

Approximately 67% of 30 fieldwork participants did not identify a need to gather additional data to apply IFRS 20, while the remainder identified additional data needs or were still assessing data needs.

Ongoing costs

Some fieldwork participants viewed the costs in Figure 5 as one-time implementation costs, while others viewed these costs as ongoing. The IASB expects any ongoing costs (for example audit costs in areas requiring use of significant judgement) to decrease over time.

¹³ The data shown in this section was gathered from Fieldwork—Survey 1 on the likely effects of IFRS 20.

¹⁴ The preliminary cost assessment was done on proposals that included a requirement for companies to apply a minimum interest rate. The IASB subsequently decided to remove that requirement, making the requirements in IFRS 20 simpler to apply, and therefore reducing the expected costs of application.

¹⁵ In Figure 5, 'Other' takes account of fieldwork participants who provided no response or said there would be no cost in relation to a particular section of IFRS 20 (see also Figure 6).

 **Examples of what fieldwork participants said about the drivers of costs:**

'[Differences in timing] are not currently tracked in the system of record and therefore functionality would have to be built and aligned with regulatory reporting information systems.'

'Ongoing education for a select group of employees may be required to ensure sufficient understanding to pick up and account for new sources of [differences in timing], but once the initial education piece has been completed, we expect costs should reduce over time.'

'Costs should decrease over time as users apply and understand the Standard like other generally used [IFRS Accounting] Standards.'

'Items requiring judgements, especially those affecting the [statement(s) of financial performance], necessitate additional effort to obtain persuasive audit evidence ... fees may decrease over time; however, this reduction will not be immediate.'

Other costs

A few fieldwork participants also expect to incur staff costs on coordination between their finance and regulatory teams. These participants also expect costs to arise if the application of IFRS 20 results in the regulator requiring changes to their regulatory processes or reports.

Some fieldwork participants also said that the terms of regulatory agreements change over time, usually when a regulator determines the regulated rate for the next regulatory period. Those regulatory changes might give rise to costs, even though these costs are not caused by IFRS 20. For example, a company might need to incur costs to capture new differences in timing that might arise because of changes to its regulatory agreement.

4.2—Cost mitigations for companies

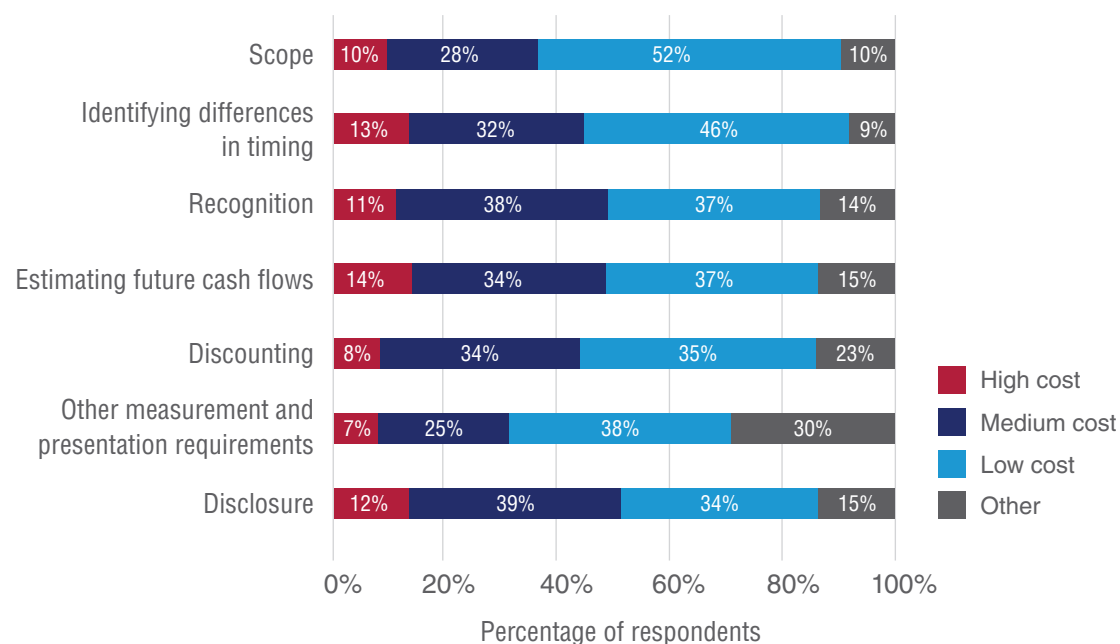
To reduce the cost of implementing IFRS 20, the IASB clarified the applicability of the Standard and simplified or provided relief from applying some requirements. The IASB expects that these cost mitigations will help reduce the costs of applying IFRS 20 while still helping companies provide useful information to users of financial statements.

Thirty fieldwork participants shared their views on their preliminary cost assessment for applying specific requirements of IFRS 20.¹⁶ The participants considered the cost mitigations that can be applied to these requirements (see Figure 6).

The requirements in IFRS 20 include cost mitigations related to:

- recognition;
- measurement;
- scope clarifications; and
- transition.

Figure 6—Preliminary cost assessment¹⁷



¹⁶ The preliminary cost assessment was done on proposals that included a requirement for companies to apply a minimum interest rate. The IASB subsequently decided to remove that requirement, making the requirements in IFRS 20 simpler to apply, and therefore reducing the expected costs of application.

¹⁷ In Figure 6, 'Other' takes account of fieldwork participants who provided no response or said there would be no cost in relation to a particular requirement of IFRS 20.

Recognition

IFRS 20 requires a company to recognise all regulatory assets and all regulatory liabilities existing at the end of a reporting period. However, IFRS 20 only requires a company to recognise regulatory assets or regulatory liabilities arising from regulatory depreciation of the regulatory capital base when a specified criterion is met (referred to as the ‘direct relationship’ concept).

Compensation related to the regulatory capital base

Stakeholders told the IASB that in some cases, companies find it difficult—sometimes even impracticable—to identify a link between:

- the regulatory depreciation of the regulatory capital base to which a company is entitled to in a period; and
- the amounts arising from related items for which the regulatory depreciation provides compensation or makes a deduction.

In such circumstances, accounting for any differences in timing as regulatory assets and regulatory liabilities would be costly and subjective.

Stakeholders said that, in such circumstances, they would have concerns about:

- the costs of accounting for a related regulatory asset or regulatory liability; and
- the usefulness of the information resulting from the recognition of such regulatory assets or regulatory liabilities.

Therefore, IFRS 20 requires a company to recognise a regulatory asset or regulatory liability arising from regulatory depreciation only if the company’s regulatory capital base has a direct relationship with related items.¹⁸

The IASB expects this requirement to reduce companies’ cost of application. The requirement also responds to stakeholders’ concerns that recognition might not provide useful information to users of financial statements (see also page 20 in Section 3 *Benefits*).

Inflation adjustments to the regulatory capital base

Mixed views exist about whether inflation adjustments to a company’s regulatory capital base give rise to differences in timing. Furthermore, accounting for inflation adjustments could be difficult or costly for some companies.

Consequently, for cost-benefit reasons, IFRS 20 requires a company to treat compensation provided by inflation adjustments to the regulatory capital base as forming part of total allowed compensation in the reporting period in which the inflation is recovered through regulatory depreciation.

Moreover, IFRS 20 does not require additional disclosure of information about inflation adjustments to the regulatory capital base.

Benchmark expenses

Stakeholders raised concerns about measurement uncertainty for some regulatory assets and regulatory liabilities that arise from compensation based on regulatory benchmarks because a company might not have the information necessary to estimate the benchmarks.

The IASB decided to require a company to recognise a regulatory asset or regulatory liability when compensation is based on regulatory benchmarks determined using unobservable inputs only when the regulator determines the compensation based on the actual benchmark (that is, once the measurement uncertainty associated with those benchmarks is resolved).

¹⁸ The ‘direct relationship’ concept is described in the Project Summary.

Measurement

IFRS 20 generally requires a company to measure its regulatory assets and regulatory liabilities using a cash-flow-based measurement technique that includes an estimate of all future cash flows and discounts them using the regulatory interest rate specified or implied in the regulatory agreement.

Using the regulatory interest rate as the discount rate

IFRS 20 requires companies to use the regulatory interest rate as the discount rate, which is typically the interest rate specified by the regulatory agreement for a regulatory asset or regulatory liability. When introducing this requirement, the IASB observed that, in most cases, regulatory interest rates are sufficient to compensate or charge a company at least for the time value of money and for uncertainty in future cash flows.

When the regulatory interest rate is the interest rate specified in the regulatory agreement, implementing the requirements for discounting is straightforward and results in the same outcome as using undiscounted estimated future cash flows, excluding the cash flows from regulatory interest that has not yet accrued.

The requirement also eliminates the need to update discount rates, for example, for changes in market rates. IFRS 20 requires a company to update the discount rate only if the regulatory agreement changes the regulatory interest rate for a regulatory asset or regulatory liability.

Relief from applying the discounting requirements

Discounting calculations using an implied regulatory interest rate will be necessary if a regulatory agreement specifies uneven interest rates over the life of a regulatory asset or regulatory liability. An example of such a situation is when there is a period of time between a company recognising a regulatory asset and an interest rate specified in the regulatory agreement starting to apply to that regulatory asset.

IFRS 20 includes a relief from the discounting requirements for such a regulatory asset or regulatory liability when the period between recognition of that asset or liability and the date when the interest rate specified in the regulatory agreement starts to apply is expected to be one year or less. The IASB decided to limit the relief to a period of one year or less to avoid a significant loss of information about the financial effect of discounting to users of financial statements.

Simplified measurement approach for specific items

A regulatory agreement might provide compensation for an allowable expense or make a deduction for chargeable income in determining the regulated rates charged to customers only when a company pays or receives the related cash. A regulatory asset or regulatory liability might arise if, by applying IFRS Accounting Standards, the company recognises the allowable expense or chargeable income in a different reporting period.

For example, a regulatory agreement might provide a company compensation for pension costs in determining the regulated rates only when the company pays contributions to the pension plan.

Instead of using the cash-flow-based measurement technique used for other regulatory assets and regulatory liabilities, IFRS 20 requires companies to measure such regulatory assets and regulatory liabilities by:

- using the carrying amounts of the related liabilities or related assets resulting from applying IFRS Accounting Standards.
- adjusting those carrying amounts to reflect any differences between the related liabilities or related assets and the regulatory assets or regulatory liabilities. For example, adjustments might be required for risks such as credit risk and demand risk, which might be present in the regulatory asset or regulatory liability but not in the related liability or related asset.

The regulatory assets and regulatory liabilities share features with the related liabilities and related assets and so this requirement prevents a measurement inconsistency (accounting mismatch).

Scope clarifications

A company applies IFRS 20 to all its regulatory assets and all its regulatory liabilities, unless they are specified as falling outside the scope.

Stakeholders raised concerns about a lack of clarity on the application of IFRS 20 with other IFRS Accounting Standards, for example, IFRS 17 *Insurance Contracts* and IFRIC 12 *Service Concession Arrangements*.

Responding to these concerns, the IASB decided to mitigate application costs by requiring:

- regulatory assets and regulatory liabilities that might arise if premiums charged in IFRS 17 insurance contracts are regulated to be excluded from the scope of IFRS 20. Stakeholders identified few examples of insurance contracts that might create regulatory assets or regulatory liabilities. Consequently, the IASB does not expect this scope exclusion to result in a significant loss of information for users of financial statements. The scope exclusion will reduce costs for all companies that issue insurance contracts with premiums that are regulated.
- a company to first apply other IFRS Accounting Standards—for example, IFRIC 12—to account for rights and obligations created by a regulatory agreement before applying IFRS 20 to any remaining rights and obligations that meet the definition of a regulatory asset or a regulatory liability. The IASB expects this clarification to assist application.

IFRS 20 specifies the existence of a regulator as one of the necessary conditions for a regulatory asset or regulatory liability to exist. The IASB expects that specifying a regulator must exist will help clarify the intended scope of IFRS 20 and, consequently, reduce companies' costs of application.

Transition

IFRS 20 provides companies with two approaches to transition:

- applying IFRS 20 retrospectively; or
- applying IFRS 20 using a modified retrospective approach.

Transition approach

Thirty-four fieldwork participants shared views on which transition approach their companies plan to use when applying IFRS 20.

The results showed that:

- 12% plan to use the retrospective approach;
- 79% plan to use the modified retrospective approach; and
- 9% were still assessing which approach to use.

Comparative information

Irrespective of the transition approach selected, a company is required to present adjusted comparative information for the period immediately preceding the period in which IFRS 20 is first applied—that is, the comparative period.

Transition reliefs

The IASB expects that the modified retrospective approach will be less costly for companies to apply than the retrospective approach. Companies selecting the modified retrospective approach will be able to use transition reliefs aimed at reducing the cost of implementation.

In developing the transition reliefs, the IASB focused on requirements for which a company might have difficulty obtaining the information necessary for retrospective application and for which providing relief would not significantly affect the information provided to users of financial statements.

The IASB expects that providing these transition reliefs will help reduce the cost of implementing IFRS 20 for companies irrespective of their existing accounting practices.

To help users understand the financial effect of the reliefs on initial application of IFRS 20, the Standard requires a company to disclose the reliefs it has applied and how it has applied them.

First-time adopters

The IASB is aware that companies that are first-time adopters will have to apply not only IFRS 20, but also the full suite of IFRS Accounting Standards. A first-time adopter is permitted to use the modified retrospective approach in applying IFRS 20.

The IASB expects that making the modified retrospective approach available to first-time adopters will help to reduce the costs of moving from another accounting framework to IFRS Accounting Standards.

Feedback from fieldwork participants

Table 3 describes the transition reliefs in IFRS 20 and the views of fieldwork participants on whether the reliefs are helpful.

Table 3—Transition reliefs applicable to companies

| Applying either full or modified retrospective approach | Purpose of relief | Views |
|--|--|--|
| Present only one period of adjusted comparatives. | This relief gives useful information to users of financial statements while responding to stakeholders' concerns about the costs and difficulties of full retrospective application. | 87% of 30 fieldwork participants viewed the relief as helpful. |
| Disclose, only for the comparative period, the amount of the adjustment for each financial statement line item affected (and if applicable, for basic and diluted earnings per share). ¹⁹ | This relief reduces a company's costs of running parallel systems for extended periods of time because the disclosure is not required for the current period or for any earlier comparative periods presented. | 84% of 31 fieldwork participants viewed the relief as helpful. |
| Applying the modified retrospective approach | Purpose of relief | Views |
| Use hindsight in applying IFRS 20. | Some requirements might be difficult for a company to apply without using hindsight. This relief eases the application of such requirements. | 93% of 28 fieldwork participants viewed the relief as helpful. |
| Disregard any implied regulatory interest rates that would have been derived from the terms of the regulatory agreement before the transition date. | This relief allows a company to apply the implied interest rate requirements prospectively as of the beginning of the comparative period. | 93% of 28 fieldwork participants viewed the relief as helpful. ²⁰ |
| Apply the requirements for a regulatory return on assets not yet available for use only to assets not yet available for use at the transition date. | This relief reduces the costs of transition by limiting the application of the requirements for regulatory returns on assets not yet available for use to only assets not yet available for use (for example, assets being constructed) at the transition date. This relief allows a company not to apply those requirements to assets in use. | 74% of 23 fieldwork participants viewed the relief as helpful. |

¹⁹ This relief relates to the disclosure requirement in paragraph 28(f) of IAS 8 *Basis of Preparation of Financial Statements*.

²⁰ The preliminary assessment was done on a relief that also applied to a proposed requirement for companies to apply a minimum interest rate. The IASB subsequently decided to remove that requirement. Consequently, this relief will apply only to the uneven interest rate requirements.

4.3—Costs for users and other stakeholders

Costs for users

The IASB expects that users of financial statements will have to incur some initial costs to adjust their analyses and models to capture the information that companies provide applying IFRS 20. For example, users will need to adjust models:

- to capture the new line items presented in a company's statement(s) of financial performance and statement of financial position; and
- to capture the information disclosed in the notes, such as information provided in the reconciliations and maturity analyses (see Section 5 *Changes to the financial statements*).

Users of financial statements might also need to spend time to understand how a company's financial performance and financial position differ from its previous reporting if the company recognised regulatory balances before applying IFRS 20. For example, users would need to understand whether differences between the requirements in IFRS 20 and the company's previous accounting practice result in the company:

- recognising different populations of differences in timing;
- measuring differences in timing at different amounts; or
- presenting differences in timing in different locations in the financial statements.

Users of financial statements might also need to spend time to modify their adjustments to companies' performance measures, derived either from regulatory balances currently recognised in the financial statements or from non-GAAP measures.

However, the IASB expects that the ongoing benefits to users of financial statements would exceed the initial costs (see Section 3 *Benefits*).

Costs for regulators and auditors

Some regulators use information from financial statements prepared in accordance with IFRS Accounting Standards to determine regulated rates. In such cases, the IASB expects that regulators might incur some costs when companies first apply IFRS 20. A regulator might also incur costs if it decides to modify the regulatory framework to more closely align it with the accounting required by IFRS 20—for example, a regulator might change its methodologies so there is a clearer link between regulatory depreciation and the amounts for which the regulatory depreciation provides compensation or makes a deduction (for example, depreciation expense).

The IASB expects that auditors and enforcers such as securities regulators might incur additional costs to understand the new requirements and audit or enforce the additional information disclosed in accordance with IFRS 20. In addition, auditors are expected to incur additional costs in evaluating the judgements made by companies applying IFRS 20 (see Table 2 on page 23).

5—Changes to the financial statements

5.1—Changes to the statement(s) of financial performance

IFRS 20 changes the timing of when a company recognises amounts in the statement(s) of financial performance to reflect the compensation to which a company is entitled for regulatory goods or services supplied in a period.

IFRS 20 includes specific classification and presentation requirements for the statement of profit or loss, and presentation requirements for other comprehensive income.

Revenue and profit

Companies that do not currently recognise regulatory balances

IFRS 20 requires a company to classify all regulatory income and all regulatory expense as revenue and present all regulatory income minus all regulatory expense (regulatory income or regulatory expense) as a line item in the statement of profit or loss.²¹ This line item supplements IFRS 15 revenue. Consequently, IFRS 20 will affect a company's reported revenue.

IFRS 20 also requires a company to include regulatory interest income and regulatory interest expense in the regulatory income or regulatory expense line item, which will affect reported revenue.

The financial effect of regulatory income or regulatory expense on a company's reported revenue in a period could be positive or negative, depending on the changes in the regulatory assets and regulatory liabilities during the period. These changes result from the regulatory assets and regulatory liabilities the company recognises, recovers or fulfils during the period.

The net financial effect of regulatory income or regulatory expense on a company's reported revenue in the period will depend on whether (1) or (2) has a larger impact:

| | |
|---|--|
| 1 Part or all of the compensation for regulatory goods or services supplied in the reporting period being included in IFRS 15 revenue in past or future periods. | Results in regulatory income arising from the fulfilment of regulatory liabilities or origination of regulatory assets—that is, an increase in the company's reported revenue in the period on applying IFRS 20. |
| 2 Part or all of the IFRS 15 revenue for the reporting period providing compensation for regulatory goods or services the company supplied in the past or will supply in the future. | Results in regulatory expense arising from the recovery of regulatory assets or origination of regulatory liabilities—that is, a decrease in the company's reported revenue in the period on applying IFRS 20. |

²¹ In limited circumstances, the company would include some regulatory income or regulatory expense in other comprehensive income.

Companies that currently recognise regulatory balances

For companies that currently recognise regulatory balances, the presentation of items in the statement of profit or loss is likely to change. For example:

- some companies apply IFRS 14. These companies were required to present the net movements in all regulatory deferral account balances for the reporting period as a line item in the statement of profit or loss. This line item would be distinguished from the income and expenses that a company presented in accordance with other IFRS Accounting Standards. These companies were also required to include in other comprehensive income the net movements in regulatory deferral account balances that related to items included in other comprehensive income.
- some companies apply other accounting frameworks or their own accounting policies developed in accordance with IAS 8. Those companies might have presented changes in regulatory balances netted against the related expense or related income, or presented those changes elsewhere in the statement of profit or loss.

Applying IFRS 20, companies will classify all regulatory income and all regulatory expense as revenue in their statement of profit or loss. The only exception to this classification is when regulatory income or regulatory expense is included in other comprehensive income—as described in this section under the heading ‘*Other comprehensive income*’.

Even though these companies currently recognise regulatory balances, profit might be affected if:

- the population of regulatory balances currently recognised is different from the population of regulatory assets or regulatory liabilities recognised by applying IFRS 20; and
- the current recognition and measurement requirements are different from the recognition and measurement requirements in IFRS 20.

Other comprehensive income

IFRS 20 might affect a company’s other comprehensive income. In some cases, a company applying other IFRS Accounting Standards includes an item of expense or income in other comprehensive income. In such cases, IFRS 20 requires the company to include in other comprehensive income regulatory income or regulatory expense relating to that item of expense or income.

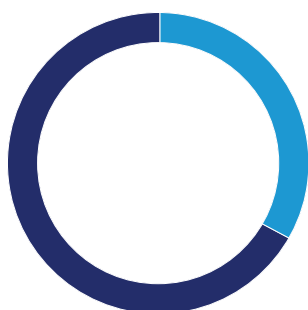
An example of items of expense or income included in other comprehensive income is remeasurements of a net defined benefit liability (asset) under IAS 19 *Employee Benefits*.

A company might reclassify expense or income included in other comprehensive income to the statement of profit or loss in accordance with other IFRS Accounting Standards. In such cases only, IFRS 20 requires the company to reclassify the related regulatory income or related regulatory expense to the statement of profit or loss.

Thirty fieldwork participants shared their views about whether they expect to include any regulatory income or regulatory expense in other comprehensive income (see Figure 7).

Approximately 33% of these participants expect to include regulatory income or regulatory expense in other comprehensive income.

Figure 7—Impact expected to other comprehensive income



33% Yes

67% No

For companies that do not currently recognise regulatory balances, the financial effect of IFRS 20 on other comprehensive income might be significant.

Some companies that currently recognise regulatory balances might already include some amounts in other comprehensive income, as described in this section under the heading ‘*Companies that currently recognise regulatory balances*’. The financial effect of IFRS 20 on other comprehensive income for these companies is expected to be less significant than for companies that do not currently recognise regulatory balances.

5.2—Changes to the statement of financial position

Changes to assets and liabilities

IFRS 20 requires a company to recognise in the statement of financial position all regulatory assets and all regulatory liabilities existing at the end of a reporting period, other than those that:²²

- are excluded from the scope of the Standard;
- do not meet the ‘more likely than not’ recognition threshold; or
- arise from regulatory depreciation of the regulatory capital base when the regulatory capital base does not have a direct relationship with related items (‘direct relationship’ concept—see page 37).

Companies that do not currently recognise regulatory balances

A regulatory agreement might create only regulatory assets, only regulatory liabilities, or both regulatory assets and regulatory liabilities.

Therefore, for companies that do not currently recognise regulatory balances, the application of IFRS 20 will result in either an increase in only total assets, only total liabilities, or both total assets and total liabilities.



Approximately 78% of 27 fieldwork participants expect to recognise both regulatory assets and regulatory liabilities on applying IFRS 20.

Companies that currently recognise regulatory balances

For companies that currently recognise regulatory balances, total assets and total liabilities are expected to change, but the extent of change will vary. The extent of change will depend on:

- differences between the population of regulatory balances currently recognised and the population of regulatory assets and regulatory liabilities that will be recognised by applying IFRS 20; or
- differences in recognition and measurement requirements between current accounting practice and IFRS 20.

For companies that previously applied IFRS 14, total assets and total liabilities will increase because IFRS 14 required a company to present regulatory deferral account balances as separate line items that are excluded from total assets and total liabilities in the statement of financial position.

²² The scope and recognition requirements are described in the Project Summary.

Measurement considerations

Applying IFRS 20, companies will measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique.²³ The measurement might be similar to the measurement of regulatory balances at cost, but is likely to differ if, for example:

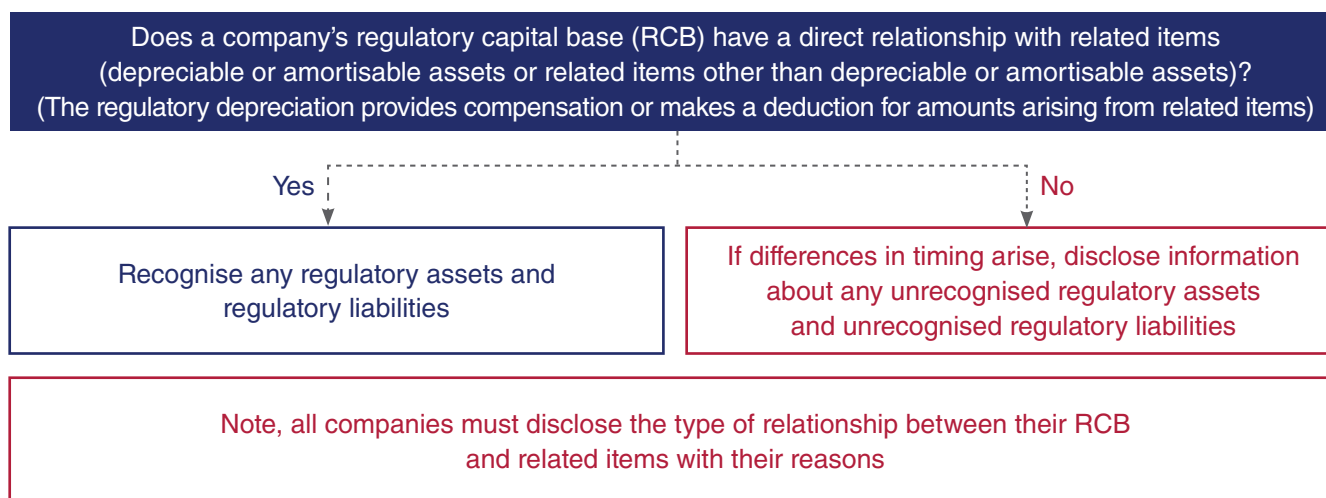
- the estimates of future cash flows arising from a regulatory asset or regulatory liability are affected by uncertainties such as demand risk or credit risk;
- those estimates include regulatory interest that has accrued but will be recovered or fulfilled in a future period; or
- the interest rates relating to a regulatory asset or regulatory liability are uneven and the regulatory asset or regulatory liability does not qualify for the discounting exemption in IFRS 20 (see Section 4.2 *Cost mitigations for companies*).

Financial effect of applying the ‘direct relationship’ concept

The recognition of some regulatory assets and regulatory liabilities arising from compensation through regulatory depreciation is conditional on the existence of a direct relationship between the company’s regulatory capital base and related items. Information provided by recognition when that condition has not been met would not result in benefits that outweigh the costs (see Section 3 *Benefits* and Section 4.2 *Cost mitigations for companies*).

Figure 8 illustrates how IFRS 20 will affect a company’s recognition of regulatory assets and regulatory liabilities arising from regulatory depreciation.

Figure 8—Overview of regulatory assets and regulatory liabilities arising from regulatory depreciation



²³ In specified cases, a company measures regulatory assets and regulatory liabilities using the simplified approach in IFRS 20.

If a company's regulatory capital base does not have a direct relationship with related items, the company is required to disclose information about unrecognised regulatory assets and unrecognised regulatory liabilities that arise from regulatory depreciation (see Section 5.4 *Changes to the notes*).

Furthermore, if a company's regulatory capital base does not have a direct relationship with depreciable or amortisable assets, the company might still be able to track an amount of regulatory depreciation that, for example, provides compensation for specified items. That would be the case if, for example, the regulator monitors how regulatory depreciation provides compensation for the amounts arising from these specified items. In this case, the company is required to recognise regulatory assets or regulatory liabilities related to such specified items.

If a company's regulatory capital base does not have a direct relationship with related items and the company does not currently recognise regulatory balances arising from regulatory depreciation, IFRS 20 will not change current practice. The financial effect of IFRS 20 on such companies' total assets and total liabilities will depend mainly on the extent of other regulatory assets or regulatory liabilities these companies recognise when applying IFRS 20—for example, regulatory assets or regulatory liabilities arising from compensation for allowable expenses that a regulatory agreement provides separately from regulatory depreciation.

If a company currently recognises regulatory balances arising from regulatory depreciation, IFRS 20 might not significantly change these balances if the company's regulatory capital base has a direct relationship with related items.

5.3—Changes to the statement of cash flows

A company recovers regulatory assets or fulfils regulatory liabilities indirectly by increasing or decreasing the regulated rates charged to customers, instead of directly by receiving or paying cash.²⁴

Consequently, IFRS 20 will not affect the total net cash flows that a company reports in the statement of cash flows but could result in limited changes to the line items presented in that statement.

A company might use the indirect method to report cash flows from operating activities. Using that method, the company determines such cash flows by adjusting operating profit or loss for changes in regulatory assets and regulatory liabilities during the period.

Regulatory assets and regulatory liabilities form part of the same transaction cycle as accounts receivable and accounts payable. Consequently, the cash flows from operating activities are not expected to change, unless a company's current accounting practice requires regulatory balances to be presented in other sections of the statement of cash flows.

For example, a company applying other accounting frameworks might have presented regulatory balances relating to property, plant and equipment as part of its cash flows from investing activities. In such cases, the company applying IFRS 20 might be required to present such cash flows as cash flows from operating activities instead.

²⁴ However, increases or decreases to the regulated rates charged to customers will affect the company's future cash flows.

5.4—Changes to the notes

The IASB expects that all companies applying IFRS 20 will provide more information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities in the notes, even those companies that currently recognise regulatory balances.

This section describes some of the disclosure requirements in IFRS 20.

Core disclosures

IFRS 20 requires a company to disclose information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities.

The information resulting from these requirements will enable users of financial statements:

- to understand the financial effect of differences in timing arising from a company's regulatory agreement on its financial performance and financial position; and
- to compare companies subject to various types of regulatory agreements.

Table 4 sets out some of the disclosure requirements in IFRS 20 and how the resulting information helps users of the financial statements.

Companies that currently recognise regulatory balances might already provide similar disclosures to those required by IFRS 20.

For example, a company that previously applied IFRS 14 would have disclosed a reconciliation of the changes in the carrying amounts of its regulatory deferral account balances and would have disclosed the remaining periods over which the company expected to recover or fulfil a regulatory deferral account balance.

Table 4—Main disclosure requirements in IFRS 20

| Information required | How this information helps users |
|---|---|
| <p>Reconciliations from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.</p> <p>The Appendix to this Effects Analysis provides an example that illustrates these reconciliations (see page 45).</p> | <p>Assists understanding of the variety of factors that caused changes in the regulatory assets and regulatory liabilities during a reporting period.</p> |
| <p>Maturity analysis that shows when the company expects to recover regulatory assets and fulfil regulatory liabilities and an explanation of how uncertainties affect their recovery or fulfilment.</p> | <p>Provides insights into future cash flows that arise from all regulatory assets and all regulatory liabilities recognised at the end of a reporting period.</p> |
| <p>Other disclosures:</p> <ul style="list-style-type: none"> • information about the type of relationship between a company’s regulatory capital base and related items. • information about unrecognised regulatory assets and unrecognised regulatory liabilities, including the type of compensation they relate to and the reason they have not been recognised. | <ul style="list-style-type: none"> • Assists understanding of the terms of a regulatory agreement and the financial effect of these terms on a company’s financial performance and financial position. • Affects users’ analysis of a company’s financial position and its future cash flows. |
| <p>Transition disclosures to supplement the disclosures required by IAS 8.</p> | <p>Assists understanding of a company’s initial application of the Standard.</p> |

5.5—Changes to financial metrics

The effect of IFRS 20 on financial metrics for companies that do not currently recognise regulatory balances is expected to be greater than the effect for companies that currently recognise regulatory balances (see Section 5.1 *Changes to the statement(s) of financial performance* and Section 5.2 *Changes to the statement of financial position*).

IFRS 20 requires a company to classify regulatory assets and regulatory liabilities as current or non-current, except when the company presents all assets and liabilities in order of liquidity. Some companies present assets and liabilities using a current or non-current classification but do not currently classify regulatory balances as current or non-current.

Financial metrics

The IASB expects that some of the financial metrics that companies currently report will be affected by the application of IFRS 20. Table 5 provides examples of affected financial metrics.

Table 5—Examples of affected financial metrics

| Change due to applying IFRS 20 | Examples of affected financial metrics |
|---|---|
| A company recognises regulatory assets and regulatory liabilities that were previously unrecognised or not presented using a current or non-current classification. | <ul style="list-style-type: none"> • Working capital • Liquidity ratios • Leverage ratios* • Return on assets* • Return on equity* <p><i>*These financial metrics are not affected by a current or non-current classification.</i></p> |
| A company recognises regulatory income and regulatory expense that were previously unrecognised and classifies all regulatory income and all regulatory expense as revenue. | <ul style="list-style-type: none"> • Operating profit • Earnings before interest, tax, depreciation and amortisation (EBITDA) • Interest coverage ratio • Funds from operations |

Non-GAAP measures

The effect of IFRS 20 on a company's non-GAAP measures will vary. Some companies provide non-GAAP measures to adjust for the financial effects of their regulatory agreements, while some do not. Examples of non-GAAP measures include adjusted EBITDA and adjusted profit or loss. The IASB expects that IFRS 20 might affect non-GAAP measures by:

- reducing their use or changing their calculation because companies would have already captured some of the financial effect of their regulatory agreements in the financial statements by applying IFRS 20.
- increasing their use to disclose the financial effects of rights and obligations that are not recognised by applying the requirements in IFRS 20. For example, some companies might provide quantitative information about their regulatory capital bases or quantitative information about unrecognised regulatory assets and unrecognised regulatory liabilities.



Examples of what fieldwork participants said about the use of non-GAAP measures:

'Since the adjustments included in our non-GAAP measures only comprise adjustments for [items related to regulatory income and regulatory expense], we will not have any non-GAAP measures after initial application of [IFRS 20].'

'Presenting regulatory assets and regulatory liabilities in the primary financial statements will reduce non-GAAP disclosures.'

'We may use non-GAAP measures to capture other effects of rate regulation that may not be fully addressed in [IFRS 20]...'

Other items

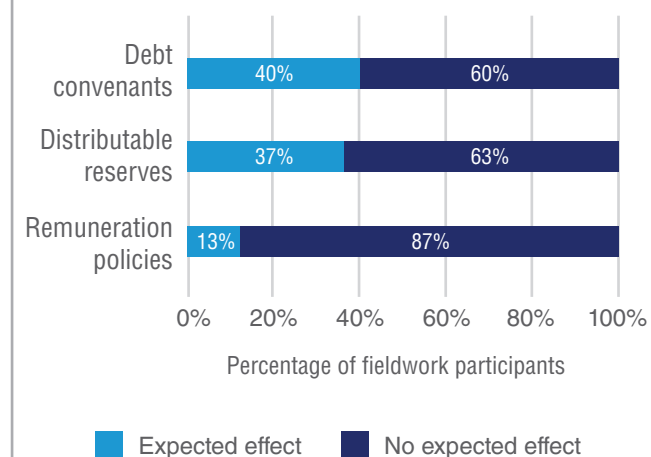
IFRS 20 might also affect a company's other finance-related items, for example:

- debt covenants;
- distributable reserves; and
- remuneration policies.

The extent of the financial effect depends on whether a company calculates any of the other finance-related items using amounts derived from applying IFRS Accounting Standards.

Thirty fieldwork participants shared their views on whether they expect their company's debt covenants, distributable reserves and remuneration policies to be affected (see Figure 9).

Figure 9—IFRS 20 effect on other items



Appendix—Illustration of disclosure

Disclosure—Reconciliations of regulatory assets and regulatory liabilities

IFRS 20 *Regulatory Assets and Regulatory Liabilities* requires a company to disclose reconciliations from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities (see Section 5.4 *Changes to the notes*).

IFRS 20 also includes requirements to assist a company in determining the appropriate level of aggregation or disaggregation of information when applying the disclosure requirements.

Tables 6 and 7 show an example of reconciliations from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities. The tables also show whether the change affects profit or loss, other comprehensive income or the statement of financial position.

Table 6—Reconciliation of the carrying amount of regulatory assets

| <i>In CU</i> | Cost variances | Performance incentives | Pension | Total |
|--|----------------|------------------------|---------------|---------------|
| Opening carrying amount | 7,800 | 570 | 9,000 | 17,370 |
| <i>Profit or loss</i> | | | | |
| Origination | 7,500 | 410 | 6,250 | 14,160 |
| Recovery | (6,000) | (200) | (1,500) | (7,700) |
| Regulatory interest income | 150 | 20 | 250 | 420 |
| Change in the boundary of the regulatory agreement | – | – | 4,000 | 4,000 |
| <i>Other comprehensive income</i> | | | | |
| Remeasurement | – | – | 2,000 | 2,000 |
| <i>Other changes</i> | | | | |
| Regulatory assets acquired in a business combination | 50 | – | 300 | 350 |
| Closing carrying amount | 9,500 | 800 | 20,300 | 30,600 |

Table 7—Reconciliation of the carrying amount of regulatory liabilities

| <i>In CU</i> | Cost variances | Performance incentives | Volume variances | Total |
|--|----------------|------------------------|------------------|-----------------|
| Opening carrying amount | (600) | (380) | (6,360) | (7,340) |
| <i>Profit or loss</i> | | | | |
| Origination | (3,800) | (195) | (4,614) | (8,609) |
| Fulfilment | 2,000 | 150 | 2,500 | 4,650 |
| Regulatory interest expense | (75) | (15) | – | (90) |
| <i>Other changes</i> | | | | |
| Regulatory liabilities assumed in a business combination | (40) | – | – | (40) |
| Closing carrying amount | (2,515) | (440) | (8,474) | (11,429) |

Important information

This Effects Analysis accompanies, but is not part of, IFRS 20 *Regulatory Assets and Regulatory Liabilities*.

Official pronouncements of the IASB are available in electronic format to subscribers of IFRS.org. All IFRS publications can be ordered from the IFRS Foundation website at www.ifrs.org.

Other relevant documents

IFRS 20 *Regulatory Assets and Regulatory Liabilities*—specifies requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

Basis for Conclusions on IFRS 20—summarises the IASB’s considerations in developing the requirements in IFRS 20.

Illustrative Examples on IFRS 20—illustrates aspects of IFRS 20, without giving interpretative guidance.

Project Summary on IFRS 20—provides an overview of the project to develop IFRS 20.

Feedback Statement on IFRS 20—summarises feedback on the proposals that preceded IFRS 20 and the IASB’s response to the feedback.

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