

IFRS Developments

The IASB issues IFRS 20 Regulatory Assets and Regulatory Liabilities



What you need to know

- IFRS 20 sets out the requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense.
- IFRS 20 is effective for reporting periods beginning on or after 1 January 2029, with earlier application permitted.
- Entities may elect to transition applying a retrospective approach or a modified retrospective approach with transition reliefs, both requiring adjusted comparative information.

Highlights

On 27 May 2026, the International Accounting Standards Board issued IFRS 20 *Regulatory Assets and Regulatory Liabilities*. IFRS 20 sets out the requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

IFRS 20 introduces requirements that will result in information that supplements the information an entity already provides by applying IFRS accounting standards, including IFRS 15 *Revenue from Contracts with Customers*. Such information enables users of financial statements to understand the total allowed compensation for regulatory goods or services supplied in each reporting period and the related rights and obligations. The income, expenses, assets and liabilities an entity reports by applying IFRS 20 supplement, but do not replace, the information the entity provides by applying IFRS 15 and other IFRS accounting standards.

Narrow scope amendments have been made to a number of accounting standards, including IFRS 1 *First-time Adoption of IFRS*, IFRS 3 *Business Combinations* and IFRS 18 *Presentation and Disclosure in Financial Statements*.



Key features of the standard

Scope

IFRS 20 applies to all regulatory assets and regulatory liabilities that are a subset of the rights and obligations created by a regulatory agreement that meet the conditions in IFRS 20. The only exception to the scope is the requirement to exclude regulatory assets and regulatory liabilities that arise if premiums charged in insurance contracts within the scope of IFRS 17 *Insurance Contracts* are regulated.



How we see it

Although the impact of the new requirements might vary depending on the regulatory agreements to which entities are exposed, IFRS 20 is expected to impact all entities that supply regulatory goods and services at prices that are regulated, across all industries, including those outside of power and utilities.

Key concepts

A regulatory asset (liability) is an enforceable present right (obligation), created by a regulatory agreement, to add (deduct) an amount in determining a regulated rate to be charged to customers in future periods because part or all of the total allowed compensation for regulatory goods or services supplied by an entity in a reporting period is charged to customers through regulated rates in a different period (past or future) creating a difference in timing.

A regulatory agreement is one 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) that an entity charges for goods or services supplied to customers in a period.

Total allowed compensation is the amount of compensation to which a regulatory agreement entitles an entity for regulatory goods or services supplied in a reporting period. The amount might be charged through regulated rates either in the same period or a different period.

The regulatory goods or services supplied in a period might include, for example:

- a. Supplying goods or services to customers;
- b. Maintaining a network, including routine maintenance and being ready to repair damage to the network;
- c. Making changes to the capacity of a network (for example, additions and upgrades or decommissioning); and
- d. Satisfying other objectives set by the regulator as part of the regulatory agreement (for example, improving the quality and efficiency of services supplied to customers, or decreasing or increasing customer usage).

Recognition

An entity is required to recognise:

- a. All regulatory assets and all regulatory liabilities existing at the end of a reporting period; and
- b. All regulatory income and all regulatory expenses arising during a reporting period.

Where it is uncertain whether a regulatory asset or regulatory liability exists, an entity needs to assess whether the regulatory asset or regulatory liability is more likely than not to exist. An entity recognises the regulatory asset or regulatory liability if it is more likely than not to exist.

A number of constraints on recognition are addressed in the standard, of which the most prominent depend on whether the entity's regulatory capital base has a direct relationship with a related item or items. Examples of related items are items recognised by an entity as depreciable or amortisable assets by applying

IFRS accounting standards (for example IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* or IFRS 16 *Leases*).

Initial measurement

An entity needs to measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique that includes an up-to-date estimate of all future cash flows arising from the recovery of a regulatory asset or fulfilment of a regulatory liability. Then it needs to discount those estimated future cash flows to their present value using the regulatory interest rate specified (implicitly or explicitly) in the regulatory agreement for that regulatory asset or regulatory liability.

To estimate future cash flows, an entity needs to consider all reasonable and supportable information that is available at the reporting date without undue cost or effort about past events and conditions existing at the end of the reporting period, as well as information about market and non-market variables that might affect estimates of future cash flows.



How we see it

When measuring regulatory assets and regulatory liabilities, an entity considers all reasonable and supportable information that is available at the reporting date without undue cost or effort to estimate future cash flows. An entity will need to apply judgement in determining what constitutes undue cost or effort under its specific circumstances.

Subsequent measurement

In measuring a regulatory asset or regulatory liability after its initial recognition, an entity is required to, at the end of each reporting period:

- a. Update estimates of the amount and timing of future cash flows arising from the regulatory asset or regulatory liability; and
- b. Continue to use the discount rate determined at initial recognition, unless the regulatory agreement requires a change to the regulatory interest rate.

Presentation and disclosure

IFRS 20 requires an entity to classify all regulatory income and all regulatory expense as revenue (including regulatory interest) and to present it as a separate line item in the statement of profit or loss. Where, on applying other IFRS accounting standards, an entity includes an item of income or expense in other comprehensive income (OCI), IFRS 20 requires the entity to also include in OCI, the regulatory income or regulatory expense related to the item of income or expense in OCI.

An entity is required to present in its statement of financial position:

- a. Regulatory assets and regulatory liabilities as line items; and
- b. Current and non-current regulatory assets, and current and non-current regulatory liabilities, as separate classifications in accordance with IFRS 18, except when the entity presents all assets and liabilities in order of liquidity.

IFRS 20's disclosure objectives include an overall objective to disclose in the notes information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities which, together with the information required by other IFRS accounting standards, will provide insights to users of financial statements into:

- a. The total allowed compensation for regulatory goods or services supplied by the entity in a reporting period and, hence, into the entity's financial performance and prospects for future cash flows.
- b. The entity's financial position at the end of a reporting period and the amount, timing and uncertainty of the entity's future cash flows.

In addition, an entity is required to disclose information that enables users to understand the amounts recognised in the entity's statement of financial performance and financial position for regulatory assets, regulatory liabilities, regulatory income and regulatory expense; the nature of unrecognised regulatory assets or unrecognised regulatory liabilities and the reason they have not been recognised; and the relationship between the entity's regulatory capital base and related items.



How we see it

In assessing the information including the level of detail on its rate-regulated activities to be disclosed in the notes to the financial statements in accordance with IFRS 20, an entity is required to consider the overall disclosure objective as well as the specific disclosure requirements in the standard.

Effective date and transition

An entity is required to apply IFRS 20 for annual reporting periods beginning on or after 1 January 2029. When IFRS 20 is applied, IFRS 14 *Regulatory Deferral Accounts* will be withdrawn.

Earlier application is permitted. If an entity applies IFRS 20 earlier than reporting periods beginning on or after 1 January 2029, it is required to disclose that fact.

IFRS 20 requires an entity to apply the requirements either: retrospectively in accordance with IAS 8 *Basis of Preparation of Financial Statements*; or using the modified retrospective approach which includes certain transition reliefs from the application of IAS 8.

Regardless of the approach chosen, an entity is required to:

- a. Recognise the net adjustment in opening retained earnings (or other component of equity, as appropriate) at the transition date;
- b. Present adjusted comparative information for the annual reporting period immediately preceding the date of initial application; and
- c. Disclose, to the extent practicable, the earnings per share information and the amount of the adjustment for each financial statement line item affected in the financial statements of the annual reporting period immediately preceding the date of initial application.



How we see it

While there might appear to be ample time before the effective date of IFRS 20, entities are encouraged to determine the impact of the new requirements at their earliest convenience. Management needs to plan ahead as the transition process could require considerable time and resources to prepare and disclose comparative information for the prior reporting period. Successful implementation of IFRS 20 may require changes to the internal control system and supporting IT applications.

Furthermore, entities will need ample time to assess the anticipated effects of applying IFRS 20 in their business plan, on financial covenants, and on other performance conditions that relate to share-based payment plans and other long-term employee benefits other than post-employment benefits.

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