NEW IFRS STANDARD

Regulatory Assets and Regulatory Liabilities

IFRS 20

Issued 27 May 2026 · Effective 1 January 2029 · Supersedes IFRS 14

B D CHATTERJEE

FCA, ACMA, ACS, DipIFR (ACCA) – United Kingdom

ROADMAP

Contents

A structured walk-through of the IASB's newest Standard for entities subject to rate regulation

PART I

Introducing IFRS 20

Why the Standard was needed, its effective date and transition, and who it applies to

BACKGROUND

Why IFRS 20 Was Needed

Issued by the IASB on 27 May 2026, completing a project of more than 15 years on rate-regulated activities.

- For entities subject to rate regulation, IFRS 15 revenue alone often does not fully reflect performance for the period – the regulator may allow compensation for goods or services supplied in one period to be recovered through rates charged in a different period
- Before IFRS 20, IFRS Accounting Standards offered no comprehensive model for reporting these effects, leading to diversity in practice – some entities recognised regulatory balances, others did not
- IFRS 20 closes that gap with a single, mandatory model that applies to any entity meeting its scope criteria, regardless of industry

TIMELINE

Effective Date and Transition

Effective 1 January 2029

Applies to annual reporting periods beginning on or after 1 January 2029, subject to local endorsement

Early Application Permitted

Entities may adopt IFRS 20 before the mandatory effective date

Supersedes IFRS 14

IFRS 14 Regulatory Deferral Accounts – an interim, optional Standard – is fully replaced

No Longer Optional

Unlike IFRS 14, IFRS 20 is mandatory for any entity that meets its scope criteria

SCOPE

A Two-Part Test

A regulatory asset or regulatory liability can exist only where both conditions below are met:

1. **A regulatory agreement exists** the entity and a regulator are parties to an agreement that prescribes the regulated rate the entity can charge customers for goods or services supplied

2. **A timing difference arises** part or all of the total allowed compensation for goods or services supplied in one period is charged to customers in a different period

KEY POINT

The existence of a regulatory asset or liability depends entirely on the terms of the regulatory agreement – there is no industry carve-out and no election not to apply the Standard.

IMPACT

Who Is Affected

IFRS 20 is not sector-specific, but is expected to be particularly relevant to entities operating in:

Electricity & Gas

Utilities operating under cost-of-service or incentive-based rate regulation

Water

Regulated water and wastewater utilities

Public Transport

Rail, toll roads and other regulated transport infrastructure

Telecommunications

Regulated network and infrastructure providers

PART II

Core Concepts

Total allowed compensation, differences in timing, and the definitions of regulatory assets and liabilities

CORE PRINCIPLE

Matching Compensation to the Period Supplied

THE CORE PRINCIPLE OF IFRS 20

An entity recognises the total allowed compensation for regulatory goods or services in the same reporting period in which those goods or services are supplied.

HOW IT WORKS

IFRS 20 supplements IFRS 15 through an ‘overlay’ approach: the entity first applies IFRS 15 to recognise revenue, then recognises regulatory assets and liabilities to capture the timing differences that IFRS 15 alone does not reflect.

KEY TERM

Differences in Timing

DEFINITION

A difference in timing arises when part or all of the total allowed compensation for regulatory goods or services supplied in one reporting period is included in determining the regulated rate charged to customers in a different reporting period.

STEP 1

Goods/Services Supplied

Regulatory goods or services are delivered to customers in Period 1

STEP 2

IFRS 15 Revenue Recognised

Revenue for Period 1 is recognised based on estimated compensation

STEP 3

Rate Adjusted in Period 2

The regulatory agreement allows the under- or over-recovery to be reflected in a later period's rate

KEY TERM

Total Allowed Compensation

DEFINITION

The amount to which an entity is entitled for regulatory goods or services supplied in a reporting period, as determined under the terms of the regulatory agreement – which may differ from the revenue recognised for that period under IFRS 15.

WHY IT MATTERS

Total allowed compensation is the benchmark against which IFRS 15 revenue is compared. Any gap between the two is what gives rise to a regulatory asset or regulatory liability.

COMPARISON

Regulatory Asset vs. Regulatory Liability

Regulatory Asset	Regulatory Liability
Exists when the entity has an enforceable present right to add an amount to be charged to customers in future periods in determining the regulated rate – typically arising from an under-recovery of allowed compensation.	Exists when the entity has an enforceable present obligation to deduct an amount to be charged to customers in future periods in determining the regulated rate – typically arising from an over-recovery of allowed compensation.

KEY TERM

The ‘Direct Relationship’ Concept

For regulatory balances arising from depreciation of a regulatory capital base (RCB), recognition requires a direct relationship between the RCB and the related depreciable or amortisable assets.

Introduced in Response to Feedback

Added after stakeholders raised concerns about differences between the regulatory recovery period and asset useful lives

An Evidence-Based Test

The Standard sets out indicators used to assess whether that direct relationship exists in a given regulatory agreement

PART III

Recognition & Measurement

The recognition test and the cash-flow-based measurement technique

RECOGNITION

When to Recognise a Regulatory Balance

1. **Recognise what exists at the reporting date** an entity recognises all regulatory assets and regulatory liabilities that exist at the reporting date

2. **Apply a probability threshold where uncertain** in cases of uncertainty, a regulatory asset or liability is recognised when it is more likely than not that it exists

3. **Some balances are conditional** recognition of certain regulatory assets and liabilities – particularly those linked to the direct relationship concept – is subject to specified conditions being met

MEASUREMENT

The Cash-Flow-Based Technique

Regulatory assets and liabilities are measured using a single, uniform technique across the Standard:

STEP 1

Estimate Future Cash Flows

Model all future cash flows expected to arise from the recovery of a regulatory asset or fulfilment of a regulatory liability

STEP 2

Apply the Regulatory Interest Rate

Discount those cash flows using the regulatory interest rate specified in the regulatory agreement

STEP 3

Update Each Period

Cash flow estimates are reassessed and updated at each reporting date

DISCOUNT RATE STABILITY

The regulatory interest rate used at initial measurement generally remains unchanged in subsequent periods, unless the regulator directly alters it.

MEASUREMENT

Simplified Measurement Approach

WHEN IT APPLIES

Where an item affects regulated rates only when cash is paid or received, a simplified approach is available: the regulatory asset or liability is measured at the carrying amount of the related liability or asset, adjusted for differences such as credit risk or demand risk.

PRACTICAL EFFECT

This avoids building a full discounted cash flow model for straightforward, cash-triggered regulatory items where the general technique would add complexity without adding useful information.

Subsequent Measurement

1. **Cash flows are reassessed** estimated future cash flows are updated at each reporting date to reflect the latest information

2. **The discount rate is held constant** the regulatory interest rate applied at initial measurement is not revised for subsequent changes in market rates

3. **Regulator-driven changes are the exception** the discount rate is only updated where the regulator itself directly changes the regulatory interest rate for that balance

PART IV

Presentation & Disclosure

Where regulatory items appear in the financial statements, and what must be disclosed

PRESENTATION

Statement of Profit or Loss

A Separate Line, Within Revenue

Regulatory income minus regulatory expense is classified as revenue and presented as a separate line item, immediately alongside IFRS 15 revenue

Interest Is Included

Regulatory income includes regulatory interest income; regulatory expense includes regulatory interest expense

OCI Items Follow Their Source

Where regulatory income or expense relates to an item recognised in OCI under another Standard, the related regulatory item is also recognised in OCI

Full Visibility for Investors

Investors see both IFRS 15 revenue and the regulatory adjustment needed to reach total allowed compensation

PRESENTATION

Statement of Financial Position

SEPARATE LINE ITEMS

Regulatory assets and regulatory liabilities are presented separately from other assets and liabilities, and are classified between current and non-current.

PRESENTATION BASIS

An entity uses a current/non-current presentation unless a liquidity-based presentation provides a more useful structured summary, consistent with the general presentation requirements of IFRS 18.

DISCLOSURE

What Must Be Disclosed

IFRS 20 requires extensive disclosures to end the 'black box' treatment of regulatory balances, giving insight into how they arose and their risks and uncertainties:

Reconciliations

Opening to closing carrying amounts of regulatory assets and regulatory liabilities

Maturity Analysis

Expected timing of recovery or fulfilment of regulatory balances

Risks and Uncertainties

Discount rate, and the risks and uncertainties affecting recovery or fulfilment

Unrecognised Balances

Regulatory assets and regulatory liabilities that exist but do not meet the recognition criteria

PART V

Worked Illustration

Applying the recognition, measurement and presentation requirements to a simple timing-difference scenario

ILLUSTRATION

An Under-Recovery of Input Costs

FACT PATTERN (BASED ON IFRS 20, PARAGRAPH 16)

In Year 1 (20X1), an entity's regulated rate is set using estimated input costs of $100. Applying IFRS 15, the entity recognises revenue of $100 for 20X1, based on those estimated costs.

However, the entity's actual input costs for 20X1 were $120 – a $20 under-recovery relative to what was billed to customers.

The regulatory agreement gives the entity an enforceable present right to add the resulting $20 under-recovery in determining the regulated rate to be charged to customers in 20X2.

Required: How should the entity account for this timing difference under IFRS 20 in 20X1 and 20X2? (Regulatory interest is ignored for simplicity.)

ILLUSTRATION

Solution

Reporting Period	Accounting Treatment
20X1	IFRS 15 revenue of $100 is recognised. A $20 regulatory asset is recognised, reflecting the enforceable right to recover the under-recovered costs – with a corresponding $20 of regulatory income. Total revenue presented: $120.
20X2	The $20 is billed to customers and included in IFRS 15 revenue. The $20 regulatory asset is derecognised, with a corresponding $20 of regulatory expense reversing the earlier income. Net effect on total revenue in 20X2: nil from this item.

SUMMARY

Key Takeaways

Effective 2029

Mandatory for periods beginning on or after 1 January 2029; early application permitted

Two-Part Scope Test

A regulatory agreement, plus a timing difference in when compensation is charged

Total Allowed Compensation

The core principle: recognise it in the period the goods or services are supplied

Discounted Cash Flow Measurement

Future cash flows discounted at the regulatory interest rate, updated each period

Presented Within Revenue

Regulatory income and expense sit alongside IFRS 15 revenue in profit or loss

Extensive Disclosure

Reconciliations, maturity analysis and unrecognised balances are all required

ABOUT THE AUTHOR

A Career Built on Making IFRS Understandable

BD

B D Chatterjee

FCA · ACMA · ACS · DipIFR (ACCA UK)

Teacher and Mentor to finance professionals worldwide

B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

Published Author

Author of the Pocketbook of IFRS series and other finance titles.

Guided Thousands

Through IFRS, US GAAP and valuation transitions worldwide.

Institutional-Grade Platforms

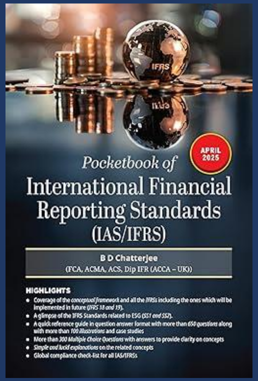
Excel-based CFO workbooks used by finance teams globally.

Digital CFO Solutions

Institutional-grade workbooks, fractional CFO advisory, and published finance literature.

ABOUT THE AUTHOR

Books by B D Chatterjee — IFRS Library



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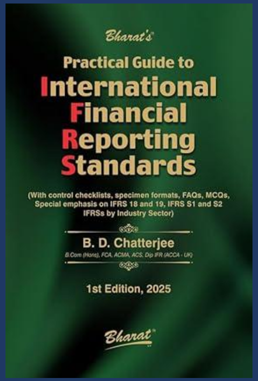
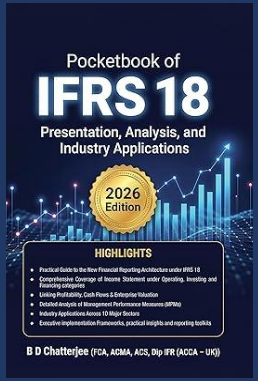
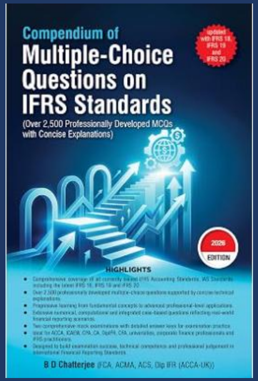


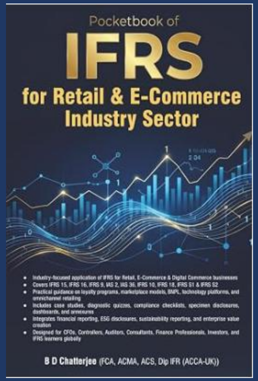
Practical Guide to International Financial Reporting Standards



Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



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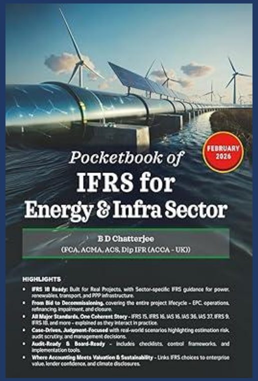

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