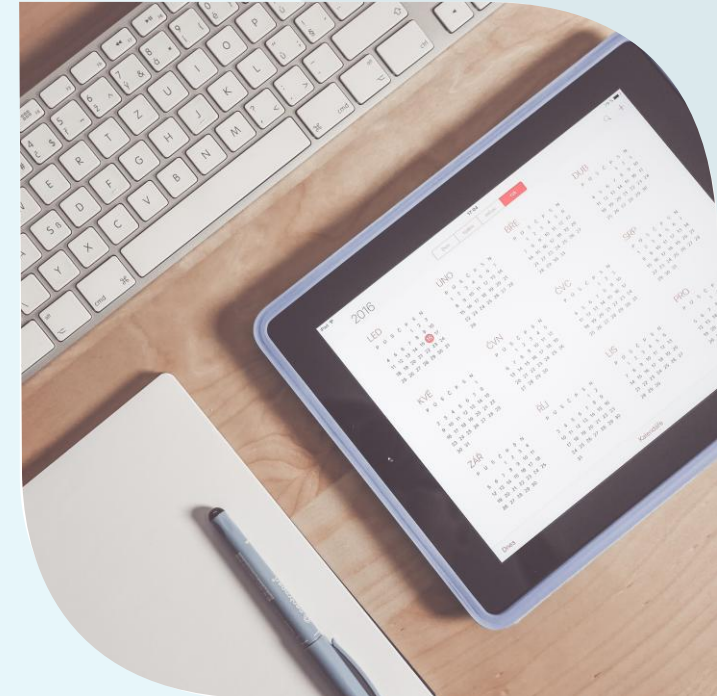


Overview of main requirements

Prospective IFRS Standard

Regulatory Assets and Regulatory Liabilities

12 June 2025



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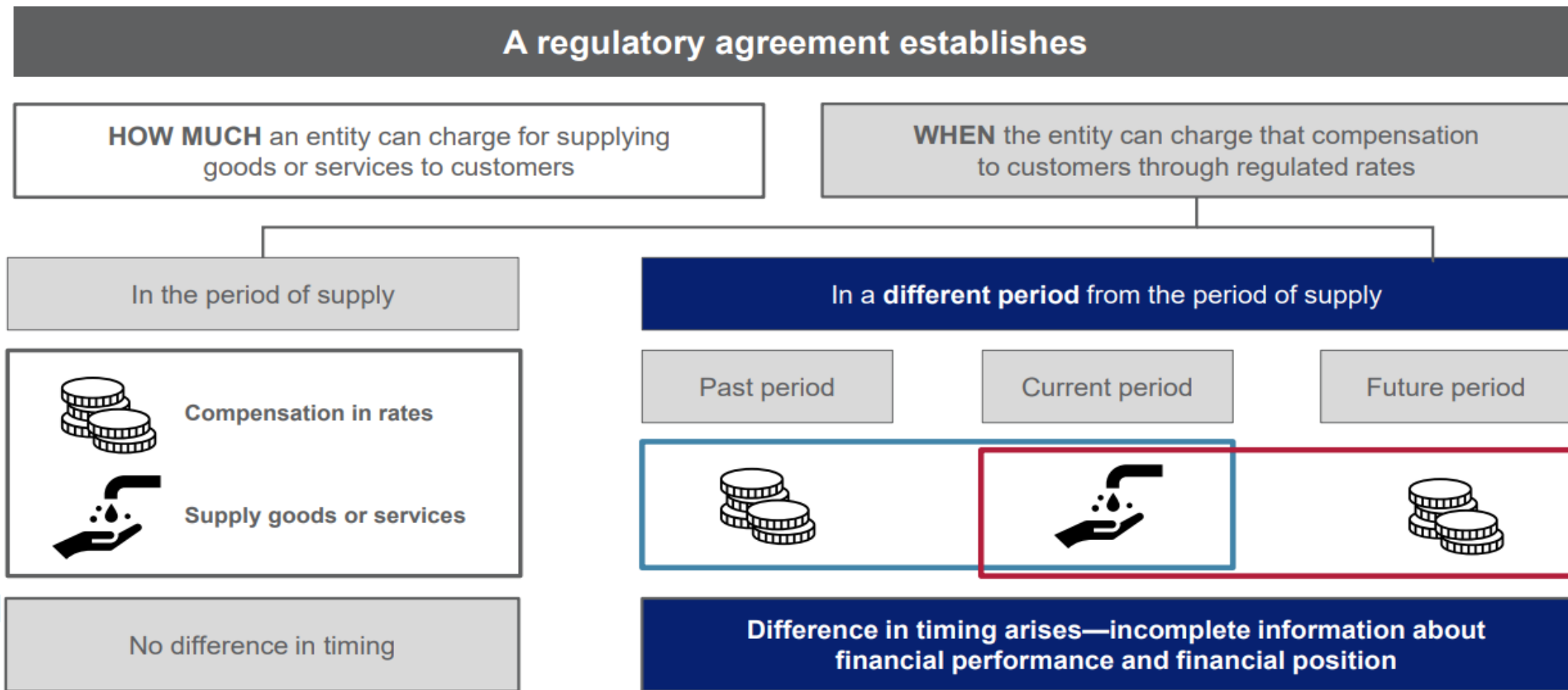
Overview

- Introduction
- Main requirements – prospective IFRS Standard *Regulatory Assets and Regulatory Liabilities*
- Questions to EFRAG FR TEG members



Introduction

The problem—lack of information about differences in timing



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Differences in timing – an illustration

Statement of profit or loss	Year 1 CU	Year 2 CU
Revenue from contracts with customers	100	120
Regulatory income (regulatory expense)	20	(20)
Input costs	(120)	(100)
Profit (loss)	-	-

- **Regulatory income of CU20 in Year 1**, together with revenue of CU100, to reflect compensation for goods supplied in Year 1.
- **Regulatory expense of CU20 in Year 2**, together with revenue of CU120, to reflect compensation for goods supplied in Year 2.

Balance sheet	Year 1 CU	Year 2 CU
Regulatory asset	20	-

- **Regulatory asset of CU20 in Year 1** to reflect the entity's right to increase regulated rates in Year 2.
- **Regulatory asset derecognised in Year 2.**

Information about regulatory income or regulatory expense helps investors to understand Entity A's financial performance—and compensation for goods supplied—in Years 1 and 2.

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How does the prospective IFRS Standard solve the problem?

Problem

Without information about differences in timing, investors have an insufficient basis for understanding the effects of those differences on an entity’s financial performance and financial position—and hence, the entity’s prospects for future cash flows.

Objective

Provide information about the effects of regulatory income, regulatory expense, regulatory assets and regulatory liabilities on an entity’s financial performance and financial position.

Principle

Reflect compensation for goods or services supplied in a period in an entity’s financial performance for that period.



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

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General classification of regulatory agreements

Cost-based scheme: Closed relationship between an entity specific costs and its revenue. There are usually true-up mechanisms that ensure an entity recovers the incurred costs.

Incentive-based scheme: Regulators seek cost efficiency rather than cost recovery. Split in two types: building blocks and TOTEX.



Building blocks: Regulators determine allowed revenue set up on a forecasted basis for different blocks (Opex, depreciation, regulatory return..).

Only amounts assessed to be efficient by the regulator are part of the allowed revenue. There may be true-ups for non-controllable costs.



Totex (total expenditure): Regulators determine allowed revenue by considering total expenditures (Opex and Capex together). Strong reliance on benchmark techniques to define appropriate efficiency levels.

Regulator define the % of Totex to be capitalised and recover through depreciation (slow money vs fast money). The Totex ratio defined by the regulator may differ from the accounting ratio.



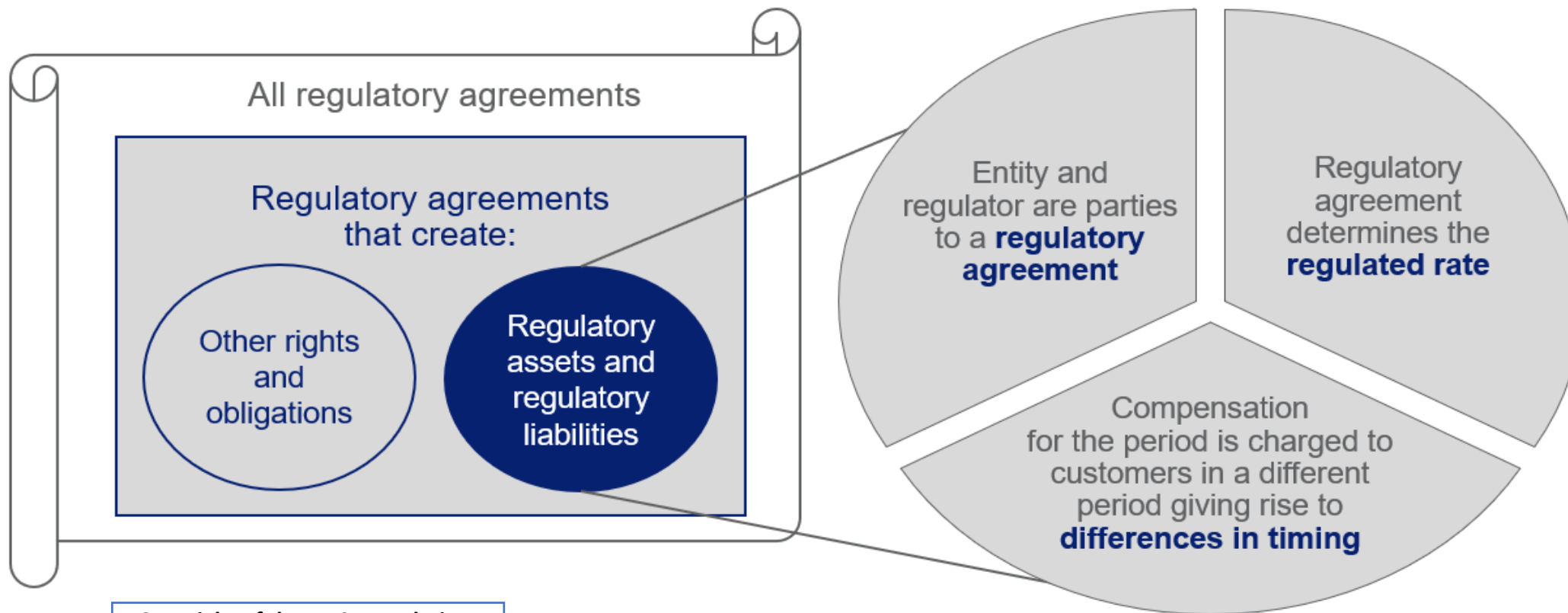
Main requirements

Overview

- Scope, regulatory assets and regulatory liabilities
- Main components of the regulated rate
- Recognition, measurement, presentation and disclosure
- Transition and effective date

Scope – supplemental to IFRS requirements

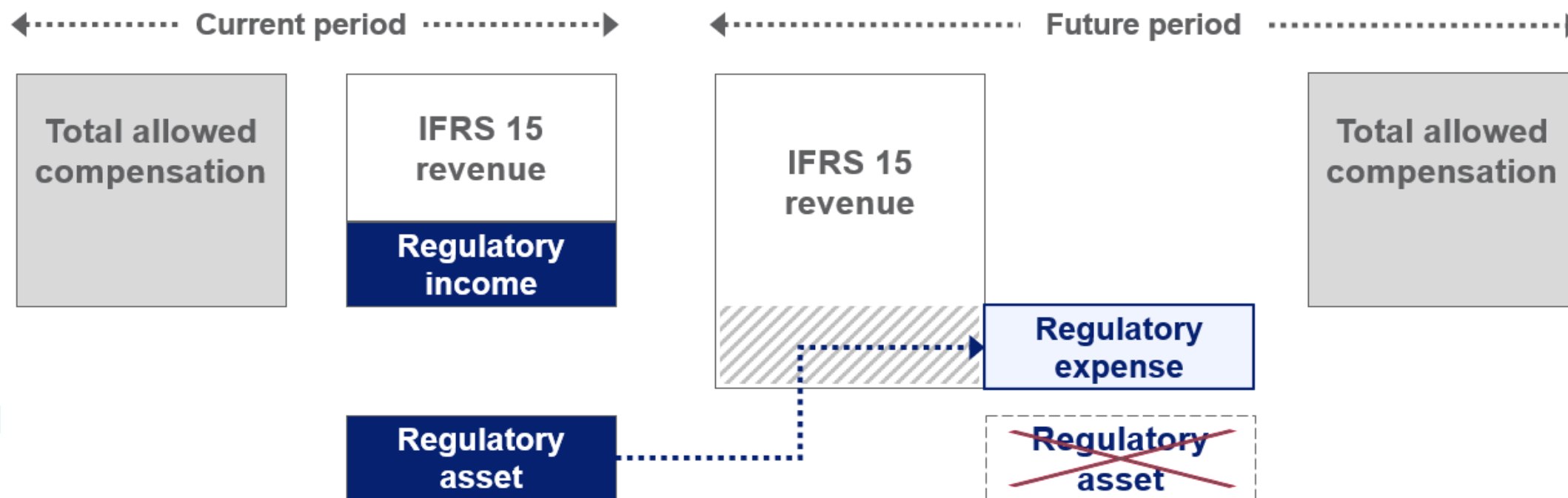
An entity applies IFRS X to all its **regulatory assets** and **regulatory liabilities**



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Regulatory asset

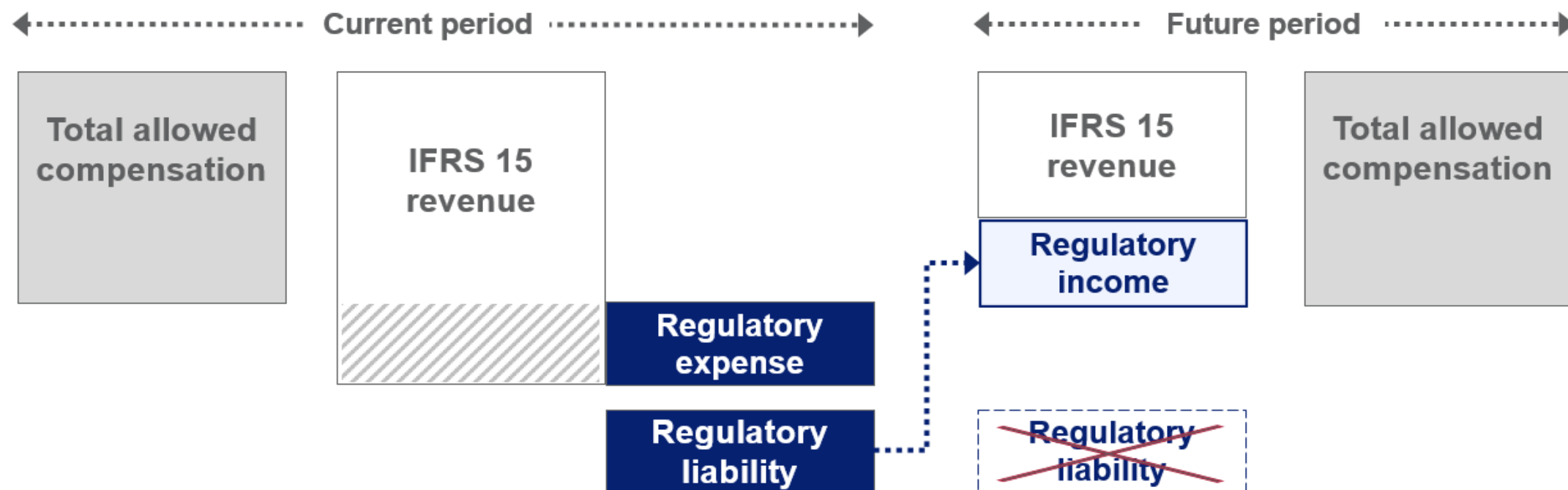
An **enforceable present right**, created by a regulatory agreement, to **add an amount** in determining a regulated rate to be charged to customers in future periods because all or part of the **total allowed compensation** for goods or services already supplied will be included in **IFRS 15 revenue** in the **future**



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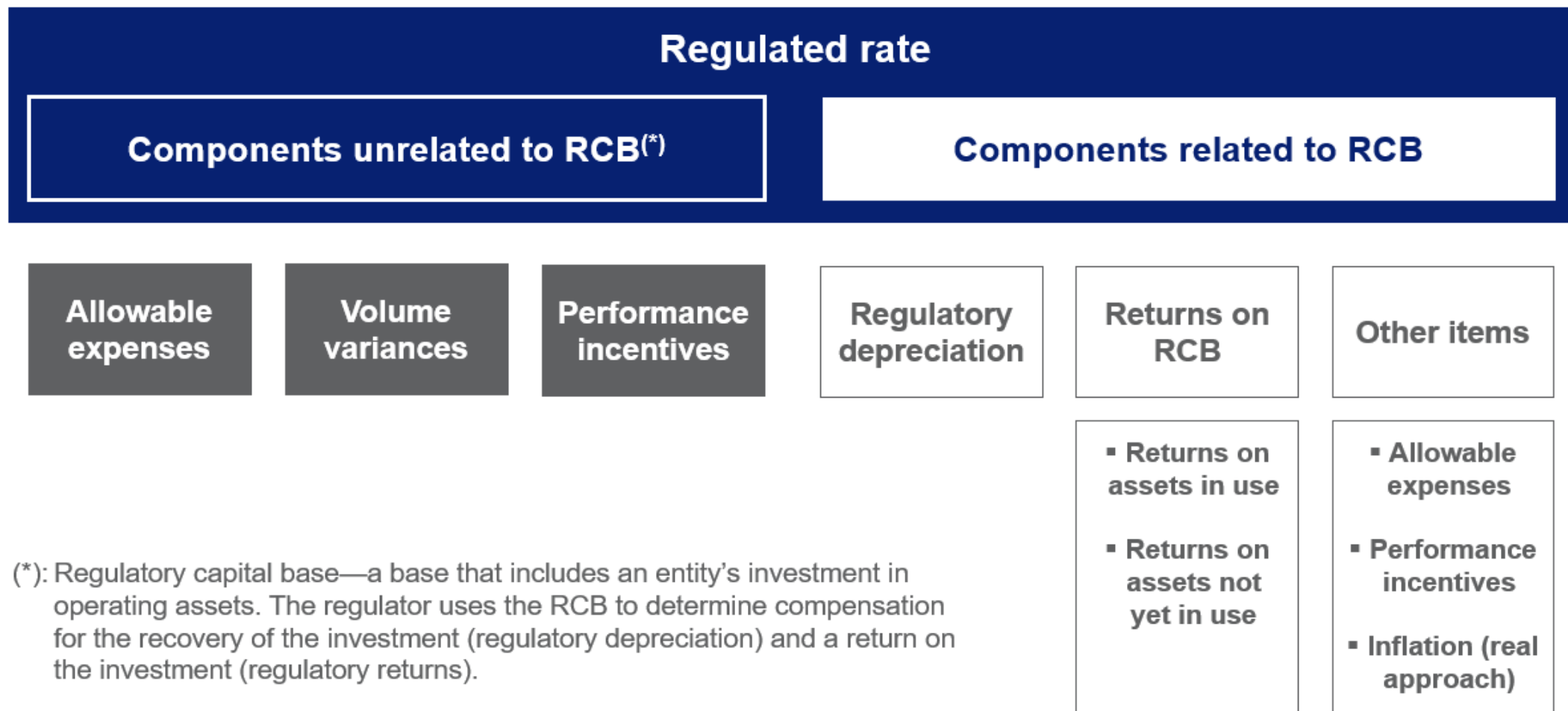
Regulatory liability

An **enforceable present obligation**, created by a regulatory agreement, to **deduct an amount** in determining a regulated rate to be charged to customers in future periods because the **IFRS 15 revenue** already recognised includes an amount that will provide all or part of the **total allowed compensation** for goods or services to be supplied in the **future**



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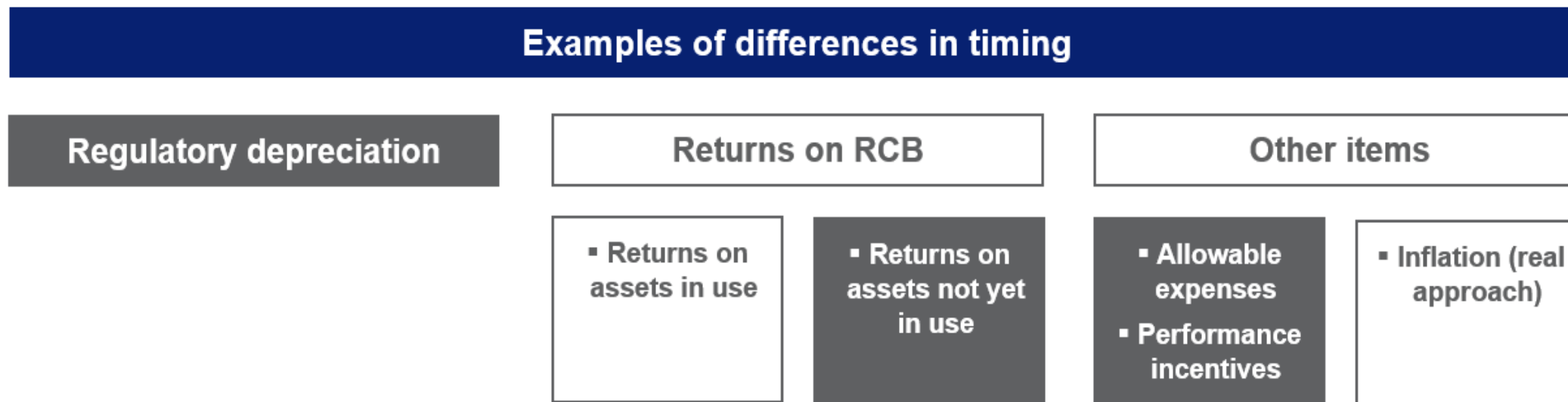
Components of the regulated rate unrelated to RCB




(*): Regulatory capital base—a base that includes an entity’s investment in operating assets. The regulator uses the RCB to determine compensation for the recovery of the investment (regulatory depreciation) and a return on the investment (regulatory returns).

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Components of the regulated rate related to RCB (1/3)



 Accounting depends on the **relationship** between **RCB** and **PPE^(*)**

 No difference in timing arises from returns on assets in use. Entities are prohibited from recognising inflation adjustment to the RCB as a regulatory asset.

(*): Property, plant and equipment

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Components of the regulated rate related to RCB (2/3)

Direct relationship between RCB and PPE

 RCB is a tool to recover the costs of PPE.

- RCB is fundamentally the same as PPE.
- Recovery period of RCB is aligned with assets' useful lives.
- Differences between RCB and PPE can be tracked.




No direct relationship between RCB and PPE

 RCB is a tool to determine allowed revenue.

- Fundamental differences between RCB and PPE.
- RCB recovery period based on factors unrelated to assets' useful lives—for example, the entity's financial needs.
- Tracking differences between RCB and PPE can be costly and highly judgemental—or impracticable.

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Components of the regulated rate related to RCB (3/3)

Direct relationship	 Regulatory depreciation of RCB <ul style="list-style-type: none"> Regulatory recovery period is longer or shorter than assets' useful lives. 	 Other items <ul style="list-style-type: none"> Allowable expenses and performance incentives added to RCB are included in future regulated rates. 	 Regulatory returns on assets not yet in use <ul style="list-style-type: none"> Regulatory returns are included in regulated rates charged during: <ul style="list-style-type: none"> ✓ construction—giving rise to a regulatory liability equal to the capitalised borrowing costs. ✓ operation—giving rise to a regulatory asset for the excess of the regulatory returns over the capitalised borrowing costs.
	No direct	<ul style="list-style-type: none"> Entities are prohibited from recognising regulatory assets or regulatory liabilities arising from these differences in timing. 	<ul style="list-style-type: none"> No difference in timing arises if regulatory returns are included in regulated rates charged during construction.

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Recognition

An entity recognises:

- All regulatory assets and all regulatory liabilities **existing** at the end of the reporting period.

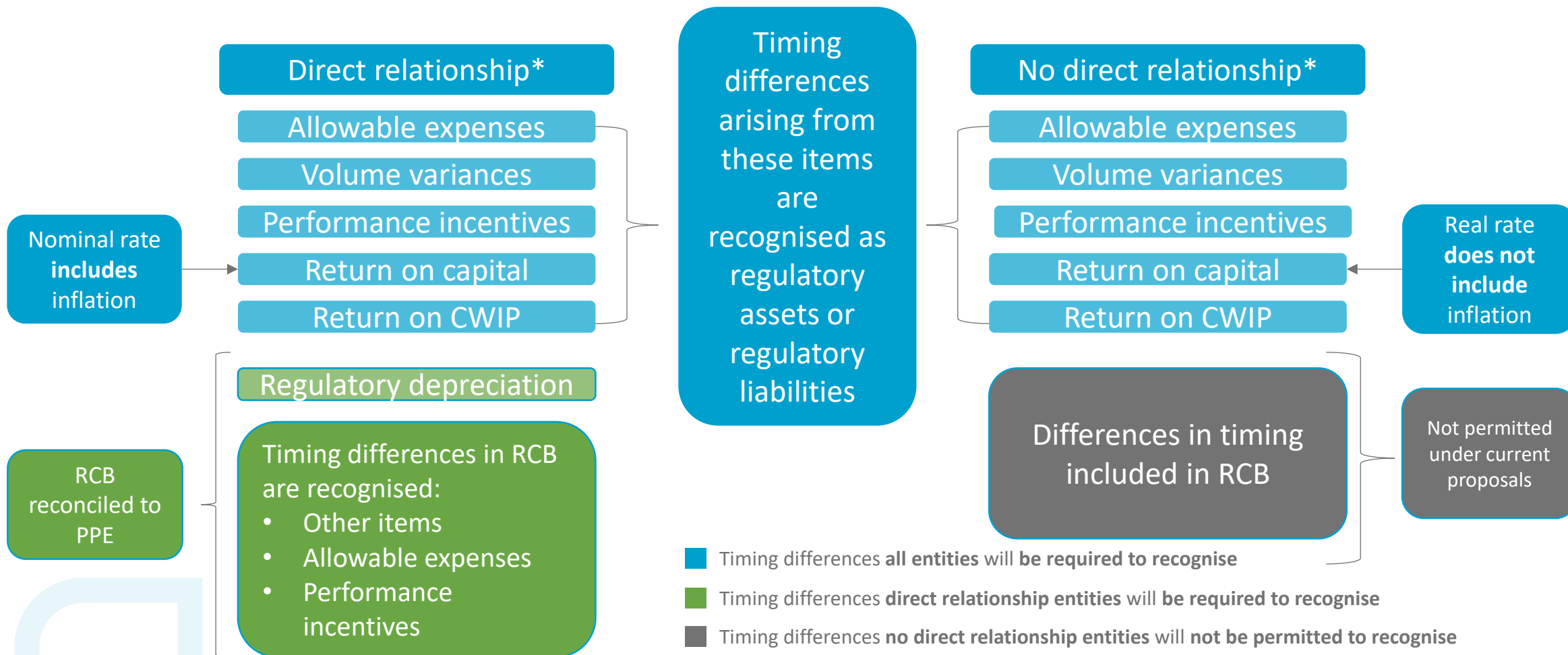
Recognition threshold—existence uncertainty

- An entity recognises a regulatory asset or regulatory liability if it is **more likely than not** that it exists—that is, the enforceable present right or enforceable present obligation exists.

An entity considers all relevant facts and circumstances—for example:

- Confirmation from the regulator
- Regulatory decisions or court rulings interpreting the regulatory agreement
- The entity's experience with the regulator's interpretation of the regulatory agreement in similar circumstances
- Experience of other entities regulated by the same regulator in similar circumstances
- Preliminary views expressed by the regulator

Recognition of timing differences



*Source: IASB AP9D Dec 2022

Measurement—cash-flow-based technique ⁽¹⁾



Future cash flows



Discount rate

Initial measurement

Include all future cash flows (including regulatory interest)

- estimated using ‘most likely amount’ method or ‘expected value’ method, whichever better predicts uncertain future cash flows

Discount estimated future cash flows

- using the regulatory interest rate
- unless the regulatory interest rate for a regulatory asset is insufficient (see slide 20)

Subsequent measurement

Update estimates of future cash flows

- to reflect conditions existing at the end of reporting period

Reassess the method of estimating uncertain cash flows

- only if there is significant change in facts and circumstances

Continue to use discount rate determined at initial recognition

- unless regulatory agreement changes the regulatory interest rate

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⁽¹⁾At its meeting in May 2025, the IASB decided to remove the minimum interest rate requirement from the prospective IFRS Standard

Measurement exemptions ⁽²⁾

An entity is **exempted** from **discounting** a regulatory asset (regulatory liability) in limited situations—for example:

- if the period between its recognition and its recovery (fulfilment) is expected to be 12 months or less; or
- for the period between recognition and the date from which regulatory interest starts to accrue, if that period is expected to be 12 months or less.

Minimum interest rate requirements

Not applicable—a regulatory asset to which an exemption from discounting is applied.

Specific exemption—a regulatory asset that arises from cost or volume variances, **until** the regulator determines the **final balance**.



An entity applying any of these exemptions shall disclose that fact and the carrying amount of regulatory assets (regulatory liabilities) to which the entity has applied the exemption.

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⁽²⁾ At its meeting in May 2025, the IASB decided to remove the minimum interest rate requirement from the prospective IFRS Standard

Presentation

Statement of financial position

- **regulatory assets**
- **regulatory liabilities**

Statement (s) of financial performance

Profit or loss

- **regulatory income** or **regulatory expense**
- classified as **revenue**

OCI

- **regulatory income** or **regulatory expense** resulting from **remeasurement** of a related liability or asset **through OCI**

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Disclosure ⁽³⁾

Overall disclosure objective	Disclose information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities that would enable users of financial statements to understand an entity's future cash flow prospects		
Specific disclosure objectives	Disclose information that enable users to understand:		
	<ul style="list-style-type: none"> • how regulatory income and regulatory expense affected the entity's financial performance 	<ul style="list-style-type: none"> • regulatory assets and regulatory liabilities at the end of the reporting period and their changes during the period 	<ul style="list-style-type: none"> • whether the entity's RCB has a direct relationship with its PPE
Disclosure requirements (examples)	<ul style="list-style-type: none"> • components of regulatory income or regulatory expense in profit or loss and OCI 	<ul style="list-style-type: none"> • reconciliation of regulatory assets and regulatory liabilities • maturity analysis • how risks and uncertainties affect recovery and fulfilment 	<ul style="list-style-type: none"> • whether the relationship between RCB and PPE is direct or no direct • the reasons for the entity's conclusion on the relationship between RCB and PPE

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⁽³⁾ This slide does not include the IASB decisions on disclosure requirements taken at the IASB May 2025 meeting

Transition and effective date

Retrospective	Modified retrospective
Require an entity to restate comparative information for the comparative period only. ^(*)	

Modified retrospective—reliefs

Permit an entity:

- to use hindsight.
- to use the regulatory interest rate at the beginning of the comparative period as the regulatory interest rate.
- whose RCB and PPE have a direct relationship—to limit the application of the requirements for regulatory returns on assets not yet available for use to assets not yet available for use at the beginning of the comparative period.

Effective date Annual periods beginning on or after **1 January 2029**. Earlier application is permitted.

Questions to FR TEG members

1. Do you have any questions or comments on the main requirements of the prospective IFRS Standard on regulatory assets and regulatory liabilities?
2. Are there specific topics on the requirements of the prospective IFRS Standard for which you would like to receive further education/ practical examples at a future meeting?

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