

Educational session

Overview of forthcoming IFRS Standard
Regulatory Assets and Regulatory Liabilities

EFRAG FRB meeting – 29 January 2026



Disclaimer

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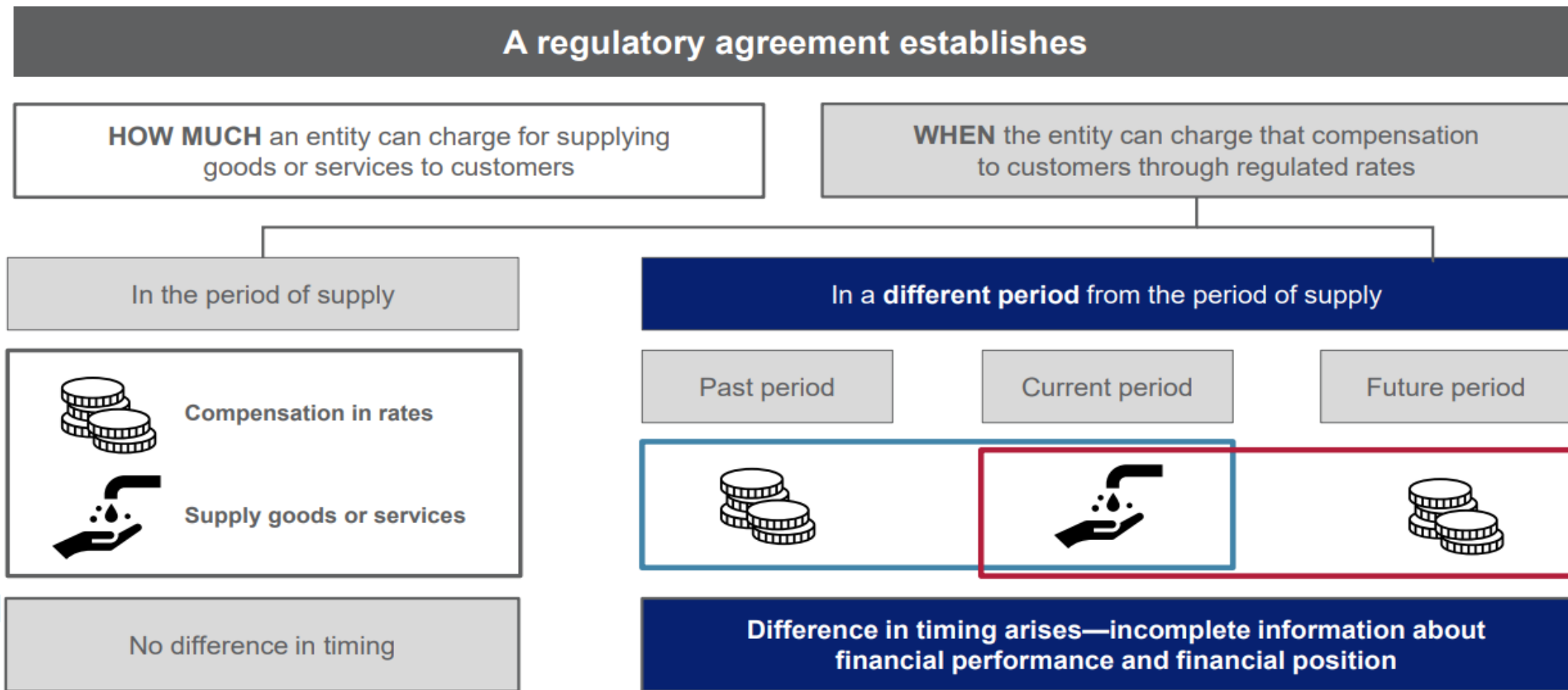
Overview

- Recap of project objectives
- Main requirements
- Direct versus no direct relationship
- Appendix - Comprehensive examples - differences in timing and measurement differences



Recap of project objectives

The problem—incomplete information in the financial statements



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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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Types of regulatory schemes/mechanisms

- **Cost-based mechanism** - Close relationship between an entity specific costs and its revenue, and the regulatory compensation. The objective of such mechanisms is to ensure an entity recovers its costs in the regulated rate that is charged to customers
- **Incentive-based scheme** - Regulators seek cost efficiency rather than cost recovery
 - ✓ Only amounts assessed to be efficient by the regulator are part of the allowed revenue
 - ✓ Regulator defines the % of Totex (capex+opex) to be capitalised and recover through depreciation (slow money vs fast money)



Main requirements

Overview

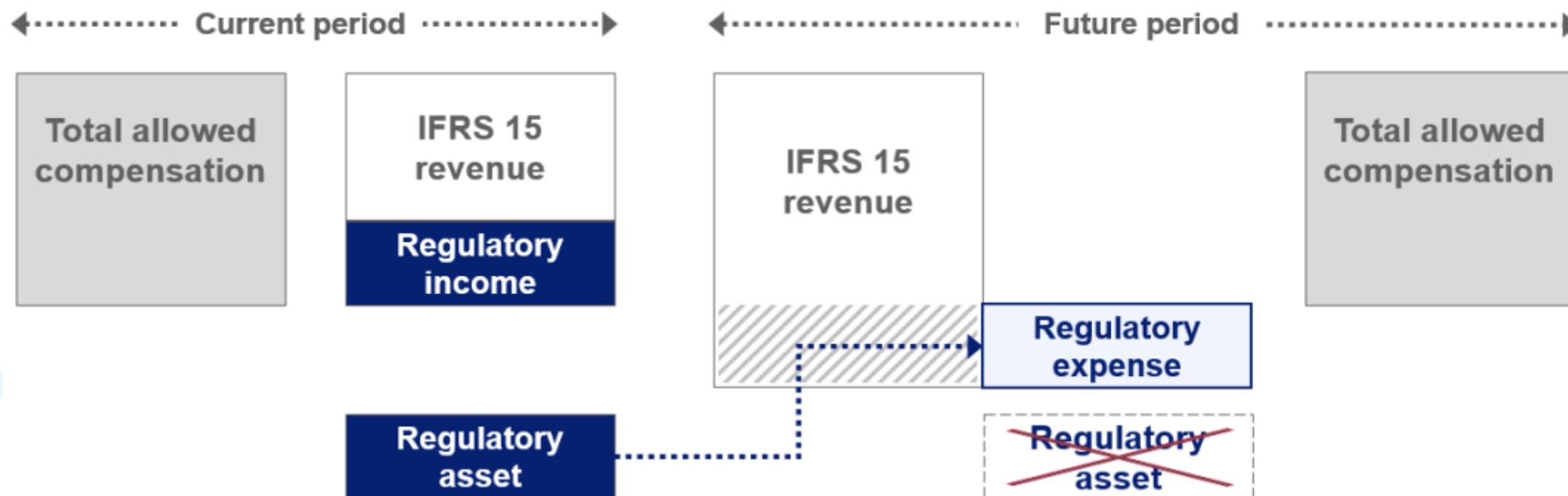
- Key definitions
- Differences in timing
- Measurement differences
- Main components of the regulated rate
- Recognition, measurement, presentation and disclosure
- Transition and effective date

Key definitions (subject to wording changes when final IFRS Accounting Standard is published)

- **Allowable expense (income)** – Item of expense (income) as defined in IFRS Accounting Standards for which a regulatory agreement entitles an entity to add (deduct) an amount in determining a regulated rate
- **Allowed revenue** - Total amount that an entity is entitled to charge customers through regulated rates in a specified period
- **Regulated rate** – Price determined by a regulator that an entity charges for goods or services supplied to customers in a period
- **Regulatory capital base (RCB)** – Investments in assets and other items that a regulatory agreement entitles an entity to recover by adding an amount for regulatory depreciation in determining a regulated rate to be charged to customers for goods or services supplied to them
- **Regulatory depreciation** - Systematic allocation of an amount of the RCB to be added in determining a regulated rate
- **Total allowed compensation** – Amount of compensation that a regulatory agreement entitles an entity to charge, in either the same or a different period, for regulatory goods or services supplied in a reporting period

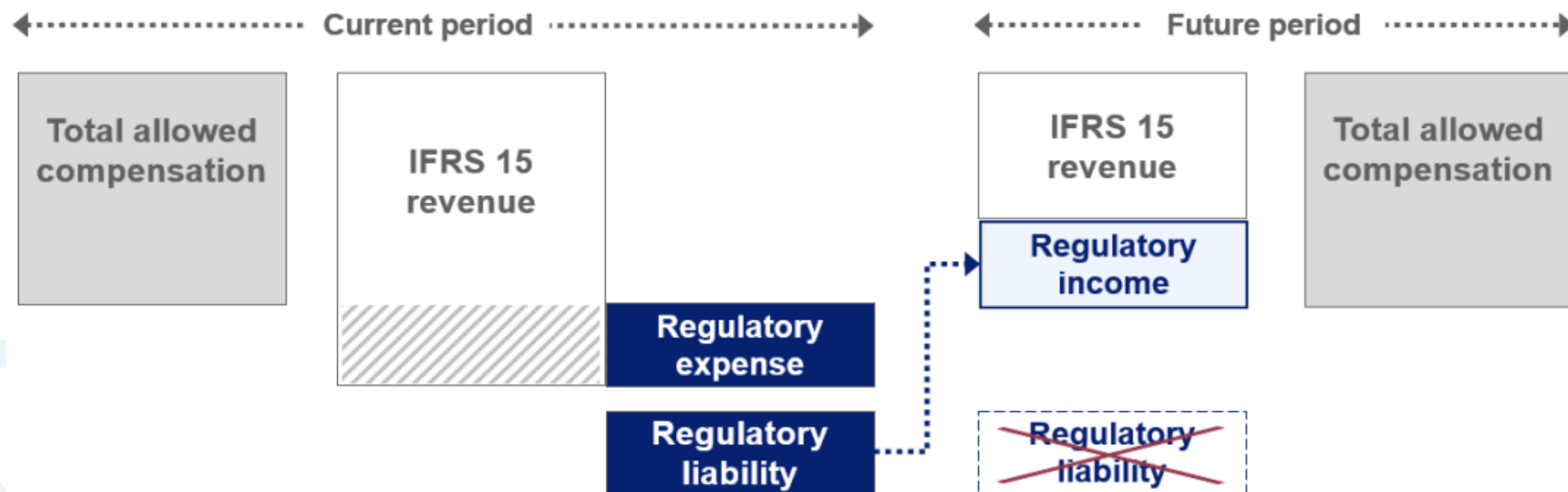
Key definitions (subject to wording changes when final IFRS Accounting Standard is published)

- 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 part or all of the **total allowed compensation** for regulatory goods or services already supplied has not yet been included in IFRS 15 revenue



Key definitions (subject to wording changes when final IFRS Accounting Standard is published)

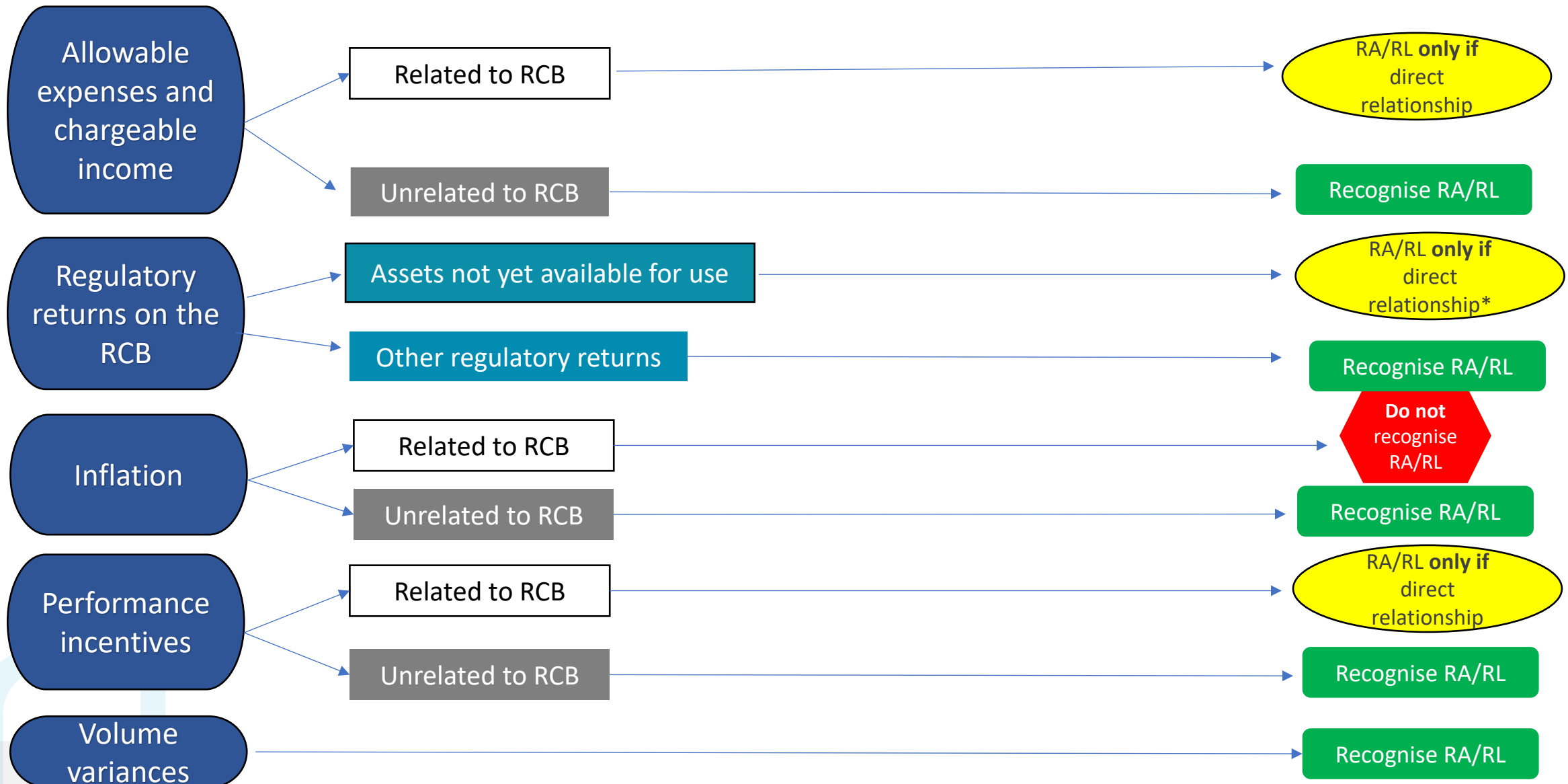
- Regulatory liability** – An enforceable present obligation, created by a regulatory agreement, to deduct an amount in determining a regulated rate to be charged to customers in future periods because part or all of the **total allowed compensation** for regulatory goods or services to be supplied in the future has already been included in IFRS 15 revenue



Differences in timing

- **Differences in timing** – arise if part or all of total allowed compensation (as allowed by a regulator) for regulatory goods or services is included in the regulated rates charged to customers in a different period (past or future)
- For a regulatory asset or a regulatory liability to exist – there must be a difference in timing
- Regulatory assets and regulatory liabilities arise from differences in timing related or unrelated to an entity’s RCB
- The **common most common differences in timing** arise from the following types of compensation:
 - ✓ Allowable expenses and chargeable income – related or unrelated to RCB (e.g. regulatory depreciation)
 - ✓ Regulatory returns
 - ✓ Performance incentives (penalties)
 - ✓ Volume variances
- Slides 15 and 16 provide **examples of differences in timing**

Types of compensation commonly included in regulated rates



*Only if the entity capitalises borrowing costs

Example - Differences in timing – Regulatory depreciation & volume variances

- The regulatory period is of **4 years**: first regulatory period 2025-2028
- For the first regulatory period, the regulator determines that the regulated rate to be charged to customers is 1 CU per unit, determined as follows:
 - a. Allowed revenue of 1.000 CU. This amount includes the compensation for an investment in RCB for 1.000 CU.
 - b. An estimated quantity of 1.000 units to be sold to customers in the 4 years (250 units each year).
- Compared to the estimates, the Entity sells 250 units in the first year, 260 in the second, 270 in the third, and 280 in the final year (for a total of **1.060** units). Differences between expected units and actual units is adjusted in the next regulatory period (2029-2032).
- Entity's RCB and PPE have a **direct relationship**
- Under IAS 16, PPE is also CU 1.000, it has a useful life of **3 years** and the depreciation is on a straight-line basis (the Entity recognises CU 333 for depreciation each year)
- Under the regulatory agreement, RCB is recovered over a period of **4 years**

Example - Differences in timing – Regulatory depreciation & volume variances

| Statement of Financial Performance – after applying IFRS RARL | | | | |
|---|--------------|--------------|--------------|----------|
| CU | 2025 | 2026 | 2027 | 2028 |
| Revenue IFRS 15 | 250 | 260 | 270 | 280 |
| Regulatory income (expense) - useful life | 83 | 83 | 83 | (250) |
| Regulatory income (expense) - volume variances | 0 | (10) | (20) | (30) |
| Totale Revenue | 333 | 333 | 333 | 0 |
| Depreciation | (333) | (333) | (333) | 0 |
| Profit (loss) | 0 | 0 | 0 | 0 |

For educational purposes distinguished in P&L

83= 333-250

1CU *10 extra units

1CU *20 extra units

1CU *30 extra units

| Statement of Financial Position – after applying IFRS RARL | | | | |
|--|------|------|------|------|
| CU | 2025 | 2026 | 2027 | 2028 |
| Regulatory Asset | 83 | 166 | 250 | 0 |
| Regulatory Liability | 0 | (10) | (30) | (60) |

Measurement differences

- A measurement difference is described as:

The total amount of compensation or deduction for an allowable expense or chargeable income determined by a regulatory agreement for all periods differs from the total amount of the expense or income an entity will recognise for all periods by applying IFRS Accounting Standards. These differences affect measurement of regulatory assets and regulatory liabilities and do not reverse over time

- For example, an entity recognises an expense of CU100 in year 1. The regulator will provide compensation of CU110 for that expense in year 2. A regulatory asset of CU110 arises in year 1. The measurement of that regulatory asset includes a measurement difference of CU10
- Slides 33-34 provide another **example of measurement differences**

Recognition

- Except as noted below, an entity recognises all regulatory assets and regulatory liabilities **existing** at the end of a reporting period and corresponding regulatory income (regulatory expense) arising during a reporting period
- An entity recognises a regulatory asset or regulatory liability arising from **regulatory depreciation of its RCB** if, and only if, there is a **direct relationship** between its RCB and an underlying item
 - An entity's regulatory capital base has a direct relationship with an underlying item if the entity is able to track, by amount and reporting period, how the amounts arising from the underlying item are compensated or charged for by regulatory depreciation (see slides 23 -26 for more details on the direct versus no direct relationship)
- If it is **uncertain** that a regulatory asset (regulatory liability) exists, an entity assesses whether it is **more likely than not** that the regulatory asset (regulatory liability) exists. An entity considers relevant facts and circumstances – such as:
 - ✓ Confirmation from the regulator
 - ✓ Requirements or guidelines in the regulatory agreement
 - ✓ Regulatory decisions or court rulings interpreting the regulatory agreement
 - ✓ Preliminary views expressed by the regulator

Measurement – cash-flow based measurement technique

- Measurement principle

Measure regulatory assets and regulatory liabilities at historical cost, modified to reflect updated estimates of the amount and timing of future cash flows

- Initial measurement

- Include all future cash flows estimated using the most likely amount method or expected value method, whichever better predicts uncertain future cash flows
 - Most likely amount method might provide more relevant information if the outcomes are limited to one or two outcomes that differ significantly
 - Expected value method might provide ore relevant information if there is a wide range of possible outcomes
- Discount estimated future cash flows using the **regulatory interest rate**

- Subsequent measurement

- update estimates of future cash flows to reflect conditions at the end of each reporting period
- Estimates can change over time due to changes in circumstances or new information
- Discount using discount rate used at initial measurement unless regulatory agreement changes the discount rate

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:

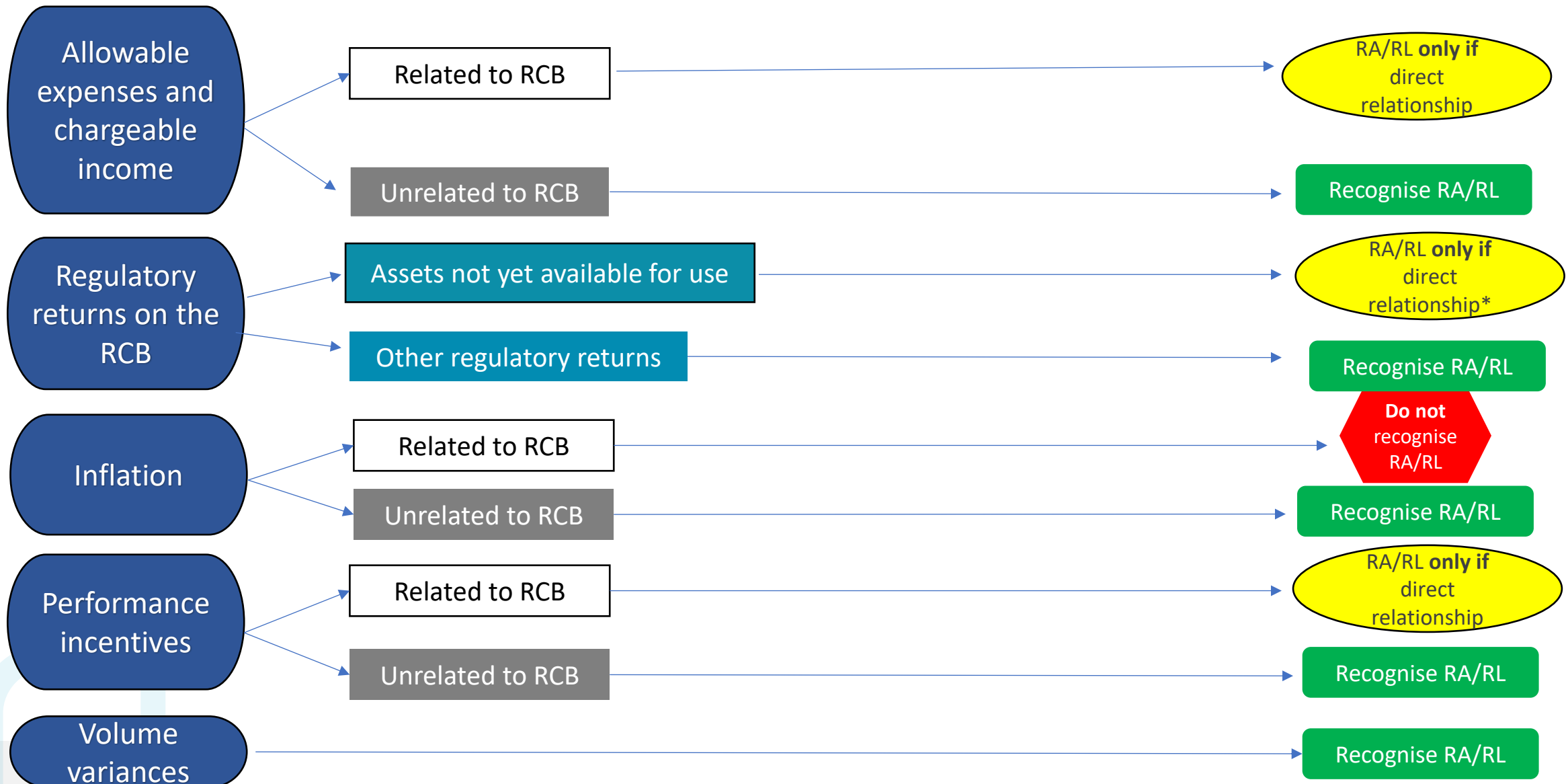
- to use hindsight.
- to use the regulatory interest rate at the beginning of the comparative period as the regulatory interest rate.
- whose RCB and PPE have a direct relationship—to limit the application of the requirements for regulatory returns on assets not yet available for use to assets not yet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



Direct versus no direct
relationship

Types of compensation commonly included in regulated rates



*Only if the entity capitalises borrowing costs

Assessment - direct relationship versus no direct relationship

- Defining feature of a direct relationship
 - an entity is **able to track**, by amount and reporting period, the amounts for which the entity is been compensated for by the regulatory depreciation
- Indicators of a direct relationship
 - items (classes) in the RCB are **sufficiently similar** to items (or asset classes) determined as per IFRS for the entity to be able to track differences between them
 - the **regulatory depreciation is established** by the regulator based on the depreciation or amortisation expense determined in accordance with IFRS
- No direct relationship presumption
 - **allow an entity to presume** that there is no direct relationship between its RCB and depreciable and amortisable assets if the indicators are not present

Level of assessing direct relationship - Example

- Fact pattern:

- An IFRS reporting entity implements the new RARL standard
- Under IFRS, all existing assets are grouped into different asset classes based on their nature/useful life
- At transition, all existing network assets (with varying useful lives) are treated as a single asset – starting-RCB
- Only subsequent investments after transition are grouped into different regulatory asset classes – subsequent-RCB

Entity's assessment

- No direct relationship between starting-RCB and IFRS asset classes – the entity cannot track the amounts for which it has been compensated
- Direct relationship between subsequent-RCB and IFRS asset classes – tracking is possible at a disaggregated asset class level
- Unit of account – at a lower level: disaggregation of an IFRS asset class into two RCB classes

Questions to FRB members

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



Appendix

Comprehensive examples - differences in timing versus measurement differences

Comprehensive example on differences in timing (allowable expense, depreciation expenses and volume variances)

Fact pattern and assumptions

- Regulatory period of 5 years
- Regulator establishes the allowed revenue on a yearly basis. Allowed revenue is based on efficient costs as determined by the regulator. Differences between estimates and actuals are not recovered except for non-controllable costs
- Regulated rates are determined considering the allowed revenue for the year and the estimated quantity of goods to be supplied. Estimated quantity of goods may be different than actual quantities. Demand risk is transferred to customers
- Non controllable costs and variations in demand are recovered in T+2. They do not carry regulatory interest
- The entity has an item of PPE it uses to supply goods or services which became available for use the last day of year 0. The cost of the item was CU1,000 and the entity depreciates using the straight-line method over its 5-year useful life
- For regulatory purposes, the regulator allows the entity to recover the full value of the plant and a 5% of regulatory return. It also allows to recover the cost of the plant in 4 years
- The entity has a direct relationship between its RCB and PPE

Comprehensive example on differences in timing (allowable expense, depreciation expenses and volume variances)

Table 1 - Allowed revenue agreed by the regulator (amounts in CU)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|-------------------------------|------------|------------|------------|------------|------------|
| Opex | 500 | 500 | 500 | 500 | 500 |
| Depreciation expenses | 250 | 250 | 250 | 250 | - |
| Return on RCB | 50 | 38 | 25 | 13 | - |
| Total allowed revenue | 800 | 788 | 775 | 763 | 500 |
| Expected sales units | 100 | 100 | 100 | 100 | 100 |
| Expected per rate unit | 8 | 7.9 | 7.8 | 7.6 | 5 |

Total allowed revenue is the amount determined by the regulator to be recovered by the entity for each year of the regulatory period (5 years).

Depreciation expense relates to the regulatory depreciation as determined by the regulator.

As the Opex related amount to be recovered by the entity was determined by the regulator on a forecast basis, actual Opex may differ. As per the regulatory agreement an entity may only recover non-controllable related differences.

Table 2 - Difference between estimated and actual opex (amounts in CU)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------------------|-------------|-------------|-----------|-----------|----------|
| Allowed revenue - Opex (see Table 1) | 500 | 500 | 500 | 500 | 500 |
| Actual - Opex | 450 | 480 | 520 | 560 | 500 |
| Difference | (50) | (20) | 20 | 60 | - |
| Controllable | (50) | (20) | 20 | 40 | - |
| Non-controllable | - | - | - | 20 | - |

Comprehensive example on differences in timing (allowable expense, depreciation expenses and volume variances)

Table 3 - Variance between actual revenue and previously estimated revenue years 1- 5 (amounts in CU)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|------------|------------|------------|------------|------------|
| Allowed revenue to be included in the rates before recovery of prior periods variances and non-controllable cost adjustments (see table 1) | 800 | 788 | 775 | 763 | 500 |
| Schedule recovery (fullfilment) of prior period variances | | | (160) | 79 | 123 |
| Estimated revenue | 800 | 788 | 615 | 841 | 623 |
| Expected sale units (see Table 1) | 100 | 100 | 100 | 100 | 100 |
| Regulated rate per unit | 8 | 7.9 | 6.2 | 8.4 | 6.2 |
| Actual sale units | 120 | 90 | 80 | 110 | 100 |
| Actual revenue | 960 | 709 | 492 | 925 | 623 |
| Difference in timing - volume variances | (160) | 79 | 123 | (84) | - |

A difference in timing that give rise to RA/RL originates because the regulatory agreements allows the entity to transfer demand risk to customers. Hence, volume variances due to differences between actual and expected sale units will be recovered/reimbursed in T+2.

Total allowed compensation is the compensation a regulatory agreement entitles an entity to charge customers through the regulated rates, in either the period when the entity supplies goods or services or a different period.

Table 4 - Total allowed compensation (amounts in CU)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|------------|------------|------------|------------|------------|
| Total actual revenue (see table 3) | 960 | 709 | 492 | 925 | 623 |
| Difference in timing - depreciation A | (50) | (50) | (50) | (50) | 200 |
| Difference in timing - Opex B | - | - | - | 20 | - |
| Difference in timing - volume variances C | (160) | 79 | 283 | (163) | (123) |
| Total allowed compensation | 750 | 738 | 725 | 733 | 700 |

Comprehensive example on differences in timing (allowable expense, depreciation expenses and volume variances)

Table 5 - IFRS Statement of financial performance (amounts in CU)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|--------------|-----------|------------|--------------|-----------|
| Revenue (see Table 3) | 960 | 709 | 492 | 925 | 623 |
| Regulatory income / (regulatory expense) A+B+C (table 4) | (210) | 29 | 233 | (193) | 77 |
| Opex (see Table 2) | (450) | (480) | (520) | (560) | (500) |
| Depreciation | (200) | (200) | (200) | (200) | (200) |
| Net profit | 100 | 58 | 5 | (28) | - |

Table 6 - Reconciliation of **Regulatory assets** (amounts in CU)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------------|--------|-----------|------------|------------|------------|
| Opening carrying amount | - | - | 79 | 202 | 143 |
| Amount recognised | - | → 79 | → 123 | → 20 | - |
| Recovery | - | - | - | → 79 | → 123 |
| Closing carrying amount | - | 79 | 202 | 143 | 20 |

Table 7 - Reconciliation of **Regulatory liabilities** (amounts in CU)

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------------|------------|------------|------------|------------|------------|
| Opening carrying amount | - | 210 | 260 | 150 | 284 |
| Amount recognised | → 210 | → 50 | → 50 | → 134 | - |
| Recovery | - | - | → 160 | - | → 200 |
| Closing carrying amount | 210 | 260 | 150 | 284 | 84 |

Example **measurement differences** – Compensation for allowable expense based on benchmark techniques

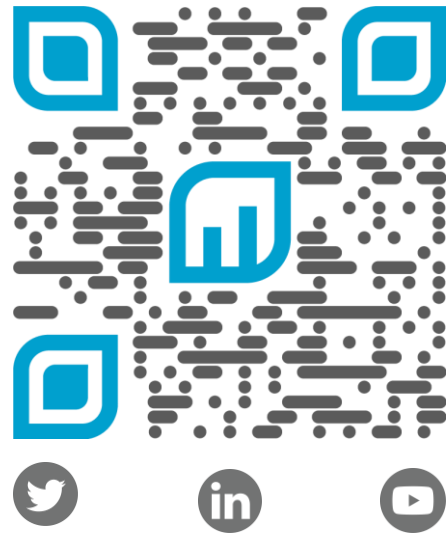
- Entity A incurs variable and fixed operating expenses in Years 1 and 2
- The regulatory agreement specifies that:
 - Compensation for variable operating expenses is determined using benchmarking techniques which the regulator determines to be 550 CU
 - Compensation for fixed operating expenses is based on actual expenses. Differences between estimates and actual expenses is included in regulated rates in T+1
- Entity A estimates fixed operating expenses of 1,000 CU in Years 1 and 2
- Actual fixed operating expenses are 975 CU and 1,050 CU in Years 1 and 2. Actual variable operating expenses are 500 CU and 570 CU in Years 1 and 2
- Differences between estimates and actual fixed operating expenses create **differences in timing** that gives rise to RA/RL
- Differences between actual variable operating expenses and compensation based on benchmarking techniques are **measurement differences**

Example measurement differences – Compensation for allowable expense based on benchmark techniques

| Statement of Financial Performance - after applying IFRS RARL | | | |
|---|-----------|-------------|------|
| | Year 1 | Year 2 | Year |
| Revenue IFRS 15 | 1550 | 1525 | 50 |
| Regulatory income (expense) | (25) | 75 | (50) |
| Total revenue | 1525 | 1600 | - |
| Fixed expenses | (975) | (1050) | - |
| Variable expenses | (500) | (570) | - |
| Profit (loss) | 50 | (20) | - |

| Statement of Financial Position - after applying IFRS RARL | | | |
|--|--------|--------|--------|
| | Year 1 | Year 2 | Year 3 |
| Regulatory asset | - | 50 | - |
| Regulatory liability | (25) | - | - |

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