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**Basis for Conclusions on
Regulatory Assets and Regulatory Liabilities**

International Accounting Standards Board

Basis for Conclusions on
IFRS 20
Regulatory Assets and Regulatory Liabilities

This Basis for Conclusions accompanies IFRS 20 *Regulatory Assets and Regulatory Liabilities* (issued May 2026; see separate booklet) and is issued by the International Accounting Standards Board (IASB).

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Basis for Conclusions on IFRS 20 *Regulatory Assets and Regulatory Liabilities*

This Basis for Conclusions accompanies, but is not part of, IFRS 20 Regulatory Assets and Regulatory Liabilities. It summarises the considerations of the International Accounting Standards Board (IASB) in developing IFRS 20, which supersedes IFRS 14 Regulatory Deferral Accounts. Individual IASB members gave greater weight to some factors than to others.

The IASB also published an Effects Analysis describing the likely benefits and costs of IFRS 20.

Introduction

- BC1 IFRS 20 *Regulatory Assets and Regulatory Liabilities* sets out requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense.
- BC2 This Basis for Conclusions includes two appendices:
- (a) Appendix A sets out amendments to the bases for conclusions on other IFRS Accounting Standards that are a consequence of the IASB issuing IFRS 20.
 - (b) Appendix B explains the rationale for including specific requirements from IAS 1 *Presentation of Financial Statements* in Appendix E to IFRS 20. These requirements are for entities that apply IFRS 20 before applying IFRS 18 *Presentation and Disclosure in Financial Statements*.

Why an IFRS Accounting Standard is necessary

- BC3 Users of financial statements assess an entity's future cash flows. The most significant cash inflows and cash outflows are those that will arise from future revenue and future expenses. The information an entity presents in its statement of profit or loss by applying IFRS 15 *Revenue from Contracts with Customers* and other IFRS Accounting Standards enables users of financial statements to assess the entity's future cash flows. However, for entities subject to a specific type of rate regulation (see paragraph BC4), the information provided by applying IFRS 15 and other IFRS Accounting Standards is incomplete, for the reasons given in paragraphs BC8–BC9.
- BC4 Rate regulation is a form of regulation that sets the regulated rates (sometimes called the prices or tariffs) that entities can charge customers for goods or services. The types of rate regulation vary. IFRS 20 focuses on a type of rate regulation that:
- (a) entitles an entity to an amount of compensation for regulatory goods or services supplied in a period; and
 - (b) specifies the timing of when part or all of such amount of compensation is charged to customers through regulated rates.
- BC5 An entity subject to this type of rate regulation and its regulator are parties to a regulatory agreement. IFRS 20 defines a regulator (see paragraph BC44) and a regulatory agreement (see paragraph BC38).

- BC6 Regulatory goods or services are those supplied by an entity to comply with a regulatory agreement and include, but are not limited to, goods or services the entity supplies in accordance with the entity's contracts with its customers. Regulatory goods or services also include maintaining or making capacity changes to a network, and satisfying other objectives set by the regulator.
- BC7 The regulatory agreement entitles an entity to an amount of compensation for regulatory goods or services supplied in a reporting period. IFRS 20 refers to that amount of compensation as total allowed compensation (see paragraphs BC46–BC48). That amount of compensation might be charged through regulated rates in either the same period as the entity supplies the regulatory goods or services or a different period. Differences in timing can arise if a regulatory agreement includes part or all of the total allowed compensation for regulatory goods or services supplied in one reporting period in determining the regulated rates charged to customers in a different period (past or future).
- BC8 If such differences in timing arise, an entity's statement of profit or loss for a reporting period provides incomplete information about the total allowed compensation for regulatory goods or services supplied in that period. The information is incomplete because the amount of revenue from contracts with customers recognised in accordance with IFRS 15 (IFRS 15 revenue) in that period:
- (a) does not include all of the total allowed compensation for regulatory goods or services supplied in that period—part or all of that total allowed compensation has already been included in IFRS 15 revenue in the past, or will be included in IFRS 15 revenue in the future; or
 - (b) includes part or all of the total allowed compensation for regulatory goods or services supplied in a different period (past or future).
- BC9 The absence of information about differences in timing makes it difficult for users of financial statements to understand the total allowed compensation for regulatory goods or services an entity has supplied in a reporting period and the effect of differences in timing on an entity's prospects for future cash flows. Therefore, the IASB decided to base IFRS 20 on the principle that an entity recognises the total allowed compensation for regulatory goods or services in the same reporting period that the entity supplies those regulatory goods or services.
- BC10 The requirements in IFRS 20 are intended to result in an entity providing more complete information about differences in timing than would otherwise be available to users of financial statements. IFRS 20 sets out requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense. Information provided in accordance with these requirements enables users to better understand how differences in timing affect an entity's financial performance and financial position, offering insights into the entity's future cash flows.

Overview of IFRS 20

- BC11 Applying IFRS 20, entities provide information in their statement(s) of financial performance, statement of financial position and related notes about:
- (a) regulatory income arising from:
 - (i) the origination of regulatory assets—that is, part or all of the total allowed compensation for regulatory goods or services supplied in the current reporting period has not yet been included in IFRS 15 revenue because it will be included in IFRS 15 revenue in future periods.
 - (ii) the fulfilment of regulatory liabilities—that is, part or all of the total allowed compensation for regulatory goods or services supplied in the current reporting period is not included in IFRS 15 revenue in that period because it was included in IFRS 15 revenue in past periods (see paragraph BC13(j)(i)).
 - (b) regulatory expense arising from:
 - (i) the origination of regulatory liabilities—that is, an amount included in IFRS 15 revenue in the current reporting period that includes part or all of the total allowed compensation for regulatory goods or services to be supplied in future periods.
 - (ii) the recovery of regulatory assets—that is, an amount included in IFRS 15 revenue in the current reporting period that includes part or all of the total allowed compensation for regulatory goods or services supplied in past periods (see paragraph BC13(i)(i)).
 - (c) regulatory assets arising from an entity's enforceable present right to add an amount in determining a regulated rate to be charged to customers in future periods. An entity has this right 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.
 - (d) regulatory liabilities arising from an entity's enforceable present obligation to deduct an amount in determining a regulated rate to be charged to customers in future periods. An entity has this obligation because part or all of the total allowed compensation for regulatory goods or services to be supplied in future periods has already been included in IFRS 15 revenue.
- BC12 The information arising from regulatory income, regulatory expense, regulatory assets and regulatory liabilities that an entity provides by applying IFRS 20 supplements, but does not replace, the information the entity provides by applying IFRS 15 and other IFRS Accounting Standards. The supplementary information enables users of financial statements to better understand the total allowed compensation for regulatory goods or services supplied in each reporting period and the related rights and obligations.

BC13 The main features of the requirements in IFRS 20 are:

- (a) a regulatory asset or regulatory liability is an enforceable present right or enforceable present obligation.
- (b) an entity recognises a regulatory asset and related regulatory income if part or all of the total allowed compensation for regulatory goods or services already supplied has not yet been included in IFRS 15 revenue.
- (c) an entity recognises a regulatory liability and related regulatory expense if part or all of the total allowed compensation for regulatory goods or services to be supplied in future periods has already been included in IFRS 15 revenue.
- (d) an entity recognises a regulatory asset or regulatory liability if it is more likely than not that it exists.
- (e) an entity's recognition of some regulatory assets and regulatory liabilities is conditional on the existence of a direct relationship between its regulatory capital base and a related item or items. A direct relationship exists if the entity is able to track, by amount and reporting period, how regulatory depreciation provides compensation or makes a deduction for the amounts arising from that related item or items.
- (f) an entity measures a regulatory asset or regulatory liability on a basis that reflects an estimate of the future cash flows arising from that asset or liability. The entity updates those estimates at the end of each reporting period.
- (g) an entity discounts its estimate of future cash flows arising from a regulatory asset or regulatory liability using the regulatory interest rate specified or implied by the regulatory agreement.
- (h) an entity classifies all regulatory income and all regulatory expense as revenue and presents all regulatory income minus all regulatory expense (regulatory income or regulatory expense) as a line item in the statement of profit or loss.¹ The presentation of regulatory income or regulatory expense as a line item signals regulatory income or regulatory expense is distinct from other sources of revenue, for example, IFRS 15 revenue.
- (i) an entity recovers a regulatory asset by adding an amount to the regulated rates charged to customers. That amount is included in IFRS 15 revenue. At the same time, the entity would:
 - (i) recognise regulatory expense to depict the amount included in IFRS 15 revenue recognised in the current reporting period that formed part of the total allowed compensation for regulatory goods or services that the entity supplied in past periods; and

¹ In limited circumstances, some regulatory income or regulatory expense would be included in other comprehensive income (see paragraphs BC253–BC255).

- (ii) derecognise part or all of the carrying amount of the regulatory asset to depict the entity's recovery of part or all of that regulatory asset.
 - (j) an entity fulfils a regulatory liability by deducting an amount from the regulated rates charged to customers. That amount is not included in IFRS 15 revenue. At the same time, the entity would:
 - (i) recognise regulatory income to depict the amount of the total allowed compensation for regulatory goods or services supplied in the current reporting period that the entity included in IFRS 15 revenue in past periods; and
 - (ii) derecognise part or all of the carrying amount of the regulatory liability to depict the entity's fulfilment of part or all of that regulatory liability.
- BC14 Regulatory assets and regulatory liabilities are a subset of the rights and obligations created by a regulatory agreement. As explained in paragraph BC12, an entity applying IFRS 20 provides information that supplements the information the entity provides by applying other IFRS Accounting Standards. IFRS 20 does not change how an entity accounts for rights and obligations created by a regulatory agreement if those rights and obligations are within the scope of another IFRS Accounting Standard. An entity would recognise the other rights and obligations created by the regulatory agreement only if another IFRS Accounting Standard permits or requires their recognition. Accordingly, an entity is required to apply other IFRS Accounting Standards before applying IFRS 20.

What are regulatory assets and regulatory liabilities?

- BC15 This section considers three questions:
- (a) does a regulatory asset meet the definition of an asset in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*?
 - (b) does a regulatory liability meet the definition of a liability in the *Conceptual Framework*?
 - (c) how does a regulatory asset or regulatory liability differ from other rights or obligations?

Does a regulatory asset meet the definition of an asset in the *Conceptual Framework*?

- BC16 IFRS 20 defines a regulatory asset as 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.

- BC17 The *Conceptual Framework* defines:
- (a) an asset as a present economic resource controlled by an entity as a result of past events; and
 - (b) an economic resource as a right that has the potential to produce economic benefits.
- BC18 The *Conceptual Framework* also states that:
- 4.20 An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource.
 - 4.21 An entity has the present ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.
 - ...
 - 4.23 For an entity to control an economic resource, the future economic benefits from that resource must flow to the entity either directly or indirectly rather than to another party. This aspect of control does not imply that the entity can ensure that the resource will produce economic benefits in all circumstances. Instead, it means that if the resource produces economic benefits, the entity is the party that will obtain them either directly or indirectly.
- BC19 The IASB concluded that a regulatory asset meets the definition of an asset because a regulatory asset is a present right that:
- (a) entitles an entity to add an amount in determining a regulated rate to be charged to customers in future periods. That amount compensates the entity for part or all of the total allowed compensation for regulatory goods or services already supplied.
 - (b) has the potential to produce economic benefits. Those economic benefits take the form of the addition of an amount in determining a future regulated rate. For a right to meet the definition of an asset, it does not need to be certain that the right will produce those economic benefits (see paragraph 4.14 of the *Conceptual Framework*).
 - (c) is controlled by an entity because the entity has the present ability to direct the use of the right and obtain the economic benefits that may flow from it. The entity has the present ability to:

- (i) direct the use of the right because the entity is entitled to deploy the regulatory asset in its activities by adding an amount in determining the regulated rates; and
- (ii) obtain the economic benefits that may flow from the regulatory asset, because any incremental cash inflows resulting from the regulatory asset will flow to the entity instead of any other party.
- (d) exists and is controlled by the entity because of a past event: the entity supplied regulatory goods or services, but part or all of the total allowed compensation for those goods or services has not yet been included in regulated rates charged to customers. The regulatory asset is a present right even though the entity will recover it by adding an amount in determining the regulated rates in future periods.

BC20 As stated in paragraph BC14, a regulatory asset depicts a subset of the rights created by a regulatory agreement. The rights created by a regulatory agreement for an entity include:

- (a) a right to add an amount in determining a regulated rate to be charged to customers in future periods. An entity has this right because the entity has not yet included in the regulated rates charged to customers – and hence has not yet included in IFRS 15 revenue – the full amount of the total allowed compensation for regulatory goods or services already supplied. This right is a regulatory asset.
- (b) a right to charge a regulated rate for goods or services the entity will supply to customers in future periods. This right does not meet the definition of a regulatory asset in IFRS 20 because it does not relate to regulatory goods or services already supplied.

BC21 An entity not subject to a regulatory agreement can typically set any price for its goods or services, constrained only by what its customers are prepared to pay and perhaps, for example, by law. In contrast, a rate-regulated entity does not have a right to raise its prices above the regulated rate. Some stakeholders found it counterintuitive that a rate-regulated entity with a right to add an amount in determining a future regulated rate can have an asset, whereas other entities that have a less constrained right – the right to set any future price – do not have an asset.

BC22 That less constrained right is, however, typically available to all parties without significant cost. Paragraph 4.9 of the *Conceptual Framework* explains that rights available to all parties without significant cost are typically not assets for the entities that hold them – for example, rights of access to public goods, such as public rights of way over land, or know-how in the public domain. Paragraph BC4.39 of the Basis for Conclusions on the *Conceptual Framework* states:

There are various ways to explain why rights available to all other parties are typically not assets of a particular entity. One reason could be that such rights, for example, public rights of way over land, do not have a potential to produce for that entity economic benefits beyond those available to all other parties. An alternative or additional reason could be that such rights are not controlled by the entity—the entity cannot deny other parties access to any economic benefits that may flow from those rights.

Does a regulatory liability meet the definition of a liability in the *Conceptual Framework*?

- BC23 IFRS 20 defines a regulatory liability as 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.
- BC24 Paragraph 4.26 of the *Conceptual Framework* defines a liability as a present obligation of the entity to transfer an economic resource as a result of past events. Paragraphs 4.37 and 4.43 of the *Conceptual Framework* add that a present obligation exists as a result of past events only if:
- (a) the entity has already obtained economic benefits or taken an action; and
 - (b) the entity, as a consequence, will or may have to transfer an economic resource that it would not otherwise have had to transfer. It does not need to be certain, or even likely, that the entity will be required to transfer an economic resource.
- BC25 The IASB concluded that a regulatory liability meets the definition of a liability because:
- (a) an entity has a present obligation to transfer economic benefits.
 - (b) the transfer of economic benefits takes the form of the deduction of an amount in determining a future regulated rate.
 - (c) the obligation is a present obligation that exists as a result of past events because:
 - (i) the entity has already obtained economic benefits by charging customers amounts that were included in IFRS 15 revenue—that is, 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; and
 - (ii) the entity, as a consequence, will have to transfer an economic resource that it would not otherwise have had to transfer—that is, the entity will have to reduce regulated rates it charges customers in the future. A regulatory liability is a present

obligation even though the entity will fulfil it by deducting an amount in determining the regulated rates in future periods.

- BC26 A regulatory liability results in a reduction in a future cash inflow, instead of in a separate cash outflow. Therefore, some stakeholders questioned whether a regulatory liability is an obligation to transfer an economic resource. The IASB views a regulatory liability as an obligation that an entity fulfils by decreasing the regulated rates to be charged to customers in future periods. This decrease leads to the entity recognising lower IFRS 15 revenue and ultimately receiving a lower cash inflow than the entity would otherwise have received. The effects of this decrease in regulated rates are the same as if the entity had made a separate cash payment. In the IASB's view, that form of fulfilment is as much a transfer of an economic resource as a payment of cash would be. Paragraph 4.16 of the *Conceptual Framework* states that an economic resource (an asset) could produce economic benefits for an entity not only by providing it with cash inflows, but also by enabling it to avoid cash outflows. Although the *Conceptual Framework* makes no corresponding statement for a liability, the IASB's view is that the transfer of an economic resource could take the form of a reduction in cash inflows.
- BC27 An entity not subject to a regulatory agreement might have an economic incentive to decrease its prices. Such an incentive does not create an enforceable present obligation and thus does not create a liability. In contrast, a regulatory liability is an enforceable present obligation.

How does a regulatory asset or regulatory liability differ from other rights or obligations?

- BC28 A regulatory asset is an entity's enforceable present right to add an amount to, and a regulatory liability is an entity's enforceable present obligation to deduct an amount from, future regulated rates charged to customers (see paragraphs BC16 and BC23). Although a regulatory asset or regulatory liability ultimately gives rise to receipts or payments of cash, it is not a right or an obligation to receive or pay cash.
- BC29 Consequently, a regulatory asset or regulatory liability is not a financial asset or financial liability. A regulatory asset does not entitle an entity to require customers or any other party to pay it cash: the entity ultimately receives cash when customers pay the increased regulated rate. Similarly, a regulatory liability does not oblige an entity to pay cash to customers or any other party: the entity, in effect, ultimately pays cash by receiving less cash when customers pay the decreased regulated rate.
- BC30 A regulatory asset or regulatory liability is not a right or an obligation to make a retrospective adjustment to the price of a past supply of goods or services to customers. Thus, a regulatory asset or regulatory liability is outside the scope of IFRS 15.

Scope

- BC31 IFRS 20 applies to all an entity's regulatory assets and all its regulatory liabilities, except for regulatory assets and regulatory liabilities that arise if premiums charged in insurance contracts within the scope of IFRS 17 *Insurance Contracts* are regulated. In developing IFRS 20, the IASB considered whether to exclude from the scope of the Standard regulatory assets and regulatory liabilities that might arise from:
- (a) financial instruments within the scope of IFRS 9 *Financial Instruments* (see paragraph BC32); and
 - (b) insurance contracts within the scope of IFRS 17 (see paragraphs BC33–BC34).
- BC32 Some stakeholders said that, in some situations, interest rates in financial instruments are regulated. These stakeholders asked whether such regulation could give rise to differences in timing. The IASB observed that regulation of interest rates is typically limited to setting a cap or floor on interest rates. The aim of this type of regulation is to prevent an entity from charging interest rates that fall outside those caps or floors. However, this type of regulation creates neither an enforceable present right nor an enforceable present obligation for the entity to adjust future interest rates. Furthermore, the IASB identified no examples of financial instruments that might give rise to regulatory assets or regulatory liabilities. Consequently, the IASB concluded that it would be unnecessary to exclude from the scope of IFRS 20 regulatory assets or regulatory liabilities that arise from financial instruments with an interest rate that is regulated.
- BC33 In some situations, premiums charged in insurance contracts within the scope of IFRS 17 are regulated. Stakeholders identified a limited number of cases of insurance contracts that might create regulatory assets or regulatory liabilities. If an entity were required to apply IFRS 20 in such cases, the entity would be required to assess whether any cash flows arising from such contracts outside the boundary of the insurance contracts (see paragraphs 33–34 of IFRS 17) give rise to differences in timing that meet the definition of a regulatory asset or regulatory liability. Stakeholders were of the view that such an assessment would be costly and complex.
- BC34 The IASB agreed with these stakeholders. Furthermore, the IASB identified no situations that suggest an entity applying IFRS 17 to insurance contracts might have significant rights and obligations unaccounted for. The IASB concluded that the benefits of a scope exclusion would outweigh the costs of not recognising regulatory assets and regulatory liabilities that might arise from insurance contracts within the scope of IFRS 17.

Enforceability

- BC35 For a regulatory asset or regulatory liability to exist, an entity is required to have an enforceable present right or enforceable present obligation. The assessment of whether a present right or present obligation is enforceable depends on the legal and regulatory framework within which an entity

operates and on facts or circumstances relating to a specific difference in timing. An entity might need to use judgement to determine whether a specific difference in timing gives rise to an enforceable present right or enforceable present obligation. Such judgement might be particularly necessary if the regulatory agreement does not include explicit terms that support the existence of an enforceable present right or enforceable present obligation. The IASB decided that it would be unnecessarily onerous to require an entity to carry out an exhaustive search for evidence to determine whether a present right or present obligation is enforceable. Consequently, IFRS 20 requires that, in assessing whether an enforceable present right or enforceable present obligation exists, an entity consider all reasonable and supportable information that is available without undue cost or effort, and the overall balance of the evidence.

BC36 Some stakeholders asked whether an entity is required to assess enforceability twice – that is, first assessing the enforceability of a regulatory agreement, and second assessing the enforceability of the present rights or present obligations arising from differences in timing. The IASB confirmed that an entity is not required to assess enforceability twice. The existence of an enforceable regulatory agreement is a necessary, but not a sufficient, condition for an entity to conclude specific present rights or present obligations are enforceable. Even if a regulatory agreement is enforceable, an entity would still need to assess whether enforceable present rights and enforceable present obligations exist by considering the specific facts or circumstances surrounding those rights and obligations. Consequently, IFRS 20 requires an entity to assess only whether enforceable present rights and enforceable present obligations exist. This single assessment focuses on whether the present rights or present obligations arising from differences in timing are enforceable.

BC37 The IASB developed additional requirements to help an entity assess whether it has an enforceable present right or an enforceable present obligation in specified situations. The IASB decided to base the requirements for these situations on the principles in paragraph 35(c) of IFRS 15 that relate to an entity's enforceable right to payment for performance completed to date. The IASB decided to require the entity to assess enforceability in specified situations by considering what rights or obligations the entity would have if the regulator or another party were to terminate the regulatory agreement at the end of the reporting period for a reason other than the entity's failure to perform as specified in the agreement. These specified situations are when the entity assesses the enforceability of:

- (a) a present right to add a regulatory return accrued to date on assets not yet available for use in determining the regulated rates to be charged in the future (see paragraph BC79);
- (b) a present right to add, or present obligation to deduct, an amount that reflects its performance to date in determining the regulated rates to be charged in the future (see paragraph BC84); and

- (c) a present right to receive, or present obligation to pay, compensation on termination of a regulatory agreement for an amount comprising unrecovered regulatory assets and unfulfilled regulatory liabilities (see paragraph BC189).

Regulatory agreement and regulator

- BC38 IFRS 20 defines a regulatory agreement as 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).
- BC39 The period to which a regulated rate applies is commonly called the regulatory period. An entity might be uncertain about whether a regulator will continue to use its current methodology to determine regulated rates in future regulatory periods. Nonetheless, an entity might have enforceable present rights to add amounts to, or enforceable present obligations to deduct amounts from, regulated rates that will be charged to customers beyond the current regulatory period. Such a situation might arise if an entity's legal or regulatory framework ensures that the entity will keep recovering or fulfilling those amounts through regulated rates charged to customers beyond the current regulatory period (see paragraph BC185).
- BC40 The IASB observed that the legal forms of regulatory agreements vary among jurisdictions and industries. Therefore, the IASB decided IFRS 20 would apply to all regulatory agreements that can create regulatory assets or regulatory liabilities, regardless of their legal forms.
- BC41 The IASB did not specify in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft) that the existence of a particular type of body, such as a regulator, is necessary for a regulatory asset or regulatory liability to exist. Many stakeholders suggested that the intended scope of IFRS 20 would be clearer if the Standard specified that the existence of a regulator is necessary for a regulatory asset or regulatory liability to exist. For example, some stakeholders said it was unclear whether the IASB intended the Standard to apply to situations in which an entity itself determines the rate it will charge to customers—commonly called self-regulation. The IASB did not intend to include self-regulation within the scope of the Standard and agreed that requiring the existence of a regulator would help clarify the intended scope. Consequently, IFRS 20 specifies the existence of a regulator as one of the necessary conditions for a regulatory asset or regulatory liability to exist.
- BC42 The IASB considered whether to define a regulator as an independent third-party body but decided not to do so. The IASB concluded that assessing whether a regulator is independent would be subject to interpretation. The IASB was also concerned that some entities might conclude IFRS 20 would not apply to them because, in some jurisdictions, the regulator and the entity are related parties as defined in IAS 24 *Related Party Disclosures*.

- BC43 In developing the definition of a regulator, the IASB considered the definition of a ‘rate regulator’ in IFRS 14:

an authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The rate regulator may be a third-party body or a related party of the entity, including the entity’s own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.

- BC44 The IASB decided that the definition of a regulator in IFRS 20 would focus on two important components of the definition of a ‘rate regulator’ in IFRS 14—the main feature of a regulator and its main function. The IASB concluded that a regulator’s main feature is that it is a body required by law or regulation to apply a regulatory agreement. Specifying that a regulator is required by law or regulation helps clarify that IFRS 20 does not apply to situations of self-regulation. The IASB also concluded that a regulator’s main function is to determine the regulated rate in accordance with the regulatory agreement. Consequently, IFRS 20 defines a regulator as a body that is required by law or regulation to apply a regulatory agreement to determine a regulated rate (or a range for the regulated rate).

- BC45 The IASB is aware of situations in which an entity sets the rates it will charge to customers, but does not have full discretion to do so. For example, an entity might set the rates in accordance with a specified legal or regulatory framework that is subject to oversight or approval by a body required to do so by law or regulation. The IASB decided to clarify that such a situation would not be considered self-regulation, and therefore regulatory assets or regulatory liabilities might arise in this situation.

Total allowed compensation

- BC46 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. That compensation might be charged through regulated rates in either the same period as the entity supplies the regulatory goods or services, or a different period. Regulatory goods or services are those supplied by an entity to comply with a regulatory agreement. Those regulatory goods or services include supplying goods or services to customers, maintaining or making capacity changes to a network, and satisfying other objectives set by the regulator (see paragraph BC6).

- BC47 The concept of total allowed compensation:
- (a) plays an important role in the principle underlying the definitions of regulatory assets and regulatory liabilities, and the resulting definitions of regulatory income and regulatory expense. The principle is that an entity recognises the total allowed compensation for regulatory goods or services in the same reporting period that the entity supplies those regulatory goods or services.

- (b) underpins whether a difference in timing arises, which is a condition for a regulatory asset or regulatory liability to exist (see paragraph BC49).

BC48 The terms of regulatory agreements vary by jurisdiction and industry in how they provide compensation or make a deduction through regulated rates, giving rise to various differences in timing. The IASB decided that IFRS 20 would focus on the most common types of compensation or deductions, and differences in timing, that could arise from regulatory agreements. Therefore, IFRS 20 does not describe all possible types of compensation or deductions or all possible differences in timing that might arise from a variety of regulatory agreements. An entity needs to use judgement to determine the type of compensation or deduction and when that type of compensation or deduction forms part of total allowed compensation or reduces total allowed compensation to identify differences in timing. The entity does so by considering the terms of the regulatory agreement, including the methodologies the regulator uses to determine various types of compensation provided or deductions made through the regulated rates.

Differences in timing

BC49 For a regulatory asset or regulatory liability to exist, IFRS 20 requires a difference in timing to have arisen. A difference in timing arises when part or all of the total allowed compensation for regulatory goods or services supplied by an entity in a reporting period is included in regulated rates charged to customers in a different period (past or future).

BC50 This section discusses:

- (a) differences in timing arising from compensation for allowable expenses and deductions for chargeable income (see paragraphs BC51–BC60);
- (b) differences in timing arising from a regulatory return on an entity's regulatory capital base (see paragraphs BC61–BC79);
- (c) differences in timing arising from performance incentives (see paragraphs BC80–BC88);
- (d) differences in timing arising from compensation relating to inflation (see paragraphs BC89–BC109); and
- (e) differences in timing arising from under-recovery or over-recovery of allowed revenue (see paragraphs BC110–BC112).

Differences in timing arising from compensation for allowable expenses and deductions for chargeable income

BC51 This section discusses:

- (a) allowable expenses and chargeable income (see paragraphs BC52–BC56); and

- (b) the distinction between differences in timing and measurement differences (see paragraphs BC57–BC60).

Allowable expenses and chargeable income

- BC52 An allowable expense is an item of expense, as defined in IFRS Accounting Standards, for which a regulatory agreement provides compensation by adding an amount in determining a regulated rate to be charged by an entity.
- BC53 Chargeable income is an item of income, as defined in IFRS Accounting Standards, for which a regulatory agreement makes a deduction of an amount in determining a regulated rate to be charged by an entity.
- BC54 In some cases, an entity applying IFRS Accounting Standards might recognise an item of expense or income that is an allowable expense or chargeable income but that expense or income does not relate to the supply of regulatory goods or services. In developing the requirements in IFRS 20, the IASB made a practical assumption that such an allowable expense or chargeable income relates to the supply of regulatory goods or services. In the IASB's view, applying an alternative accounting treatment to such an expense or income would add complexity with limited benefit.
- BC55 Accordingly, the IASB decided that:
- (a) compensation for an allowable expense would form part of the total allowed compensation for the reporting period in which an entity recognised the allowable expense by applying IFRS Accounting Standards; and
 - (b) a deduction for chargeable income would reduce the total allowed compensation for the reporting period in which an entity recognised the chargeable income by applying IFRS Accounting Standards.
- BC56 A difference in timing arises if:
- (a) an entity recognises an allowable expense or chargeable income in a reporting period; and
 - (b) the regulatory agreement provides compensation for the allowable expense or makes a deduction for chargeable income in determining the regulated rates the entity charges in a different period.

Distinction between differences in timing and measurement differences

- BC57 An important factor distinguishes differences in timing from measurement differences. Differences in timing arise if differences between the compensation or deduction and the related allowable expense or related chargeable income in individual reporting periods will reverse over time. Therefore, the compensation or deduction and the related allowable expense or related chargeable income will be the same in total over time.

- BC58 Conversely, measurement differences arise if the total amount of compensation for an allowable expense or deduction for chargeable income determined by a regulatory agreement over all periods differs from the total amount of the expense or income an entity will recognise over all periods by applying IFRS Accounting Standards. Therefore, the differences between the total amount of the compensation or deduction and the total amount of the related allowable expense or related chargeable income will not reverse over time. Unlike differences in timing, measurement differences do not give rise to regulatory assets or regulatory liabilities.
- BC59 For example, a regulatory agreement might provide compensation based on an estimate of input costs for a reporting period. The regulatory agreement might also prohibit the entity from adjusting future regulated rates charged to customers for any difference between the compensation and the actual input costs the entity recognised in the period. Such a difference is a measurement difference because it will not reverse over time. Applying IFRS 15 and other IFRS Accounting Standards, the entity would reflect the measurement difference in its reported financial performance in the same reporting period in which it recognised IFRS 15 revenue and the input costs. In the IASB's view, this accounting outcome would provide useful information about the relationship between the compensation and the related expenses.
- BC60 In some cases, a difference in timing and a measurement difference might occur concurrently. Paragraph B28 of IFRS 20 provides an example of such a case. Applying IFRS 20, an entity would determine the measurement of a regulatory asset or regulatory liability—and the resulting amount of regulatory income or regulatory expense—by the amount of the compensation or deduction, not by the amount of the related allowable expense or chargeable income recognised by applying IFRS Accounting Standards. In the IASB's view, this accounting outcome would provide useful information about the relationship between the compensation or deduction and the related allowable expense or chargeable income, including any measurement difference.

Differences in timing arising from a regulatory return on an entity's regulatory capital base

- BC61 This section discusses requirements in IFRS 20 relating to:
- (a) a regulatory return on an entity's regulatory capital base other than those specified in paragraph BC61(b) (see paragraphs BC62–BC66); and
 - (b) a regulatory return on assets not yet available for use in specific circumstances (see paragraphs BC67–BC79).

Requirements relating to a regulatory return on an entity's regulatory capital base other than those specified in paragraph BC61(b)

- BC62 Regulatory agreements typically determine a regulatory return to which an entity is entitled for a period by specifying a rate of return to apply to the entity's regulatory capital base for that period. The regulatory capital base mainly comprises the unrecovered balance related to assets as well as other items that a regulatory agreement entitles an entity to recover through regulatory depreciation. Regulatory returns might be specified on a nominal or real basis and might include only a debt return, only an equity return or both a debt and equity return.
- BC63 The IASB decided that such a regulatory return forms part of the total allowed compensation for the reporting period in which a regulatory agreement applies the rate of return to an entity's regulatory capital base. Regulatory agreements typically create obligations for an entity to invest in assets that are included in the regulatory capital base. An entity incurs financing costs (including equity) in fulfilling such obligations during the periods in which the investment is not yet recovered. Regulatory agreements provide compensation for such financing costs by applying a rate of return to the entity's regulatory capital base during those periods. Therefore, a regulatory return that results from a regulatory agreement applying a rate of return to an entity's regulatory capital base in a period provides compensation for regulatory goods or services the entity supplies in that period.
- BC64 A difference in timing arises if a regulatory agreement includes part or all of a regulatory return in determining the regulated rates charged to customers in a different period from the reporting period in which the agreement applies the rate of return to a regulatory capital base.
- BC65 A regulatory capital base might include both assets available for use and assets not yet available for use. In accordance with the requirements described in paragraph BC63, a regulatory return on assets not yet available for use forms part of the total allowed compensation for the reporting periods in which the assets are not yet available for use. In the IASB's view, this accounting treatment:
- (a) results in an entity recognising compensation in the same period as the entity supplies regulatory goods or services related to the construction of an asset—for example, fulfilling obligations to increase, upgrade and maintain the investment included in the regulatory capital base; and
 - (b) is aligned with the accounting treatment for other types of compensation related to the construction of an asset—for example, construction-related performance incentives (see paragraph BC81).
- BC66 However, entities commonly capitalise borrowing costs incurred to construct assets not yet available for use by applying IAS 23 *Borrowing Costs*. In doing so, these entities would recognise those borrowing costs as an expense over the periods in which the borrowing costs are included in depreciation or amortisation expense—that is, over the assets' useful lives. Applying the

accounting treatment described in paragraph BC63, these entities would reflect in profit or loss compensation arising from a regulatory return immediately for capitalised borrowing costs that they will recognise as an expense in the future. Therefore, these entities would overstate their net assets and the resulting profit. In the IASB's view, such an accounting outcome would not provide useful information. The IASB decided to require an entity to apply:

- (a) the approach described in paragraph BC68 (the alternative approach) to a regulatory return on an asset not yet available for use in specific circumstances; and
- (b) the accounting treatment described in paragraph BC63 to a regulatory return on assets not yet available for use in all other circumstances.

Requirements relating to a regulatory return on assets not yet available for use in specific circumstances

- BC67 This section discusses the alternative approach an entity applies to a regulatory return on assets not yet available for use in specific circumstances – that is, if:
- (a) the entity capitalises borrowing costs related to those assets by applying IAS 23;
 - (b) the regulatory return is only a debt return or both a debt and equity return; and
 - (c) the entity's regulatory capital base has a direct relationship with those assets (see paragraphs BC130–BC161).
- BC68 The IASB decided, in the circumstances specified in paragraph BC67, to require an entity to treat part or all of a regulatory return as compensation for an allowable expense – that is, the capitalised borrowing costs (see paragraphs BC52–BC56).
- BC69 In the IASB's view, the benefits of the information provided by applying the alternative approach in paragraph BC68 would outweigh the costs only if an entity's regulatory capital base has a direct relationship with its assets not yet available for use. If such a direct relationship exists, an entity:
- (a) will provide useful information about the relationship between part or all of the regulatory return on assets not yet available for use that compensate for the borrowing costs and those borrowing costs; and
 - (b) is typically able to track, for each individual asset or group of assets for which it has established the direct relationship, how the capitalised borrowing costs included as part of depreciation or amortisation expense related to those assets are compensated for by part or all of the regulatory return.
- BC70 If an entity's regulatory capital base does not have a direct relationship with its assets not yet available for use, the entity would be likely to find it costly and complex to apply the alternative approach in paragraph BC68.

BC71 The IASB also considered amending IAS 23 to prohibit an entity in the circumstances specified in paragraph BC67 from capitalising borrowing costs related to assets not yet available for use. Applying that prohibition, an entity would reflect both the regulatory return and the borrowing costs in its reported financial performance for the periods in which the assets are not yet available for use. The prohibition would be straightforward to apply. However, the IASB decided not to amend IAS 23 because doing so would:

- (a) reduce comparability of information about financial performance between those entities that had applied the prohibition and other entities that were entitled to a regulatory return on assets not yet available for use but had not applied the prohibition (that is, entities outside the specific circumstances);
- (b) conflict with the IASB's conclusion – reached when it developed IAS 23 – that specified borrowing costs should form part of the cost of an asset; and
- (c) conflict with the IASB's decision that applying IFRS 20 should provide information that supplements information provided by applying other IFRS Accounting Standards.

Differences in timing arising from a regulatory return in the circumstances specified in paragraph BC67

BC72 Applying the requirements in IFRS 20, an entity accounts for regulatory assets or regulatory liabilities arising from a regulatory return in the circumstances specified in paragraph BC67 considering:

- (a) the type of regulatory return – that is, whether the return comprises only a debt return or both a debt and equity return; and
- (b) the timing of when the regulatory return is included in the regulated rates charged – that is, whether it is included while the assets are not yet available for use or while the assets are available for use.

BC73 IFRS 20 specifies how an entity determines the amount of a regulatory return on assets not yet available for use to be treated as compensation for capitalised borrowing costs:

- (a) if a regulatory return comprises only a debt return – the entire debt return is compensation for capitalised borrowing costs. Any differences between the regulatory return and the amount of capitalised borrowing costs are measurement differences that are recognised in profit or loss in the periods in which the assets are available for use (see paragraphs BC57–BC60).
- (b) if a regulatory return comprises both a debt and equity return – in principle, an entity would be required to split the regulatory return between the debt return and the equity return and determine the part of its regulatory capital base funded by debt and the part funded by equity. Feedback from stakeholders suggested this calculation would be complex. Therefore, the IASB decided the compensation for capitalised borrowing cost is the amount of the regulatory returns that

equals the amount of capitalised borrowing costs. Consequently, any differences between the regulatory return and the capitalised borrowing costs are recognised in profit or loss in the periods in which the assets are not yet available for use (see paragraph BC63).

- BC74 IFRS 20 requires an entity to determine individual differences in timing arising from regulatory depreciation for the individual asset or group of assets for which it has established a direct relationship between its regulatory capital base and its depreciable or amortisable assets (see paragraphs BC138–BC140). The entity also applies these requirements to determine individual differences in timing arising from a regulatory return in the circumstances specified in paragraph BC67—that is, for individual assets or a group of assets not yet available for use for which the entity has established a direct relationship.
- BC75 An entity might, for practical reasons, use a disaggregation of the capitalised borrowing costs of assets not yet available for use to calculate the amount of such costs to include as part of depreciation or amortisation expense related to those assets. That disaggregation might differ from a disaggregation of the capitalised borrowing costs by individual assets or a group of assets not yet available for use the entity has used to determine the direct relationship. The entity might be unable to determine, for individual assets or a group of assets, how the amounts of capitalised borrowing costs included in depreciation or amortisation expense are compensated for by the regulatory return.
- BC76 The IASB decided to permit an entity to determine individual differences in timing arising from a regulatory return in the circumstances specified in paragraph BC67 using the disaggregation of the capitalised borrowing costs the entity uses to calculate depreciation or amortisation expense related to those costs.

Regulatory assets and regulatory liabilities arising from a regulatory return determined on a real basis

- BC77 In some cases, a regulatory agreement determines a regulatory return that comprises both a debt and equity return on a real basis by specifying a real rate of return (that is, a rate of return that excludes inflation) to apply to a regulatory capital base that is adjusted for inflation (see paragraph BC92). The IASB concluded that regulatory income or regulatory expense arising from a regulatory return should be comparable with the regulatory return—that is, both are determined on a real basis.
- BC78 The IASB decided to require an entity to determine a regulatory asset or regulatory liability arising from such a regulatory return by using an amount of capitalised borrowing costs that is determined on a real basis. The entity determines that amount of capitalised borrowing costs by applying a real interest rate to the inflation-adjusted borrowings related to the assets not yet available for use.

Enforceability

- BC79 In some cases, a regulatory agreement entitles an entity to accrue a regulatory return on assets not yet available for use and to include the regulatory return in determining the regulated rates in the periods in which the assets are available for use. Paragraph BC37 describes the IASB's decision to require an entity to assess the enforceability of its present right to add the regulatory return accrued to date in determining the regulated rates to be charged to customers in the future.

Differences in timing arising from performance incentives

- BC80 Some regulatory agreements include performance incentives that reward an entity for meeting, or penalise it for failing to meet, performance criteria within a specified period. These criteria could include, for example, targeted levels of service quality, efficiency in incurring expenditure or performance in constructing an item of property, plant and equipment.
- BC81 In the IASB's view, if an entity's performance gives rise to a bonus or a penalty for a period, that performance relates to regulatory goods or services supplied in that period. Therefore, the IASB decided that performance incentives form part of the total allowed compensation for the reporting period in which an entity's performance occurs. A difference in timing arises, for example, if the reporting period in which the incentive bonus or incentive penalty is included in regulated rates charged to customers differs from the reporting period in which the entity's performance occurs.
- BC82 This section also discusses performance incentives that:
- (a) relate to an entity's performance over a period that extends beyond the reporting period (see paragraphs BC83–BC86); and
 - (b) depend on more than one performance criterion (see paragraphs BC87–BC88).

Performance incentives relating to an entity's performance beyond the reporting period

- BC83 The performance criteria might relate to an entity's performance over a period that extends beyond the reporting period. For example, an entity's performance achieved to date might give rise to a bonus, but that bonus would depend on the entity's performance over a period that spans more than one reporting period. In this case, the entity is unlikely to claim that bonus before the end of the period in which the entity's performance is evaluated against the performance criteria specified in the regulatory agreement. Nevertheless, the entity might be able to assess whether it has an enforceable present right to the bonus relating to its performance achieved to date. IFRS 20 requires an entity:
- (a) to estimate the total amount of the performance incentive using the most likely amount method or the expected value method; and
 - (b) to determine the portion of that estimate that reflects performance to date.

- BC84 Paragraph BC37 describes the IASB's decision to require an entity to assess the enforceability of a present right to add, or present obligation to deduct, an amount that reflects its performance to date in determining the regulated rates to be charged to customers in the future.
- BC85 Some stakeholders said estimating the future cash flows for performance incentives, especially early in the performance period, would be very costly and subjective. Stakeholders cited reasons including, for example, the difficulty of anticipating events that affect an entity's performance and a lack of information about the inputs used by the regulator to calculate the incentives. These stakeholders suggested the IASB consider constraining the measurement of a regulatory asset or regulatory liability to meet a specified probability threshold or requiring recognition only when the outcome is known.
- BC86 The IASB acknowledged that some performance incentives might be subject to significant outcome or measurement uncertainty that makes estimating future cash flows difficult. However, the IASB concluded that an entity will generally have the information necessary to make reasonable estimates of the future cash flows arising from performance incentives. Such information is typically generated and closely monitored by the entity. The IASB was also concerned that alternative approaches—such as constraining measurement or deferring recognition of a specific population of regulatory assets and regulatory liabilities—would add complexity to the requirements. The IASB concluded that, even if performance incentives are subject to significant outcome or measurement uncertainty, recognition of regulatory assets or regulatory liabilities, accompanied by disclosures, would generally provide more useful information than the alternative approaches.

Performance incentives depending on more than one performance criterion

- BC87 In some cases, a performance incentive depends on more than one performance criterion and the criteria apply over periods with different end dates. Some amounts of the performance incentive will remain conditional on future performance criteria after other amounts have become unconditional. For example, part of a performance bonus for an entity constructing an asset according to specified requirements might also be conditional on the asset operating at a specified level of capacity over a specified future period. Consequently, the conditional part of the performance bonus might relate to only the entity's performance in maintaining the specified capacity of the asset.
- BC88 Therefore, for a performance incentive as described in paragraph BC87, the IASB decided to require an entity to assess whether amounts that remain conditional relate to only the entity's performance in future periods. If the conditional amounts relate to only the entity's future performance, IFRS 20 requires that these amounts form part of the total allowed compensation for the future reporting period in which the related performance occurs.

Differences in timing arising from compensation relating to inflation

- BC89 A regulatory agreement might provide compensation for inflation arising in a period:
- (a) through a nominal regulatory return on a regulatory capital base (see paragraphs BC90–BC91);
 - (b) by inflation adjustments to a regulatory capital base recovered through regulatory depreciation (see paragraphs BC92–BC107); or
 - (c) through a component of compensation that is separate from regulatory depreciation (see paragraphs BC108–BC109).

Compensation for inflation provided through a nominal regulatory return on a regulatory capital base

- BC90 A regulatory agreement might provide a nominal regulatory return by applying a nominal rate of return to an entity's nominal regulatory capital base (a nominal approach). A regulatory capital base that stays constant in nominal terms loses its underlying value through inflation each year. A nominal rate of return applied to an entity's regulatory capital base in a period aims to compensate the entity for that loss of value by including in the regulatory return the effect of the inflation arising in that period.
- BC91 Therefore, the IASB decided to require an entity to account for compensation for inflation provided through a nominal regulatory return as part of that regulatory return (see paragraphs BC61–BC79).

Compensation for inflation provided by inflation adjustments to a regulatory capital base recovered through regulatory depreciation

- BC92 A regulatory agreement might provide compensation for inflation for a period by adjusting an entity's regulatory capital base for the inflation arising in that period so that the regulatory capital base holds its value over time. The regulatory agreement provides a real regulatory return by applying a real rate of return to the inflation-adjusted regulatory capital base (a real approach). The regulatory agreement includes the inflation adjustments to the regulatory capital base in regulated rates as part of regulatory depreciation.
- BC93 In developing the requirements, IASB members held mixed views about whether those inflation adjustments should be viewed as either:
- (a) a right to compensation for regulatory goods or services an entity supplies in the period in which inflation arises that is recovered through regulatory depreciation in the future—that is, a difference in timing (see paragraphs BC95–BC99); or
 - (b) a right to higher regulatory depreciation that provides additional compensation for assets included in a regulatory capital base that an entity will use to supply regulatory goods or services in the future—that is, a measurement difference (see paragraphs BC100–BC104).

- BC94 Regardless of the view held, IASB members agreed that even if inflation adjustments to a regulatory capital base were viewed as a difference in timing, entities should not recognise any regulatory asset arising from these adjustments (see paragraph BC99).

Inflation adjustments as a difference in timing

- BC95 Some IASB members viewed inflation adjustments to an entity's regulatory capital base as compensation for the inflation arising in a period. According to these IASB members, an inflation adjustment arising in a period provides compensation for regulatory goods or services the entity supplies in that period but is recovered through regulatory depreciation in the future. Therefore, a regulatory asset arises if the entity has an enforceable present right to add an inflation adjustment arising in a period in future regulated rates.
- BC96 Those IASB members were in favour of aligning the accounting treatment for compensation for inflation under both the real and nominal approaches. In the view of those IASB members, compensation for inflation should form part of the total allowed compensation in the reporting period in which the inflation arises, regardless of when the regulatory agreement includes such compensation in the regulated rates.
- BC97 To account for a regulatory asset related to inflation adjustments, an entity would need to track, by amount and reporting period, how inflation adjustments would be recovered through regulatory depreciation. However, the IASB learned that an entity might find such tracking difficult—and sometimes impracticable—if the entity's regulatory capital base does not have a direct relationship with its depreciable and amortisable assets. Consequently, the significant measurement uncertainty associated with recognising such a regulatory asset would reduce the usefulness of the information provided to users of financial statements. Even if an entity's regulatory capital base has a direct relationship with its depreciable or amortisable assets, recognition of a regulatory asset related to inflation adjustments could be costly. For example, an entity would need to isolate differences in timing related to inflation adjustments from any differences in timing arising between the regulatory recovery period or pattern and the assets' useful lives or depreciation or amortisation method.
- BC98 Some users of financial statements told the IASB that accounting for inflation adjustments to the regulatory capital base as a regulatory asset would provide useful information. For example, an entity recognising such regulatory assets would provide information about the effect of inflation on future regulated rates. However, a few of those users acknowledged the difficulties associated with accounting for such regulatory assets and agreed that the resulting measurement uncertainty would reduce the usefulness of the information provided.

- BC99 The IASB concluded that if inflation adjustments to an entity's regulatory capital base were to be viewed as a difference in timing:
- (a) the costs associated with an entity recognising a regulatory asset related to inflation adjustments to the regulatory capital base would outweigh the benefits of the information provided to users; and
 - (b) an entity should not recognise such a regulatory asset.

Inflation adjustments as a measurement difference

- BC100 Some IASB members viewed inflation adjustments to an entity's regulatory capital base as a regulatory mechanism intended to hold its value over time. According to these IASB members, inflation adjustments increase the compensation for the items that are included in the regulatory capital base and recovered through regulatory depreciation.
- BC101 These IASB members noted that compensation for inflation provided through an adjustment to an entity's regulatory capital base differs in nature from compensation for inflation applied to an entity's allowed revenue for a period. An inflation adjustment applied to a regulatory capital base that includes assets to be used to supply regulatory goods or services in the future, and that are recovered over time, indicates that the compensation for inflation relates to those future regulatory goods or services. Conversely, compensation for inflation applied to an entity's allowed revenue for a period indicates that the compensation for inflation relates to regulatory goods or services supplied in that period (see paragraphs BC108–BC109).
- BC102 In those IASB members' views, the nominal and real approaches seek to achieve different economic objectives. Consequently, their accounting outcomes should reflect these differences.
- BC103 Treating inflation adjustments to an entity's regulatory capital base as a measurement difference would result in:
- (a) the entity reflecting such inflation adjustments in its reported financial performance in future periods—for example, if the entity does not have regulatory assets or regulatory liabilities arising from regulatory depreciation, or if the entity's regulatory capital base does not have a direct relationship with its depreciable or amortisable assets.
 - (b) the entity including such inflation adjustments in the measurement of regulatory assets or regulatory liabilities arising from regulatory depreciation—for example, if the entity's regulatory capital base has a direct relationship with its depreciable or amortisable assets.
- BC104 In the cases described in paragraph BC103(b), an entity would first allocate the inflation adjustments to depreciable and amortisable assets. The entity would then track, by amount and reporting period, how regulatory depreciation, which includes the effect of inflation adjustments, provides compensation for amounts arising from those assets. The IASB concluded that accounting for inflation adjustments as a measurement difference could be costly for such entities.

Inflation adjustments recognised in the period in which they are recovered through regulatory depreciation

- BC105 The IASB concluded that inflation adjustments to an entity's regulatory capital base could be viewed as a difference in timing or a measurement difference. However, accounting for such a difference in timing or measurement difference could be difficult or costly for a population of entities (see paragraphs BC99 and BC104).
- BC106 Therefore, the IASB decided to require an entity to treat compensation provided by inflation adjustments to the regulatory capital base as forming part of the total allowed compensation for the reporting period in which the inflation is recovered through regulatory depreciation.
- BC107 The IASB also decided not to specify that an inflation adjustment to an entity's regulatory capital base is either a difference in timing or a measurement difference. Consequently, the IASB concluded that the specific disclosure requirements for unrecognised regulatory asset or unrecognised regulatory liability should not apply to such inflation adjustments (see paragraphs BC276–BC277).

Compensation for inflation provided separately from regulatory depreciation

- BC108 A regulatory agreement might provide compensation for inflation arising in a reporting period separately from regulatory depreciation. For example, a regulatory agreement might determine an entity's allowed revenue (see paragraph BC110), or compensation for an allowable expense provided separately from regulatory depreciation, for a period by including the effect of inflation arising in that period. The IASB decided that compensation for inflation arising in a reporting period provided separately from regulatory depreciation forms part of the total allowed compensation for that period. Such compensation for inflation increases the amount of compensation (for example, allowed revenue or compensation for an allowable expense) to which an inflation rate is applied. The IASB's decision would align the accounting outcomes of compensation for inflation and the underlying compensation to which the inflation rate is applied.
- BC109 A difference in timing arises if compensation for inflation arising in a reporting period is included in regulated rates for a different period. In this case, any difference in timing that arises from such compensation might result in the recognition of a regulatory asset or regulatory liability.

Differences in timing arising from allowed revenue

- BC110 A regulatory agreement typically specifies the total amount of compensation that it entitles an entity to charge customers through regulated rates in a period. IFRS 20 refers to that amount as 'allowed revenue'. A regulatory agreement might determine the regulated rate an entity will charge customers in a period by dividing the allowed revenue for the period by the estimated quantity of goods or services the entity will supply to customers in the period.

- BC111 A difference in timing arises if the amount of allowed revenue under-recovered or over-recovered in a reporting period is added or deducted in determining the regulated rates in future periods. Often amounts of allowed revenue under-recovered or over-recovered in a reporting period are caused by differences between the estimated and actual quantity of goods or services supplied in the period – that is, differences due to volume variances.
- BC112 Applying IFRS 20, an entity accounting for a regulatory asset or regulatory liability related to allowed revenue under-recovered or over-recovered in a reporting period would reflect in its financial performance the amount of allowed revenue that the regulatory agreement entitled the entity to charge customers in that period.

Unit of account

- BC113 IFRS 20 uses as the unit of account the right or obligation arising from an individual difference in timing or from a group of differences in timing if those differences in timing are created by the same regulatory agreement, have similar expiry patterns and are subject to similar risks.
- BC114 In the IASB's view, treating the right or obligation arising from an individual difference in timing as the unit of account provides useful information about the expected timing and pattern of recovery of that right or fulfilment of that obligation.
- BC115 However, if differences in timing are created by the same regulatory agreement, have similar expiry patterns and are subject to similar risks, those differences are likely to have similar implications for the entity's prospects for future cash flows. Therefore, the IASB concluded that treating such differences in timing as a single unit of account would provide information that is as relevant as the information provided by treating each individual difference in timing as a separate unit of account.
- BC116 IFRS 20 also specifies that an entity:
- (a) determines individual differences in timing using the smallest aggregation of assets for which the entity has determined that its regulatory capital base has a direct relationship with its depreciable or amortisable assets, with the upper limit for such aggregation being an IFRS asset class (see paragraphs BC138–BC140); and
 - (b) is permitted to determine individual differences in timing using the disaggregation of the capitalised borrowing costs the entity uses to calculate depreciation or amortisation expense related to those costs – if the differences in timing arise from a regulatory return on assets not yet available for use that compensates for capitalised borrowing costs in specific circumstances (see paragraphs BC67 and BC74–BC76).

Recognition

BC117 IFRS 20 specifies:

- (a) recognition requirements for regulatory assets and regulatory liabilities (see paragraphs BC118–BC129);
- (b) a recognition criterion for a regulatory asset or regulatory liability arising from regulatory depreciation of a regulatory capital base (see paragraphs BC130–BC161); and
- (c) a recognition criterion for a regulatory asset or regulatory liability arising from compensation based on a benchmark determined using unobservable inputs (see paragraphs BC162–BC164).

Recognition requirements

BC118 The *Conceptual Framework* specifies criteria for an entity to recognise an asset or a liability. An entity recognises an asset or liability and any resulting income, expenses or changes in equity only if doing so provides users of financial statements with information that is useful—that is, with:

- (a) relevant information about the asset or liability and about any resulting income, expenses or changes in equity (see paragraphs BC119–BC126); and
- (b) a faithful representation of the asset or liability and of any resulting income, expenses or changes in equity (see paragraphs BC127–BC129).

Relevant information

BC119 Paragraph 5.12 of the *Conceptual Framework* states that an entity recognising a particular asset or liability and any resulting income, expenses or changes in equity may not always provide relevant information if:

- (a) it is uncertain whether an asset or liability exists (see paragraphs BC120–BC122); or
- (b) an asset or liability exists, but the probability of an inflow or outflow of economic benefits is low (see paragraphs BC123–BC124).

Existence uncertainty

BC120 Sometimes, whether a regulatory asset or regulatory liability exists is uncertain. The IASB decided that, in such cases, an entity is required to recognise the regulatory asset or regulatory liability if it is more likely than not that it exists—and it meets the recognition criteria set out in paragraph BC135 or BC163 if applicable. The IASB considered other alternatives such as specifying no recognition threshold or specifying a recognition threshold with a higher probability than ‘more likely than not’. The IASB acknowledged that IFRS 20 would be simpler for an entity to apply if there were no recognition threshold because an entity would not be required to assess whether regulatory assets or regulatory liabilities exist. The IASB also considered specifying a higher probability recognition threshold to reduce the subjectivity involved in making such an assessment. However, the IASB’s view

was that without a recognition threshold entities might not always provide relevant information, and a higher probability recognition threshold might result in entities' financial statements being less complete. Consequently, the IASB concluded that a 'more likely than not' threshold would achieve a better cost-benefit balance than either of the alternatives.

- BC121 In some circumstances it might be difficult for an entity to assess whether it is more likely than not that a regulatory asset or regulatory liability exists. However, the IASB expects these circumstances to be uncommon and typically to affect only specific regulatory assets or regulatory liabilities. On balance, the IASB concluded that in most cases applying the 'more likely than not' recognition threshold would provide useful information, the benefits of which would outweigh the associated costs.
- BC122 The 'more likely than not' recognition threshold is applied equally to both regulatory assets and regulatory liabilities. The IASB observed that the degree of existence uncertainty for regulatory assets is similar to the degree of existence uncertainty for regulatory liabilities. Furthermore, in some cases, differences in timing can frequently change, giving rise to regulatory assets in some periods and regulatory liabilities in others. Consequently, setting a different recognition threshold for regulatory assets and regulatory liabilities could result in information that is difficult to interpret, and therefore less useful for users of financial statements.

Low probability of an inflow or outflow of economic benefits

- BC123 Regulators typically determine regulated rates to ensure an entity's financial viability. The IASB therefore expects that, if a regulatory asset or regulatory liability exists, the probability that it will give rise to an inflow or outflow of economic benefits will generally be high. However, the IASB was of the view that, even if the probability of a flow of economic benefits is low, an entity recognising a regulatory asset or a regulatory liability at an amount that reflects that low probability would still result in relevant information. Any uncertainty about the amount or timing of those inflows or outflows would affect the measurement of the regulatory asset or regulatory liability. Consequently, the IASB decided not to set a recognition threshold based on the probability of a flow of economic benefits.
- BC124 A few stakeholders identified cases in which they thought a regulatory asset or regulatory liability existed but there was a low probability of inflows or outflows of economic benefits. For example, those stakeholders mentioned regulatory assets or regulatory liabilities arising from performance incentives that relate to an entity's performance over a period that extends beyond the reporting period. However, the IASB observed that although these performance incentives might be subject to significant measurement uncertainty (see paragraph BC128), they are typically designed to result in inflows or outflows of economic benefits.

Uncertainty about existence or enforceability

- BC125 Regulatory assets and regulatory liabilities are defined as enforceable present rights and enforceable present obligations. Consequently, uncertainty about the existence of a regulatory asset or regulatory liability might arise from uncertainty about:
- (a) the existence of a present right or present obligation;
 - (b) the enforceability of the present right or present obligation; or
 - (c) the existence and the enforceability of the present right or present obligation.
- BC126 Some stakeholders questioned whether a right or an obligation is enforceable if it is only more likely than not that the right or obligation exists. The IASB observed that assessing whether a right or obligation is enforceable is not dependent on the certainty of its existence. For example, an entity might not yet have received confirmation from the regulator about an amount to be recovered in determining future regulated rates—that is, existence of the right is uncertain. However, the entity might have enough evidence to conclude that, if the right exists, it is enforceable. Consequently, the IASB concluded that the requirement for an entity to assess whether a regulatory asset or regulatory liability exists is appropriate.

Faithful representation

- BC127 Paragraph 5.20 of the *Conceptual Framework* states that significant measurement uncertainty might affect whether recognising an asset or a liability faithfully represents that asset or liability and any resulting income, expenses or changes in equity. It is only in limited circumstances that an entity would not recognise an asset or a liability because no relevant measures are available (or can be obtained) that would provide useful information about the asset or liability (see paragraph 5.22 of the *Conceptual Framework*).
- BC128 Cash flows arising from regulatory assets and regulatory liabilities are generally stable and predictable. Consequently, entities would typically be able to make reasonable estimates when measuring regulatory assets and regulatory liabilities. However, the IASB noted that significant measurement uncertainty can arise if performance incentives relate to an entity's performance over a period that extends beyond the reporting period (see paragraphs BC83–BC86).
- BC129 The IASB concluded that in most cases the degree of measurement uncertainty associated with regulatory assets and regulatory liabilities is unlikely to be so high that no relevant measure would provide a sufficiently faithful representation of the regulatory asset or regulatory liability. The only exceptions to this conclusion are the regulatory assets and regulatory liabilities that do not meet the recognition criteria in paragraph BC135 or BC163. Except for these cases, IFRS 20 requires an entity to recognise all regulatory assets and regulatory liabilities if they are more likely than not to exist, regardless of the level of measurement uncertainty.

Recognition criterion for a regulatory asset or regulatory liability arising from regulatory depreciation of a regulatory capital base

BC130 IFRS 20 requires an entity to recognise a regulatory asset or regulatory liability arising from regulatory depreciation if, and only if, its regulatory capital base has a direct relationship with a related item or items. A direct relationship exists if the entity is able to track, by amount and reporting period, how regulatory depreciation provides compensation or makes a deduction for the amounts arising from the related item or items.

BC131 This section discusses:

- (a) the recognition criterion that requires a direct relationship between an entity's regulatory capital base and a related item or items (see paragraphs BC132–BC137);
- (b) the relationship between an entity's regulatory capital base and:
 - (i) depreciable or amortisable assets (see paragraphs BC138–BC149); and
 - (ii) related items other than depreciable or amortisable assets (see paragraphs BC150–BC153);
- (c) assessment of the relationship for parts of an entity's regulatory capital base (see paragraphs BC154–BC156); and
- (d) reassessment of the relationship with a related item or items (see paragraphs BC157–BC161).

Recognition criterion requiring a direct relationship between an entity's regulatory capital base and a related item or items

BC132 An entity's regulatory capital base typically consists mainly of assets. It might include other items such as allowable expenses, chargeable income and performance incentives. A regulatory agreement generally entitles an entity to recover the assets and other items in the regulatory capital base through regulatory depreciation. Therefore, regulatory depreciation provides compensation for amounts arising from related items such as depreciable and amortisable assets and other items added to the regulatory capital base.

BC133 Regulators use the regulatory capital base as a tool to determine part of the compensation that is included in the regulated rates an entity charges for a period. Regulators typically determine an entity's compensation by considering various overarching objectives—for example, the entity's financial viability and the affordability of regulated rates for customers. Although regulatory agreements might have similar overarching objectives, regulators use various methodologies to determine the regulatory capital base—and hence, regulatory depreciation.

- BC134 The regulatory methodology used affects whether regulatory depreciation can be viewed as compensation for amounts arising from a related item or items (for example, depreciation and amortisation expense arising from depreciable and amortisable assets)—that is, whether a link exists between regulatory depreciation and those amounts. In the IASB’s view, if such a link:
- (a) exists—accounting for a regulatory asset or regulatory liability arising from regulatory depreciation would provide useful information about the relationship between the compensation (regulatory depreciation) and the amounts arising from a related item or items (for example, depreciation and amortisation expense).
 - (b) does not exist or is difficult to identify—either a regulatory asset or regulatory liability that arises from regulatory depreciation does not exist, or a regulatory asset or regulatory liability exists but identifying and accounting for it would be likely to be costly, subjective or even impracticable. Any such regulatory assets or regulatory liabilities that exist might also be subject to significant measurement uncertainty (see paragraph BC127). Consequently, their recognition might not provide useful information about the relationship between compensation (regulatory depreciation) and the amounts arising from a related item or items (for example, depreciation and amortisation expense).
- BC135 The IASB concluded that a link exists between regulatory depreciation and amounts arising from a related item or items if an entity’s regulatory capital base has a direct relationship with the related item or items. Therefore, the IASB decided to require an entity to recognise a regulatory asset or regulatory liability arising from regulatory depreciation only if such a direct relationship exists. The recognition criterion requiring a direct relationship would apply to all related items—that is, depreciable and amortisable assets and other items such as allowable expenses, chargeable income and performance incentives. In the IASB’s view, this approach would result in a set of principled and cohesive recognition requirements for all regulatory assets and regulatory liabilities that arise from regulatory depreciation.
- BC136 The IASB also decided that an entity’s regulatory capital base has a direct relationship with a related item or items if the entity is able to track, by amount and reporting period, how regulatory depreciation provides compensation or makes a deduction for the amounts arising from the related item or items. In the IASB’s view, that ability is the essential feature that establishes the link between the regulatory depreciation and the amounts arising from the related item or items. That ability enables the entity to account for the recovery of a regulatory asset, or the fulfilment of a regulatory liability, arising from regulatory depreciation.
- BC137 An entity’s ability to track how regulatory depreciation provides compensation or makes a deduction for the amounts arising from a related item or items depends on facts and circumstances. The IASB decided to require an entity to use its judgement and consider all reasonable and supportable information that is available without undue cost or effort in determining the relationship between its regulatory capital base and a related

item or items. Such information includes, for example, the regulatory methodology underlying the determination of the regulatory capital base and regulatory depreciation, and how the regulator monitors whether regulatory depreciation provides compensation or makes a deduction for amounts arising from a related item or items.

Relationship with depreciable or amortisable assets

- BC138 Facts and circumstances affect the aggregation of assets for which an entity is able to track, by amount and reporting period, how regulatory depreciation provides compensation or makes a deduction for the amounts arising from depreciable or amortisable assets. Some entities have the ability to track for an individual depreciable or amortisable asset. However, others can track only for a group or groups of assets.
- BC139 In the IASB's view, requiring an entity to identify and account for differences in timing for a group of assets might still achieve a reasonable balance between the benefits of the information provided and the costs of providing that information. Therefore, the IASB decided to require an entity to use the smallest aggregation of assets for which the entity can track how regulatory depreciation provides compensation or makes a deduction for the amounts arising from depreciable or amortisable assets to determine:
- (a) whether its regulatory capital base has a direct relationship with its depreciable or amortisable assets; and
 - (b) individual differences in timing.
- BC140 The IASB also decided to place an upper limit for such aggregation of assets—that is, the asset class as determined by applying IFRS Accounting Standards such as IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* or IFRS 16 *Leases* (an IFRS asset class).
- BC141 The IASB decided to provide guidance to help entities determine whether their regulatory capital bases have a direct relationship with their depreciable or amortisable assets (see paragraphs B67–B68 of IFRS 20). In particular, paragraph B67 of IFRS 20 includes two indicators of a direct relationship with depreciable or amortisable assets. Those indicators reflect important features that enable an entity to track how regulatory depreciation provides compensation or makes a deduction for the amounts arising from those assets. Therefore, the IASB expects:
- (a) an entity for which both indicators of a direct relationship with depreciable or amortisable assets are present to typically conclude that such a direct relationship exists; and
 - (b) cases in which neither indicator is present but an entity nevertheless concludes that such a direct relationship exists to be uncommon.
- BC142 IFRS 20 does not use similarities or differences between the measurement basis of the assets in the regulatory capital base and the measurement basis of depreciable or amortisable assets as an indicator of the type of relationship between an entity's regulatory capital base and its depreciable or amortisable assets. The relationship depends on whether an entity is able to track how

regulatory depreciation provides compensation or makes a deduction for the amounts arising from depreciable or amortisable assets. An entity might have that ability even if the measurement basis for the assets in the regulatory capital base differs from the measurement basis for depreciable or amortisable assets. Those differences typically add complexity to the tracking but might not prevent an entity from tracking.

- BC143 If an entity is unable to track how regulatory depreciation provides compensation or makes a deduction for the amounts arising from depreciable or amortisable assets, its regulatory capital base does not have a direct relationship with those assets. However, if an entity had been required to demonstrate its inability to track, the entity might need to do work that would be difficult and costly.
- BC144 The IASB therefore decided to permit an entity to presume that its regulatory capital base does not have a direct relationship with its depreciable or amortisable assets if neither of the indicators of a direct relationship in paragraph B67 of IFRS 20 is present. The IASB concluded that the presumption would alleviate the cost and effort of determining whether such a direct relationship exists. An entity with neither indicator present could choose to apply the presumption, even if a direct relationship with depreciable or amortisable assets were to exist. However, the IASB expects such a situation to be uncommon (see paragraph BC141).
- BC145 The IASB acknowledged that entities might apply the presumption described in paragraph BC144 in an asymmetrical way. For example, if differences in timing arising from regulatory depreciation result in regulatory liabilities in excess of regulatory assets, an entity might choose to apply the presumption—and therefore not recognise such regulatory liabilities and regulatory assets. In contrast, if differences in timing arising from regulatory depreciation result in regulatory assets in excess of regulatory liabilities, an entity might choose to do additional work to track how the regulatory depreciation provides compensation or makes a deduction for the amounts arising from depreciable or amortisable assets—and therefore recognise such regulatory assets and regulatory liabilities.
- BC146 However, IFRS 20 requires an entity to determine the relationship between its regulatory capital base and a related item or items considering all reasonable and supportable information that is available without undue cost or effort, including the regulatory methodology for determining its regulatory capital base and regulatory depreciation (see paragraph BC137). The IASB concluded that the risk associated with asymmetrical application of the presumption is acceptable:
- (a) within an entity—often the same type of relationship exists for all depreciable and amortisable assets because the regulator applies the same methodology to the entire regulatory capital base in determining the regulatory capital base and regulatory depreciation. Therefore, an entity is typically unable to apply the presumption in different ways.

- (b) among entities—IFRS 20 requires an entity to disclose information about the relationship between its regulatory capital base and related items, including why it determined the relationship is, or is not, direct (see paragraphs BC278–BC279). An entity is also required to disclose information about unrecognised regulatory assets and unrecognised regulatory liabilities, including the reasons they have not been recognised (see paragraphs BC276–BC277). The disclosure requirements encourage more consistent application among entities subject to similar regulatory requirements.

BC147 A few stakeholders, representing entities whose regulatory capital bases do not have a direct relationship with their depreciable and amortisable assets, raised concerns about the recognition criterion that requires a direct relationship. These stakeholders said the recognition criterion would result in accounting outcomes that would reduce comparability between those entities and entities whose regulatory capital bases have a direct relationship. According to these stakeholders, entities with a direct relationship could recognise significantly higher amounts of regulatory assets and regulatory liabilities arising from regulatory depreciation than entities without a direct relationship.

BC148 The IASB acknowledged that accounting outcomes would vary depending on the relationship between an entity's regulatory capital base and its depreciable or amortisable assets. However, in the IASB's view, accounting outcomes would reflect differences between the terms of the regulatory agreements and between the methodologies used by regulators to determine the regulatory capital base and regulatory depreciation. The *Conceptual Framework* states:

2.27 Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different.
[...]

BC149 If an entity's regulatory capital base does not have a direct relationship with its depreciable or amortisable assets, a regulatory asset or regulatory liability might not exist, or any regulatory assets and regulatory liabilities that exist might be subject to significant measurement uncertainty. That uncertainty might affect the comparability of information entities provide about such regulatory assets and regulatory liabilities. The IASB concluded that the information provided by recognition of any such regulatory assets or regulatory liabilities might not be useful (see paragraph BC134(b)).

Relationship with related items other than depreciable or amortisable assets

BC150 Paragraphs B69–B70 of IFRS 20 provide indicators to help entities determine whether their regulatory capital bases have a direct relationship with related items other than depreciable or amortisable assets.

BC151 The IASB observed that regulators typically determine an entity's regulatory capital base and regulatory depreciation by applying the same methodology to the entire regulatory capital base (see paragraph BC146(a)). If an entity's regulatory capital base has a direct relationship with its depreciable and

amortisable assets, the entity is typically able to track how regulatory depreciation provides compensation or makes a deduction for the amounts arising from any related items. Consequently, the entity's regulatory capital base typically also has a direct relationship with related items other than depreciable or amortisable assets.

- BC152 Conversely, if an entity's regulatory capital base does not have a direct relationship with its depreciable and amortisable assets, a direct relationship with related items other than depreciable or amortisable assets typically does not exist. For example, a direct relationship with other related items might not exist if an entity is unable—using a reasonable and supportable basis—to allocate adjustments to the regulatory capital base or regulatory depreciation to those related items.
- BC153 However, a regulator might determine regulatory depreciation considering amounts arising from a related item other than depreciable or amortisable assets separately from the rest of the regulatory capital base. The regulatory monitoring might provide the entity with the information necessary to track, by amount and reporting period, how regulatory depreciation provides compensation or makes a deduction for the amounts arising from that related item in a reporting period. In such a case, the entity's regulatory capital base might have a direct relationship with that related item.

Assessment of the relationship for parts of an entity's regulatory capital base

- BC154 In some cases, the regulator applies different methodologies to separate parts of an entity's regulatory capital base or regulatory depreciation. For example, the regulator might:
- (a) determine regulatory depreciation considering amounts arising from specific related items separately from the rest of an entity's regulatory capital base (see paragraph BC153); or
 - (b) apply a methodology to an entity's regulatory capital base as at a specified date and another methodology to any items added to the regulatory capital base after that date.
- BC155 The IASB decided to require an entity to assess whether parts of its regulatory capital base have a direct relationship with related items, instead of considering the regulatory capital base as a whole. In the IASB's view, the information provided by doing so would better reflect the differences between the methodologies a regulator applies to each part of the regulatory capital base and the related regulatory depreciation (see paragraph BC148).
- BC156 The IASB acknowledged that entities might apply the requirement in an asymmetrical way. For example, an entity might do additional work to determine a direct relationship only for the parts of its regulatory capital base that result in regulatory assets in excess of regulatory liabilities. However, the IASB concluded that the risk of asymmetrical application is acceptable for similar reasons to those described for the application of the presumption that a direct relationship does not exist (see paragraph BC146).

Reassessment of the relationship with a related item or items

- BC157 IFRS 20 requires an entity to reassess the relationship between its regulatory capital base and a related item or items only if facts or circumstances change or new information becomes available that might alter the relationship, for example, a change in the regulatory agreement.
- BC158 The IASB expects the relationship between an entity's regulatory capital base and a related item or items to remain the same between reporting periods because such changes occur infrequently. A change in facts or circumstances typically arises from a change to the terms of the regulatory agreement, which could include the methodology the regulator uses to determine the regulatory capital base and regulatory depreciation.
- BC159 A change in facts or circumstances or new information might alter the relationship between an entity's regulatory capital base and a related item or items so that a direct relationship no longer exists. Paragraph B72 of IFRS 20 requires an entity to derecognise any affected regulatory assets or regulatory liabilities and recognise any related regulatory expense or regulatory income.
- BC160 Conversely, a change in facts or circumstances or new information might alter the relationship between an entity's regulatory capital base and a related item or items, so that a direct relationship starts to exist. Paragraph B72 of IFRS 20 requires an entity to recognise any affected regulatory assets or regulatory liabilities, and any resulting regulatory income or regulatory expense.
- BC161 The IASB concluded that the information provided by recognition or derecognition, accompanied by the disclosures required in paragraphs 82–83 of IFRS 20, would help users of financial statements to understand the effect of such a change on the relationship between an entity's regulatory capital base and a related item or items.

Recognition criterion for a regulatory asset or regulatory liability arising from compensation based on a benchmark determined using unobservable inputs

- BC162 Regulatory agreements might incentivise an entity to operate efficiently by determining compensation for the entity's allowable expenses based on a benchmark. In some cases, the benchmark is determined using unobservable inputs (for example, the expenses of an entity's peer group) and the regulator determines the compensation (for example, based on the actual benchmark expenses) only after an entity's financial statements are authorised for issue. In such a case, an entity might not have the information it needs (for example, information specific to its peer entities) to estimate the benchmark expenses. The IASB concluded that estimating the future cash flows arising from a resulting regulatory asset or regulatory liability could be difficult.
- BC163 The IASB decided, in the circumstance specified in paragraph BC162, to require an entity to recognise a regulatory asset or regulatory liability arising from compensation based on a benchmark determined using unobservable inputs only when the regulator determines the compensation based on the actual benchmark.

- BC164 The IASB noted that this approach would be aligned with the accounting for sales-based or usage-based royalties required by IFRS 15—that is, requiring recognition only once the measurement uncertainty is resolved. The IASB also viewed this approach as simpler for an entity to apply than the general recognition requirements in IFRS 20.

Derecognition

- BC165 The most common way an entity will derecognise part or all of a regulatory asset or regulatory liability is by updating the estimates of future cash flows as the entity recovers or fulfils the regulatory asset or regulatory liability. Therefore, in many cases an entity will not be required to consider explicitly when and how its regulatory assets and regulatory liabilities should be derecognised.
- BC166 Some stakeholders commented that derecognition might also occur when a regulator or another party settles part or all of a regulatory asset or waives part or all of a regulatory liability. The IASB decided that in such cases, an entity would be required to recognise in profit or loss the difference between the amount derecognised and any new asset or new liability recognised, if required by other IFRS Accounting Standards. This would also apply if regulatory income or regulatory expense arising from the regulatory asset or regulatory liability derecognised had previously been included in other comprehensive income. This is consistent with the requirement in paragraph 65 of IFRS 20, which links the inclusion of regulatory income or regulatory expense in other comprehensive income in a reporting period to the recognition of the related expense or related income in other comprehensive income in that period.
- BC167 The IASB considered whether to provide requirements on derecognition of regulatory assets because of a securitisation transaction. However, the IASB decided not to provide such requirements, noting that any such requirements would be complex and the securitisation of regulatory assets is uncommon in most jurisdictions. In the absence of specific requirements, IAS 8 *Basis of Preparation of Financial Statements* requires an entity to use its judgement in developing and applying an accounting policy for such transactions.

Measurement

Measurement basis

- BC168 Paragraph 34 of IFRS 20 requires an entity to measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique that:
- (a) 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; and
 - (b) discounts those estimated future cash flows using the regulatory interest rate.

- BC169 The IASB decided not to describe the measurement basis in IFRS 20 as a historical cost measurement basis or a current value measurement basis. The IASB concluded that either description could be confusing and the description of the measurement basis would have no practical effect on the measurement requirements.

Estimating future cash flows

- BC170 Regulatory assets or regulatory liabilities are enforceable present rights to add or enforceable present obligations to deduct an amount in determining future regulated rates because:
- (a) part or all of the total allowed compensation for regulatory goods or services already supplied has not yet been included in IFRS 15 revenue; or
 - (b) 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.
- BC171 Although a regulatory asset or regulatory liability is not a right or an obligation to receive or pay cash (see paragraph BC28), IFRS 20 describes the measurement requirements in terms of estimated future cash flows arising from the recovery of a regulatory asset or the fulfilment of a regulatory liability. Future cash flows arising from:
- (a) the recovery of a regulatory asset refer to primarily amounts for which an entity has an enforceable present right to add in determining the regulated rates to be charged to customers in future periods. The amounts added to the regulated rates ultimately increase cash inflows.
 - (b) the fulfilment of a regulatory liability refer to primarily amounts for which the entity has an enforceable present obligation to deduct in determining the regulated rates to be charged to customers in future periods. The amounts deducted from the regulated rates ultimately decrease cash inflows.
- BC172 The IASB decided to require an entity to measure a regulatory asset or regulatory liability at each reporting date on a basis that reflects an estimate of future cash flows that are within the boundary of a regulatory agreement, and only those cash flows (see paragraphs BC176–BC192). Such cash flows include cash flows described in paragraph BC171. They also include cash flows from regulatory interest specified in a regulatory agreement.
- BC173 In the IASB's view, a measurement that reflects an estimate of future cash flows would provide users of financial statements with relevant information that faithfully represents:
- (a) how regulatory assets and regulatory liabilities affect an entity's financial position; and
 - (b) how regulatory income and regulatory expense affect the entity's financial performance.

- BC174 The IASB also decided to require an entity to update the estimates of future cash flows to reflect changes in the estimated amount or timing. The IASB concluded that updating those estimates would provide the most relevant information to users of financial statements.
- BC175 IFRS 20 requires an entity to estimate future cash flows considering all reasonable and supportable information that is available at the reporting date without undue cost or effort, including information about market and non-market variables. The IASB decided to clarify that an entity is required to use assumptions about future market variables that are consistent with observable market prices at the reporting date. Therefore, the entity would disregard the effects of possible future changes in market variables. In the IASB's view, this requirement would reduce the difficulty of estimating future cash flows. The IASB also decided that an entity estimating future cash flows is required to disregard specific future non-market variables—that is, future changes in the regulatory agreement or in law or regulation. These requirements would be consistent with the requirements in other IFRS Accounting Standards, such as IFRS 16, IFRS 17 and IAS 12 *Income Taxes*.

Boundary of a regulatory agreement

- BC176 IFRS 20 uses the concept of the boundary of a regulatory agreement to determine the estimated future cash flows that an entity is required to include in measuring its regulatory assets and regulatory liabilities.
- BC177 The definitions of a regulatory asset and a regulatory liability refer to rights and obligations that are enforceable. Therefore, an entity determines the cash flows that are within the boundary of a regulatory agreement by assessing its enforceable present rights and enforceable present obligations.
- BC178 An entity will most commonly recover or fulfil the cash flows within the boundary of a regulatory agreement through regulated rates charged to customers—that is, through its enforceable present rights to add or enforceable present obligations to deduct amounts in determining regulated rates in future periods (see paragraphs BC179–BC185). However, in some cases, an entity might recover or fulfil cash flows within the boundary of a regulatory agreement through compensation received or paid on termination of a regulatory agreement (see paragraphs BC186–BC190).

Regulated rates charged to customers in future periods

- BC179 The IASB decided that cash flows recovered or fulfilled through regulated rates to be charged to customers in the future are within the boundary of a regulatory agreement if an entity has:
- (a) an enforceable present right or enforceable present obligation to supply regulatory goods or services at the future date (see paragraphs BC180–BC183); and
 - (b) an enforceable present right to recover a regulatory asset or enforceable present obligation to fulfil a regulatory liability through regulated rates to be charged to customers in the future (see paragraphs BC184–BC185).

- BC180 The period over which an entity has enforceable present rights or enforceable present obligations to supply regulatory goods or services might be affected by rights to renew, cancel or otherwise terminate a regulatory agreement.
- BC181 IFRS 20 requires an entity to assess whether rights to renew or terminate a regulatory agreement affect the entity's enforceable present right or enforceable present obligation to supply regulatory goods or services at a future date. In making that assessment, the entity is required to disregard a right held by any party if the party has no practical ability to exercise that right in any circumstances. Disregarding such rights is consistent with the *Conceptual Framework*, which states:
- 4.60 All terms in a contract—whether explicit or implicit—are considered unless they have no substance. Implicit terms could include, for example, obligations imposed by statute, such as statutory warranty obligations imposed on entities that enter into contracts to sell goods to customers.
 - 4.61 Terms that have no substance are disregarded. A term has no substance if it has no discernible effect on the economics of the contract. Terms that have no substance could include, for example:
 - (a) terms that bind neither party; or
 - (b) rights, including options, that the holder will not have the practical ability to exercise in any circumstances.
- BC182 Consistent with the *Conceptual Framework*, IFRS 20 also states that rights to renew or terminate a regulatory agreement might be explicit or implicit.
- BC183 Some regulatory agreements confer rights and obligations to supply regulatory goods or services without specifying exactly when those rights and obligations stop. In such cases, an entity might conclude that its right or obligation to supply regulatory goods or services appears to be for an indefinite period. The IASB decided that IFRS 20 should acknowledge that an entity might have an enforceable present right or enforceable present obligation to supply regulatory goods or services for an indefinite period. IFRS 20 includes examples of when such circumstances might arise.
- BC184 IFRS 20 specifies that cash flows from regulated rates are within the boundary of a regulatory agreement if an entity has an enforceable present right to recover or an enforceable present obligation to fulfil those cash flows through regulated rates. Therefore, only cash flows for which an entity has enforceable present rights or enforceable present obligations are included in the measurement of regulatory assets or regulatory liabilities.
- BC185 Cash flows arising from some regulatory assets or regulatory liabilities might be added to or deducted from regulated rates far in the future—for example, some regulatory assets arising from decommissioning liabilities or pension liabilities. The IASB acknowledged that, in such cases, there might be uncertainty about the existence of enforceable present rights to recover or

enforceable present obligations to fulfil cash flows through regulated rates charged. Consequently, an entity might be required to exercise judgement. The IASB decided to include in IFRS 20 examples of features of an entity's legal and regulatory framework that the entity might consider. The entity would consider these features in assessing whether it is more likely than not that the entity has an enforceable present right to recover or enforceable present obligation to fulfil cash flows through regulated rates charged. If the entity concluded it is more likely than not that the entity has such an enforceable present right or such an enforceable present obligation, those cash flows would fall within the boundary of a regulatory agreement.

Compensation on termination of a regulatory agreement

- BC186 An entity generally recovers a regulatory asset or fulfils a regulatory liability by adding amounts to or deducting amounts from future regulated rates charged. However, a regulatory agreement might be terminated before an entity has fully recovered a regulatory asset or fully fulfilled a regulatory liability. In such cases, the entity might be entitled to receive compensation for regulatory assets it has not yet recovered or obliged to pay compensation for regulatory liabilities it has not yet fulfilled.
- BC187 Until a regulatory agreement is terminated, there might be uncertainty about how the entity will recover a regulatory asset – by increasing future regulated rates, or by receiving compensation on termination. As long as this uncertainty persists, it could be argued that the entity has both a regulatory asset and a financial asset, each recovered in different scenarios. In the IASB's view, requiring an entity to account for those two assets separately would not provide users of financial statements with useful information and would cause needless complexity for both users and preparers. Furthermore, the right to receive compensation does not exist in isolation. It exists only to protect an entity's right to recover the total allowed compensation for regulatory goods or services already supplied. Similar considerations apply to an entity's obligation to pay compensation if a regulatory agreement is terminated before the entity fulfils a regulatory liability.
- BC188 For these reasons, the IASB decided that cash flows for which an entity has an enforceable present right to receive or an enforceable present obligation to pay compensation on termination of a regulatory agreement be regarded as arising within the boundary of a regulatory agreement. Consequently, the entity would include those cash flows in the measurement of a regulatory asset or regulatory liability.
- BC189 The IASB considered how an entity could assess whether it has an enforceable present right to receive or an enforceable present obligation to pay compensation on termination of a regulatory agreement for an amount comprising unrecovered regulatory assets and unfulfilled regulatory liabilities. Paragraph BC37 describes the IASB's decision to require an entity to assess enforceability of such a right or obligation.

- BC190 The IASB also decided that an entity is required to include, in measuring its regulatory assets and regulatory liabilities, the cash flows for which it is more likely than not that the entity has an enforceable present right to receive or an enforceable present obligation to pay compensation on termination, if there is uncertainty as to whether such a right or obligation exists. This approach is consistent with the approach for assessing whether an entity has enforceable present rights to recover or enforceable present obligations to fulfil cash flows through regulated rates charged far in the future if those rights or obligations are uncertain (see paragraph BC185).

Reassessment of and changes in the boundary

- BC191 IFRS 20 requires an entity to reassess the boundary of a regulatory agreement at the end of each reporting period. Reassessing the boundary could bring additional cash flows within the boundary or exclude previously included cash flows.
- BC192 The IASB considered whether information about changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement—and the reasons for that change in the boundary—would be useful. The IASB concluded that such information would enable users of financial statements to have a better understanding of the prospects for an entity's future cash flows (see paragraphs 73(f) and 74 of IFRS 20). Paragraph 73(f) does not require an entity to specify whether it viewed the effect of that change as recognising a new regulatory asset or regulatory liability or remeasuring an existing regulatory asset or regulatory liability. Making such a distinction would have no practical consequence.

Uncertain future cash flows

- BC193 The amount or timing of future cash flows arising from regulatory assets and regulatory liabilities might be uncertain. IFRS 20 requires an entity to estimate uncertain future cash flows by:
- (a) reflecting the effects of risks that create uncertainty about their amount or timing, except for non-performance risk of the entity. Paragraphs BC194–BC197 discuss how the measurement of regulatory assets and regulatory liabilities includes the effects of credit and other risks.
 - (b) using an unbiased range of possible outcomes. Paragraphs BC198–BC202 discuss the methods for estimating uncertain future cash flows.

Credit and other risks

- BC194 IFRS 20 requires an entity to estimate uncertain future cash flows by considering whether the entity or its customers bear a risk that creates uncertainty about the amount or timing of those future cash flows. Examples of such a risk include:
- (a) credit risk—the risk that some customers will not pay the amounts charged. Credit risk is generally low and is more commonly borne by customers than by an entity.

- (b) demand risk—the risk that arises from changes between the estimated and actual demand for goods or services an entity supplies to customers in a period. Demand risk might result in significant volume variances and is commonly borne by customers.

- BC195 An entity might bear credit risk. The amounts included in regulated rates charged to customers arise from the recovery of regulatory assets and from the fulfilment of regulatory liabilities. Consequently, the IASB decided to require an entity to estimate uncollectible amounts by considering the net cash flows that are expected to arise in the same period from regulatory assets and regulatory liabilities that are created by the same regulatory agreement. In the IASB's view, an entity ignoring cash flows arising from the fulfilment of regulatory liabilities would overstate the estimates of uncollectible amounts. The IASB also decided to require an entity to allocate the estimate of uncollectible amounts to regulatory assets only. In the IASB's view, allocating that estimate to regulatory assets only would be easier to understand and less costly to apply than allocating that estimate to both regulatory assets and regulatory liabilities.
- BC196 In some cases, customers bear a risk because a regulatory agreement compensates an entity for the outcome of an uncertainty in determining future regulated rates. The IASB decided that, in such cases, an entity is required to include the effects of the uncertainty and the compensation for the outcome of the uncertainty in the range of possible cash flows arising from a regulatory asset or regulatory liability. For example, an entity is entitled to compensation for amounts uncollected from customers in the future through regulated rates to be charged in a later future period. IFRS 20 requires the entity to measure a regulatory asset by including in the estimated future cash flows the expectation that some amounts will be uncollected and including in that later future period the expectation of compensation for the uncollected amounts.
- BC197 An entity might not fulfil a regulatory liability due to non-performance risk of the entity. The IASB decided to require an entity not to reflect its non-performance risk in the estimates of future cash flows arising from a regulatory liability. If the entity were to reflect its non-performance risk in those estimates, it would reduce the carrying amount of the regulatory liability. In the IASB's view, such a measurement for the regulatory liability would not provide useful information to users of financial statements.

Methods for estimating uncertain future cash flows

- BC198 The IASB decided to require an entity to estimate uncertain future cash flows using an unbiased range of possible outcomes. Possible outcomes include those in which a regulatory asset or regulatory liability does not exist or produces no future cash flows. In the IASB's view, an entity ignoring such outcomes would overstate the estimated future cash flows arising from the regulatory asset or regulatory liability.

- BC199 The *Conceptual Framework* states that when measuring an asset or a liability by reference to estimates of uncertain future cash flows, an entity considers possible variations in their estimated amount or timing in selecting a single amount from within a range of possible cash flows. The *Conceptual Framework* states that an amount within the central part of that range (a central estimate) usually provides the most relevant information. The *Conceptual Framework* identifies three central estimates, including the most likely amount (the statistical mode) and the expected value (the probability-weighted average or statistical mean).²
- BC200 The IASB decided to require an entity to estimate uncertain future cash flows using the most likely amount method or the expected value method – whichever the entity expects to better predict the ultimate cash flow that will occur after the uncertainty is resolved. That requirement is consistent with requirements in:
- (a) IFRS 15 on estimating the amount of variable consideration to be included in the transaction price in a revenue contract; and
 - (b) IFRIC 23 *Uncertainty over Income Tax Treatments* on predicting the resolution of an uncertainty over a tax treatment.
- BC201 An entity's measurement of a regulatory asset or regulatory liability at the most likely amount would not reflect the probability of all outcomes within an unbiased range of possible outcomes. The IASB decided not to provide additional guidance on circumstances in which the most likely amount method might better predict the ultimate cash flow. The IASB concluded that such guidance could disrupt the application of other IFRS Accounting Standards that also require the use of the most likely amount method.
- BC202 A change in facts or circumstances or new information might alter an entity's expectation of which method will better predict the ultimate cash flow. The IASB decided, in such cases, to require an entity to reassess its selected method for estimating uncertain future cash flows. In the IASB's view, this requirement would provide useful information if facts or circumstances change or new information becomes available, while avoiding the costs of periodic reassessment.

Foreign currency amounts

- BC203 IFRS 20 requires that, if regulated rates are denominated in a foreign currency, an entity treats any related regulatory assets or regulatory liabilities as monetary items when applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The IASB concluded that this requirement would simplify the application of IAS 21 for entities applying IFRS 20 and would result in reasonable outcomes. An entity would not apply the subsequent measurement requirements in IAS 21 to determine:

² The third central estimate identified in the *Conceptual Framework for Financial Reporting (Conceptual Framework)* is the maximum amount that is more likely than not to occur, similar to the statistical median (see paragraph 6.93 of the *Conceptual Framework*).

- (a) whether such regulatory assets and regulatory liabilities are monetary or non-monetary items; or
- (b) whether a regulatory asset or regulatory liability that is a non-monetary item is measured at historical cost or fair value.

No impairment test for regulatory assets

BC204 IFRS 20 requires an entity:

- (a) to measure regulatory assets based on updated estimates of future cash flows, including any estimated changes caused by, for example, credit risk or demand risk; and
- (b) to reassess the method the entity selected for estimating uncertain future cash flows arising from a regulatory asset if a change in facts or circumstances occurs or new information becomes available that might alter the entity's expectation of the method that will better predict the ultimate cash flow.

BC205 IFRS 20 also requires an entity to measure regulatory assets and regulatory liabilities by using the regulatory interest rate specified or implied in the regulatory agreement as the discount rate. The IASB noted that:

- (a) the regulatory interest rate specified or implied by a regulatory agreement for a regulatory asset is typically sufficient to compensate for the time value of money and for uncertainty in future cash flows (see paragraph BC209); and
- (b) regulatory agreements typically determine regulated rates in a way that provides adequate compensation, even if the regulatory interest rates specified or implied in the regulatory agreements for regulatory assets and regulatory liabilities are nil (see paragraph BC215).

BC206 The IASB concluded that requiring an impairment test for regulatory assets would add complexity while providing limited benefits. Therefore, the IASB decided not to require a separate impairment test and decided to exclude regulatory assets from the scope of IAS 36 *Impairment of Assets*.

Discounting estimated future cash flows

BC207 IFRS 20 requires an entity to measure a regulatory asset or regulatory liability by:

- (a) estimating the future cash flows arising from the regulatory asset or regulatory liability; and
- (b) discounting those cash flows using the regulatory interest rate specified or implied in the regulatory agreement for that regulatory asset or regulatory liability.

Using the regulatory interest rate as the discount rate

- BC208 For a measurement based on a cash-flow-based measurement technique, the IASB generally specifies the use of a discount rate that reflects the characteristics of the estimated future cash flows. These characteristics include the amounts and timings of those cash flows and the uncertainty that the ultimate amounts or timings of the future cash flows might differ from those estimated.
- BC209 The regulatory interest rate for a regulatory asset or regulatory liability is typically the rate specified in the regulatory agreement for that regulatory asset or regulatory liability. Interest rates specified in regulatory agreements for regulatory assets or regulatory liabilities are often tied to the duration of the regulatory assets or regulatory liabilities. However, interest rates might also be set for regulatory assets and regulatory liabilities on an aggregated basis. In such cases, the regulatory interest rate for a particular regulatory asset or regulatory liability might not be designed to compensate or charge an entity precisely for the time value of money and for uncertainty in future cash flows. Nonetheless, in most cases, regulatory interest rates would be sufficient to compensate or charge at least for the time value of money and for uncertainty in future cash flows. The IASB concluded that requiring an entity to use the regulatory interest rate as the discount rate would meet the objective set out in paragraph 1 of IFRS 20.
- BC210 If an entity uses the regulatory interest rate specified in a regulatory agreement as the discount rate, the entity will provide information that reflects the regulatory interest the regulatory agreement compensates or charges the entity. Implementing the requirements on discounting is usually straightforward. In many cases, the simplest way for an entity to discount the estimated future cash flows:
- (a) at initial recognition—is to calculate the sum of the estimated future cash flows, excluding the cash flows from regulatory interest; and
 - (b) at the end of each reporting period—is to calculate the sum of the estimated future cash flows, excluding the cash flows from regulatory interest that has not yet accrued.
- BC211 In limited situations, an entity might need discounting calculations to measure a regulatory asset or regulatory liability using, as the discount rate, the implied regulatory interest rate derived from the terms of a regulatory agreement. Such situations include, for example, a regulatory agreement that:
- (a) specifies uneven interest rates over the life of a regulatory asset or regulatory liability (see paragraphs BC223–BC225); or
 - (b) specifies an interest rate that does not apply to regulatory interest accrued in past periods, instead of a compound interest rate.
- BC212 An implied regulatory interest rate is the rate that at initial recognition discounts the estimates of future cash flows arising from a regulatory asset or regulatory liability, including the cash flows from regulatory interest, back to an amount that equals the sum of the estimated future cash flows, excluding

the cash flows from regulatory interest. In the IASB's view, using the implied regulatory interest rate as the discount rate:

- (a) results in measurements that reflect the effects of discounting throughout the life of a regulatory asset or regulatory liability, regardless of the amount or timing of the cash flows from regulatory interest; and
- (b) aligns the measurement outcomes of all regulatory assets and regulatory liabilities for which a regulatory interest rate is specified or implied in the regulatory agreement.

BC213 The IASB concluded that the benefits of requiring entities to use the regulatory interest rate as the discount rate would outweigh the costs for the reasons set out in paragraphs BC209–BC212.

Insufficient regulatory interest rate on regulatory assets

BC214 The IASB learned that regulatory interest rates specified or implied in regulatory agreements might be nil. The IASB acknowledged that, in some cases, an entity might overstate a regulatory asset if the entity used as the discount rate a regulatory interest rate that is insufficient to compensate the entity for the time value of money and for uncertainty in future cash flows. Such cases could include:

- (a) an entity operating in a developing regulatory environment where regulated rates might not fully support the entity's financial viability. The entity might have regulatory assets for which the regulatory agreement does not specify an interest rate and the recovery timeframe is subject to significant uncertainty.
- (b) a regulator deliberately deciding to provide no regulatory interest for specific regulatory assets—for example, regulatory assets related to assets that have been written off and might be recovered over many years.

BC215 However, regulated rates are typically designed to support entities' financial viability. A regulatory agreement might provide adequate compensation to an entity through other components of the regulated rates—for example, regulatory returns on the regulatory capital base. In such cases, the effects of an insufficient regulatory interest rate on specific regulatory assets—including those described in paragraph BC214—might be offset by an insufficient regulatory interest rate on regulatory liabilities and by compensation through other components of the regulated rates.

BC216 The Exposure Draft proposed to require an entity to use, as the discount rate for a regulatory asset in specified circumstances, a rate that is sufficient to compensate the entity for the time value of money and for uncertainty in future cash flows arising from the regulatory asset. An entity would be required to use that rate if the regulatory interest rate provided for that regulatory asset was insufficient to provide that compensation. The Exposure Draft referred to that rate as the minimum interest rate. The Exposure Draft contained no corresponding proposals for regulatory liabilities. Most

stakeholders, including users of financial statements, disagreed with the minimum interest rate proposals.

- BC217 If the regulatory interest rate for a regulatory asset is insufficient, the regulatory agreement is, in effect, reducing the compensation to which an entity is entitled for regulatory goods or services supplied. If an entity had used the minimum interest rate as the discount rate, the entity would have reflected that reduction by measuring the regulatory asset at a lower amount than the entity would have by using the regulatory interest rate as the discount rate. Consequently, the entity would have recognised:
- (a) lower regulatory income at initial recognition of the regulatory asset than the entity would have had if it used the regulatory interest rate as the discount rate; and
 - (b) higher regulatory interest income over the life of the regulatory asset than the entity would have had if it used that discount rate.
- BC218 The proposed requirements to use the minimum interest rate would have:
- (a) avoided an entity overstating the carrying amount of regulatory assets for which a regulatory agreement provides an insufficient regulatory interest rate; and
 - (b) been broadly aligned with the discounting principles in other IFRS Accounting Standards.
- BC219 However, the proposed requirements:
- (a) could have resulted in an entity recognising losses at initial recognition of regulatory assets if they had an insufficient regulatory interest rate, even if the regulatory agreement provided adequate compensation through other components of the regulated rates (see paragraph BC215).
 - (b) would have resulted in an entity using different discount rates for regulatory assets and regulatory liabilities. Consequently, the entity would have recognised gains or losses that did not reflect a change in economics, if a regulatory asset changed to become a regulatory liability and vice versa.
 - (c) would have been costly and complex to apply, if a regulatory agreement did not specify an interest rate for regulatory assets.
- BC220 The IASB considered but rejected alternative approaches to the proposed minimum interest rate requirements, such as:
- (a) exempting an entity from applying the proposed requirements in specific circumstances—for example, circumstances that give rise to a regulatory asset as described in paragraph BC219(b);
 - (b) exempting an entity from applying the proposed requirements, except in specified circumstances—for example, the circumstances in paragraph BC214; or

- (c) exempting an entity from discounting in specific circumstances, which would have the same effect as an exemption from the proposed requirements.

BC221 Those approaches would have reduced the cost of applying the proposed minimum interest rate requirements for only a limited population of regulatory assets or a limited population of entities. In the IASB's view, those approaches would have added complexity to the discounting requirements in IFRS 20 with limited benefits.

BC222 The IASB concluded that the costs of the proposed minimum interest rate requirements would outweigh the benefits. IFRS 20 requires an entity to disclose information about when the entity expects to recover regulatory assets or fulfil regulatory liabilities for which a regulatory agreement applies a regulatory interest rate of nil. The IASB concluded that those disclosures would help users of financial statements to understand the effects of measuring such regulatory assets and regulatory liabilities at an undiscounted amount (see paragraphs BC269–BC273). Therefore, the IASB decided not to include minimum interest rate requirements in IFRS 20.

Uneven interest rates—Exemption from discounting in specified circumstances

BC223 A regulatory agreement might specify that an interest rate is not applied immediately upon recognition of a regulatory asset or regulatory liability. In such cases, that regulatory asset or regulatory liability has uneven interest rates over its life – that is:

- (a) an interest rate of nil before the interest rate specified in the regulatory agreement starts to apply; and
- (b) the interest rate specified in the regulatory agreement after it starts to apply.

BC224 Applying the discounting requirements in IFRS 20, an entity would measure such a regulatory asset or regulatory liability using the implied regulatory interest rate as the discount rate, which requires discounting calculations. However, an entity might have many regulatory assets or regulatory liabilities that have uneven interest rates. In some cases, the interest rate specified in the regulatory agreement might start to apply a short period after the entity recognises a regulatory asset or regulatory liability. The effects of the time value of money for a short period are often insignificant relative to the cash flows that arise from a regulatory asset or regulatory liability. In such cases, the costs of discounting using an implied regulatory interest rate might outweigh the benefits of the information provided.

BC225 The IASB decided to provide an exemption from discounting for regulatory assets and regulatory liabilities that have uneven interest rates in specified circumstances. An entity can elect to apply the exemption if the entity expects the period between the recognition of a regulatory asset or regulatory liability and the date when an interest rate specified in the regulatory agreement starts to apply to be one year or less. If the entity elects to apply the exemption, it need not discount the estimated future cash flows arising from

the regulatory asset or regulatory liability during that period. In most cases, an entity would measure such a regulatory asset or regulatory liability at an amount that equals the sum of the estimated future cash flows excluding regulatory interest cash flows—and hence avoid discounting calculations. The entity would determine these measurements by:

- (a) electing to apply the exemption from discounting when the entity initially recognises the regulatory asset or regulatory liability and subsequently until the interest rate specified in the regulatory agreement starts to apply; and
- (b) using the interest rate specified in the regulatory agreement as the regulatory interest rate to discount the estimated future cash flows including regulatory interest cash flows, once the interest rate specified starts to apply.

Regulatory interest rates linked to interest rate benchmarks

BC226 A regulatory agreement might specify for a regulatory asset or regulatory liability interest rates that are linked to an interest rate benchmark. The IASB decided not to regard such interest rates as uneven interest rates. Therefore, an interest rate specified in the regulatory agreement that is linked to the interest rate benchmark is the regulatory interest rate that an entity uses as the discount rate for the regulatory asset or regulatory liability. When the interest rate benchmark changes, the entity will update the estimated future cash flows and discount them using the new regulatory interest rate (see paragraphs BC228–BC229).

BC227 In most cases, the measurement of such a regulatory asset or regulatory liability would equal the sum of the estimated future cash flows, excluding the cash flows from regulatory interest that has not yet accrued. The IASB noted that such a regulatory asset or regulatory liability would be equivalent to a floating-rate financial asset or financial liability. IFRS 9 states that if an entity initially recognises a floating-rate financial asset or financial liability at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

Changes in discount rate

BC228 IFRS 20 requires an entity to continue using the discount rate determined at initial recognition, unless the regulatory interest rate changes because of a change in:

- (a) the regulatory agreement; or
- (b) the interest rate benchmark to which the regulatory interest rate is linked.

BC229 A change in the regulatory interest rate will change the estimated future cash flows arising from a regulatory asset or regulatory liability. Applying IFRS 20, an entity typically recognises no gain or loss resulting from a change in the regulatory interest rate. In the IASB's view, this measurement outcome is

similar to the outcome of applying the requirements for determining the amortised cost of floating-rate financial instruments.

Simplified measurement approach—Items that affect regulated rates only when the related cash is paid or received

- BC230 In some cases, a regulatory agreement provides compensation for an allowable expense or makes a deduction for chargeable income in determining the regulated rates only when an entity pays or receives the related cash or soon after that—that is, on a cash basis. A regulatory asset or regulatory liability might arise if, applying IFRS Accounting Standards, the entity recognises the allowable expense or chargeable income in a different reporting period.
- BC231 Instead of using the cash-flow-based measurement technique required for all other regulatory assets and regulatory liabilities, the IASB decided to require that an entity measure such regulatory assets or regulatory liabilities by:
- (a) using the carrying amount of the related liability or related asset resulting from applying IFRS Accounting Standards.
 - (b) adjusting that carrying amount to reflect any differences between the related liability or related asset and the regulatory asset or regulatory liability. Such a difference might be caused by (i) an uncertainty present in the related liability or related asset but not in the regulatory asset or regulatory liability or (ii) an uncertainty present in the regulatory asset or regulatory liability but not in the related liability or related asset.
- BC232 In the IASB's view, this approach would provide users of financial statements with useful information because:
- (a) the regulatory assets or regulatory liabilities and the related liabilities or related assets share some features, for example:
 - (i) the duration of the regulatory assets or regulatory liabilities and the duration of the related liabilities or related assets are generally the same or similar.
 - (ii) any uncertainties present in the cash flows arising from the regulatory assets or regulatory liabilities are generally also present in the cash flows arising from the related liabilities or related assets. However, some uncertainties arise from (i) risks that are present in the related liabilities or related assets but not in the regulatory assets or regulatory liabilities or (ii) risks that are present in the regulatory assets or regulatory liabilities but not in the related liabilities or related assets. For example, estimation risk might be present in a related liability but not in a regulatory asset. This could occur when a regulatory agreement determines the compensation for an expense giving rise to a regulatory asset based on estimated cash payments for a related liability instead of actual cash payments. In such a case, an entity would measure the regulatory asset by adjusting

the carrying amount of the related liability to reflect differences between estimated and actual cash payments. Other risks such as credit risk and demand risk might be present in the regulatory asset or regulatory liability but not in the related liability or related asset. However, these risks are not expected to result in significant differences because they are commonly borne by customers (see paragraph BC194).

- (b) the regulatory assets or regulatory liabilities and the related liabilities or related assets will be measured using the same measurement basis. Paragraph 6.58 of the *Conceptual Framework* states that:

When assets and liabilities are related in some way, using different measurement bases for those assets and liabilities can create a measurement inconsistency (accounting mismatch). If financial statements contain measurement inconsistencies, those financial statements may not faithfully represent some aspects of the entity's financial position and financial performance. Consequently, in some circumstances, using the same measurement basis for related assets and liabilities may provide users of financial statements with information that is more useful than the information that would result from using different measurement bases. This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.

- BC233 Some stakeholders suggested that the IASB extend the measurement requirements described in paragraph BC231 to other situations, such as those in which a regulatory agreement provides compensation for:

- (a) credit risk that affects regulated rates when a regulator determines an amount is irrecoverable—that is, when the regulator determines that there is no reasonable expectation of the entity receiving the related cash (see paragraph BC234); or
- (b) an item of expense or income compensated for on a basis different from a cash basis (see paragraph BC235).

- BC234 The IASB concluded that if a regulatory agreement entitles an entity to include credit losses in regulated rates only when the regulator determines that there is no reasonable expectation of the entity receiving the related cash, this situation is economically equivalent to an entity being allowed to include an item of expense in regulated rates only when the entity pays cash to settle the related liability. Therefore, the IASB decided to extend the measurement requirements described in paragraph BC231 to regulatory assets arising from the situation described in paragraph BC233(a).

- BC235 The IASB decided not to extend the measurement requirements described in paragraph BC231 to other situations in which a regulatory agreement provides compensation on a basis different from a cash basis. The stakeholders that suggested extending those measurement requirements noted that regulatory

assets arising from those other situations attract no regulatory interest rate and would therefore have been subject to the complexity of applying the proposed minimum interest rate requirements. The IASB is of the view that its decision not to include the proposed minimum interest rate requirements in IFRS 20 addresses these stakeholders' concerns.

Applying this Standard with IFRIC 12 *Service Concession Arrangements*

- BC236 Stakeholders requested guidance on the relationship between IFRS 20 and IFRIC 12 *Service Concession Arrangements*. Service concession arrangements within the scope of IFRIC 12 might create regulatory assets and regulatory liabilities within the scope of IFRS 20. IFRS 20 provides information that supplements the information arising from other IFRS Accounting Standards. Consequently, the IASB decided to require an entity to apply IFRIC 12 to account for rights and obligations arising from such arrangements before applying IFRS 20 to any remaining rights and obligations that meet the definition of a regulatory asset or a regulatory liability.
- BC237 The recognition of some regulatory assets and regulatory liabilities is conditional on the existence of a direct relationship between an entity's regulatory capital base and a related item or items. The IASB considered whether to provide guidance on how an entity determines such a relationship in service concession arrangements within the scope of IFRIC 12.
- BC238 The regulatory capital base of an entity subject to a service concession arrangement would often include the items of infrastructure arising from the construction or upgrade services the entity provided in accordance with the arrangement (these items are referred to as 'assets' in this section). Applying IFRIC 12, the entity might account for the consideration it receives for these services as an intangible asset, a financial asset, or both an intangible asset and a financial asset.
- BC239 The consideration for the construction or upgrade services might give rise to an intangible asset to the extent that the entity receives a right to charge users of the public service. The intangible asset relates to all of the assets included in the regulatory capital base, or the portion of those assets to be recovered through the price charged to users of the public service. Differences in timing might arise from compensation provided through regulatory depreciation. The IASB decided to require an entity to account for those differences in timing by determining whether its regulatory capital base has a direct relationship with its intangible asset. In doing so, the entity applies the requirements in paragraphs 29–30 and B59–B72 of IFRS 20. The IASB also decided to provide guidance on how an entity determines whether a difference in timing arises if the recovery period or pattern of the assets included in the regulatory capital base differs from the useful life or amortisation method of the intangible asset.

- BC240 The consideration for the construction or upgrade services might give rise to a financial asset to the extent that the entity has an unconditional contractual right to receive cash or another financial asset. Although the existence of any regulatory assets or regulatory liabilities will depend on an entity's facts or circumstances, the IASB did not expect regulatory assets or regulatory liabilities to arise in most such cases.

Classification and presentation

Statement(s) of financial performance

- BC241 In the Exposure Draft, the IASB proposed that an entity be required to present all regulatory income minus all regulatory expense (regulatory income or regulatory expense) in a separate line item immediately below revenue. Some stakeholders suggested that the IASB permit or require an entity to classify all regulatory income and all regulatory expense as revenue.
- BC242 IFRS 15 defines revenue as 'income arising in the course of an entity's ordinary activities', which is broader than revenue from contracts with customers. The IASB is of the view that regulatory income or regulatory expense meets the IFRS 15 definition of revenue. Hence, classifying all regulatory income and all regulatory expense as revenue would help provide users of financial statements with a more complete picture of the income an entity is entitled to from its ordinary activities during the period. Consequently, IFRS 20 requires an entity to classify all regulatory income and all regulatory expense as revenue except amounts included in other comprehensive income (see paragraphs BC253–BC255).
- BC243 IFRS 20 also requires an entity to present regulatory income or regulatory expense recognised in profit or loss as a line item in the statement of profit or loss. In making this decision, the IASB considered how this presentation requirement would intersect with the presentation and disclosure requirements in IFRS 15 and the general requirements in IFRS 18 for the primary financial statements to provide a useful structured summary.
- BC244 IFRS 15 does not require an entity to present revenue from contracts with customers as a line item. Instead, paragraph 113 of IFRS 15 requires an entity to disclose revenue from contracts with customers separately from other sources of revenue.
- BC245 Information about regulatory income or regulatory expense is intended to supplement the information provided by IFRS 15 revenue (see paragraph BC12). Therefore, the IASB considered whether:
- (a) the presentation requirements in the Standard should align with those in IFRS 15 and, therefore, the Standard should not require an entity to present regulatory income or regulatory expense as a line item in the statement of profit or loss. Under this approach, an entity would still need to consider whether separate presentation of regulatory income or regulatory expense is necessary for the statement of profit or loss to

provide a useful structured summary of its income and expenses (see paragraphs 16–24 of IFRS 18).

- (b) the Standard should require separate presentation of regulatory income or regulatory expense in the statement of profit or loss. Under this approach, an entity applying IFRS 18 could, nevertheless, conclude that separate presentation is unnecessary for the statement of profit or loss to provide a useful structured summary of its income and expenses.

BC246 The IASB acknowledged that the two approaches described in paragraph BC245 would probably result in a similar outcome. Nevertheless, the IASB decided to require an entity to present regulatory income or regulatory expense as a line item. This requirement signals that regulatory income or regulatory expense is sufficiently distinct from other sources of revenue to warrant separate presentation in the statement of profit or loss, resulting in information that is more useful for users of financial statements.

Regulatory interest income and regulatory interest expense

BC247 IFRS 20 requires an entity to present regulatory interest income or regulatory interest expense together with all other components of regulatory income or regulatory expense in the statement(s) of financial performance (see paragraph 63 of IFRS 20).

BC248 The IASB discussed differences between this approach and that in other IFRS Accounting Standards. When a contract to supply goods or services to a customer contains a significant financing component, IFRS 15 requires an entity to adjust the promised amount of consideration for the effects of that component and recognise revenue for the goods or services supplied to the customer at the cash selling price a customer would have paid if paying on transfer of the goods or services to the customer. Interest revenue or interest expense arising from the significant financing component is presented separately from IFRS 15 revenue. In addition, applying IFRS 18, interest expense on a contract liability with a significant financing component would be classified in the financing category of the statement of profit or loss, not as revenue in the operating category.

BC249 The requirements in IFRS 15 and IFRS 18 reflect the ability of non-regulated entities to include a financing component within the price charged to customers. In such cases, the price reflects two distinct components—the provision of goods or services and the provision of finance.

BC250 By contrast, for regulated entities, the compensation or deduction for regulatory interest will be included in determining the future regulated rates charged to customers—and hence included in IFRS 15 revenue in future periods—when the related regulatory assets are recovered or the related regulatory liabilities are fulfilled. Consequently, compensation or a deduction for regulatory interest is ultimately compensation or a deduction for the regulatory goods or services an entity supplies.

- BC251 Additionally, feedback from users of financial statements indicated that classifying and presenting regulatory interest as set out in paragraph BC247 provides more useful information than would arise from the approach in IFRS 15 and IFRS 18. Therefore, the IASB:
- (a) concluded that presenting regulatory interest income minus regulatory interest expense within the regulatory income or regulatory expense line item would coherently and understandably show how regulatory assets and regulatory liabilities—and changes in them—affect IFRS 15 revenue; and
 - (b) amended the requirements in IFRS 18 to allow for the approach set out in paragraph BC247 (see Appendix A).
- BC252 Although compensation or a deduction for regulatory interest is compensation or a deduction for the supply of regulatory goods or services, it differs in nature from other components of regulatory income or regulatory expense and is driven by different factors. Therefore, IFRS 20 requires an entity to disclose regulatory interest income and regulatory interest expense in the notes separately from other components of regulatory income or regulatory expense (see paragraph BC268).

Including some regulatory income or regulatory expense in other comprehensive income

- BC253 An entity might include an item of expense or income in other comprehensive income by applying other IFRS Accounting Standards. The IASB considered whether, in such cases:
- (a) to require an entity to include in other comprehensive income regulatory income or regulatory expense arising in a reporting period because of the recognition of the related expense or related income in other comprehensive income in that period; or
 - (b) to require an entity to present that regulatory income or regulatory expense in the statement of profit or loss.
- BC254 Presentation in profit or loss would be consistent with the presentation of all other components of regulatory income or regulatory expense. Regulatory assets and regulatory liabilities and changes in them affect the amount of IFRS 15 revenue in current or future reporting periods. Consequently, an entity presenting components of regulatory income or regulatory expense—including those arising because of the recognition of the related expense or related income in other comprehensive income—as a line item in the statement of profit or loss would coherently and understandably show the effects on IFRS 15 revenue of regulatory assets and regulatory liabilities and changes in them.
- BC255 Nevertheless, stakeholders, including users of financial statements, said presenting those components of regulatory income or regulatory expense in the statement of profit or loss would result in information that is less relevant and understandable than if they were included in other comprehensive income. Consequently, the IASB decided to require an entity to include those

components in other comprehensive income because doing so would result in the statement of profit or loss providing more relevant information for users of financial statements.

Statement of financial position

- BC256 The IASB decided to withdraw the proposal in the Exposure Draft that would have permitted an entity, for presentation purposes, to offset regulatory assets and regulatory liabilities that form separate units of account if the entity satisfied specified conditions. Stakeholders said that a regulator might decide that some differences in timing should be netted and treated as a single adjustment in determining the regulated rate for a future period. Therefore, the IASB concluded that the proposed offsetting requirement would be redundant because a regulator would already have decided to offset a group of differences in timing when treating them as a single adjustment to be included in future regulated rates.

Disclosure

- BC257 In developing the disclosure objectives and requirements in IFRS 20, the IASB considered its *Guidance for Developing and Drafting Disclosure Requirements in IFRS Accounting Standards*. Reflecting that guidance, IFRS 20 includes:
- (a) an overall disclosure objective that describes the overall information needs of users of financial statements;
 - (b) specific disclosure objectives that describe the detailed information needs of users; and
 - (c) specific disclosure requirements that describe the items of information that an entity is required to disclose, if that information is material.

Overall disclosure objective in IFRS 20

- BC258 The IASB decided to develop the overall disclosure objective for IFRS 20 by focusing on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities.
- BC259 The IASB considered whether the overall disclosure objective should, similar to the disclosure objective in IFRS 14, require an entity to disclose:
- (a) information about the nature of, and the risks associated with, rate regulation; and
 - (b) the effects of that rate regulation on the entity's financial performance, financial position and cash flows.
- BC260 The IASB decided against developing such a broad overall disclosure objective for IFRS 20 because:
- (a) although information about the nature of, and risks associated with, rate regulation is useful to users of financial statements, they do not rely on financial statements to provide this information. IFRS Accounting Standards do not require an entity to disclose such

information about any other form of regulation. The IASB saw no reason to require an entity to provide such information for rate regulation.

- (b) rate regulation can have pervasive effects on an entity's financial performance, financial position and cash flows. For example, rate regulation determines whether an entity has an enforceable present right or enforceable present obligation to supply regulatory goods or services. Rate regulation also affects the rates an entity charges and the costs an entity needs to incur to supply regulatory goods or services. An objective aimed at enabling users to assess the pervasive effects of rate regulation would go beyond the objective of financial statements (see paragraph 3.2 of the *Conceptual Framework*).
- (c) a broad overall disclosure objective might have led to an entity disclosing more information than intended by the IASB.
- (d) an overall disclosure objective that focuses on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities is better aligned with the objective of IFRS 20.

Specific disclosure objectives

BC261 IFRS 20 has two specific disclosure objectives intended to help users of financial statements:

- (a) to understand:
 - (i) the amounts that are recognised in the statement of financial position and statement(s) of financial performance for regulatory assets, regulatory liabilities, regulatory income and regulatory expense; and
 - (ii) the nature of the unrecognised regulatory assets or unrecognised regulatory liabilities and the reason they have not been recognised; and
- (b) to understand the relationship between an entity's regulatory capital base and a related item or items.

BC262 The objective of IFRS 20 is to require an entity to provide relevant information that faithfully represents how regulatory assets and regulatory liabilities affect the entity's financial position, and how regulatory income and regulatory expense affect its financial performance. Therefore, the first specific disclosure objective in paragraph BC261(a) focuses on providing information to help users of financial statements understand an entity's financial position and financial performance.

BC263 As discussed in paragraphs BC130–BC161, the relationship between an entity's regulatory capital base and a related item or items determines whether the entity recognises some regulatory assets and regulatory liabilities. The IASB concluded information about this relationship would be useful to users of financial statements. Therefore, the second specific disclosure objective in paragraph BC261(b) requires an entity to disclose information that enables

users to understand whether an entity's regulatory capital base has, or does not have, a direct relationship with a related item or items.

- BC264 The specific disclosure objectives do not refer to the cash flows that occurred during the period. An entity recovers regulatory assets and fulfils regulatory liabilities indirectly by increasing or decreasing regulated rates, not directly by receiving or paying cash.

Aggregation and disaggregation

- BC265 IFRS 18 sets out principles an entity is required to use to aggregate and disaggregate information in its financial statements. The IASB decided to include examples of the characteristics an entity could consider as a basis for aggregating or disaggregating information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities (see paragraph B96 of IFRS 20). These examples are intended to help an entity apply the principles in IFRS 18 to the disclosures required by IFRS 20.

Specific disclosure requirements

Reconciling regulatory assets and regulatory liabilities

- BC266 In the IASB's view, requiring an entity to reconcile the opening and closing carrying amounts of regulatory assets and the opening and closing carrying amounts of regulatory liabilities would be an effective way of providing some of the information necessary to satisfy the first specific disclosure objective (see paragraph BC261(a)(i)). The reconciliations provide information about:
- (a) the components of regulatory income and regulatory expense; and
 - (b) changes in regulatory assets and regulatory liabilities that did not give rise to regulatory income or regulatory expense.

- BC267 The IASB decided to require these reconciliations to be disclosed in a table because feedback from users of financial statements suggests that a table provides the required information in an understandable way.

Components of regulatory income and regulatory expense

- BC268 In the IASB's view, requiring an entity to disclose the components of regulatory income and regulatory expense is necessary to achieve the first specific disclosure objective in paragraph BC261(a)(i). Disclosing the components is necessary because each component is driven by a distinct factor. For example, if an entity recognises an allowable expense in the current reporting period but the regulatory agreement requires the entity to include the compensation for that expense in determining the regulated rates in a future period, the entity recognises a regulatory asset in the current reporting period. The regulatory income arising when the entity initially recognises the regulatory asset provides information about the amount of the difference in timing, whereas any regulatory interest income on that regulatory asset provides information about compensation for the time period until the entity recovers the regulatory asset.

Recovering regulatory assets and fulfilling regulatory liabilities

- BC269 IFRS 20 requires an entity to disclose information about:
- (a) the recovery of regulatory assets and fulfilment of regulatory liabilities in the current reporting period. An entity discloses this information through the reconciliations of regulatory assets and regulatory liabilities (see paragraph BC266).
 - (b) the expected recovery of regulatory assets and expected fulfilment of regulatory liabilities in future periods using time bands.
- BC270 The information about the expected recovery of regulatory assets and expected fulfilment of regulatory liabilities provides insights into future cash flows arising from the regulatory assets and regulatory liabilities that exist at the end of the reporting period. The IASB acknowledged that, in some cases, an entity might find it difficult to estimate when it expects to recover regulatory assets or fulfil regulatory liabilities. Therefore, the IASB decided to require an entity to determine this information using reasonable and supportable assumptions about the timing of future cash flows that are consistent between periods.
- BC271 The IASB also decided:
- (a) to improve the comparability of entities' information by requiring an entity to disclose information about the expected recovery of regulatory assets and expected fulfilment of regulatory liabilities in future periods using undiscounted cash flows, excluding regulatory interest cash flows;
 - (b) to require an entity to use judgement in determining the time bands it uses; and
 - (c) to include examples of the time bands an entity could use in meeting the requirements in IFRS 20.
- BC272 Some regulatory agreements apply a regulatory interest rate of nil to regulatory assets or regulatory liabilities that an entity measures using the cash-flow-based measurement technique (see paragraphs BC214–BC222). In those cases, the requirement for an entity to use the regulatory interest rate specified in the regulatory agreement as the discount rate would result in regulatory assets and regulatory liabilities being measured at an undiscounted amount. The IASB concluded that information to help users understand the effect of using such a discount rate in measuring these regulatory assets and regulatory liabilities would be useful. Therefore, the IASB decided to require an entity to disaggregate the information about the expected recovery of regulatory assets and expected fulfilment of regulatory liabilities between:
- (a) regulatory assets and regulatory liabilities for which a regulatory agreement applies a regulatory interest rate that is not nil, which might include cases in which the regulatory interest rate applied is insufficient (see paragraphs BC214–BC222); and

- (b) regulatory assets and regulatory liabilities for which a regulatory agreement applies a regulatory interest rate of nil.

BC273 IFRS 20 also requires an entity to explain how uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities. This explanation will help users to assess how that uncertainty could affect the amount and timing of an entity's future cash flows.

Discounting

BC274 IFRS 20 requires an entity to disclose the discount rate or ranges of discount rates used to measure regulatory assets and regulatory liabilities for which a regulatory agreement applies a regulatory interest rate. This requirement is consistent with other IFRS Accounting Standards that require or permit an entity to measure assets or liabilities by discounting uncertain future cash flows. Disclosing the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities provides users with information about the risk associated with future cash flows.

BC275 IFRS 20 permits an entity not to discount estimated future cash flows in specified circumstances (see paragraph BC225). In some cases, users of financial statements might require additional information to understand the effects of discounting on regulatory assets and regulatory liabilities. Such information might be useful, for example, if inflation or interest rates are high. The IASB decided that an entity applying the discounting exemption should disclose that fact, together with the carrying amount of regulatory assets and regulatory liabilities at the end of the reporting period to which the entity has applied the exemption.

Unrecognised regulatory assets and unrecognised regulatory liabilities

BC276 The recognition of some regulatory assets and regulatory liabilities in IFRS 20 is conditional on the existence of a direct relationship between an entity's regulatory capital base and a related item or items (see paragraph BC135). Unrecognised regulatory assets or unrecognised regulatory liabilities might also arise if regulatory assets or regulatory liabilities do not meet the recognition threshold of 'more likely than not' (see paragraph BC120).

BC277 In the IASB's view, requiring an entity to provide information about unrecognised regulatory assets and unrecognised regulatory liabilities would be an effective way of providing some of the information necessary to satisfy the first specific disclosure objective (see paragraph BC261(a)(ii)). Information about unrecognised regulatory assets and unrecognised regulatory liabilities could affect analysis of an entity's financial position by users of financial statements. Consequently, IFRS 20 requires an entity to disclose information about unrecognised regulatory assets and unrecognised regulatory liabilities, such as the type of compensation or deduction they relate to and the reason the entity has not recognised them. The IASB also considered whether to require an entity to disclose the amounts of unrecognised regulatory assets and unrecognised regulatory liabilities. However, the IASB found that such information could be difficult and costly to obtain. Therefore, the IASB

decided not to require an entity to disclose the amounts of unrecognised regulatory assets and unrecognised regulatory liabilities.

Type of relationship

BC278 The second specific disclosure objective in IFRS 20 focuses on enabling users of financial statements to understand the relationship between an entity's regulatory capital base and a related item or items (see paragraph BC261(b)). The IASB decided that to understand this relationship, users would need to know:

- (a) whether an entity's regulatory capital base has, or does not have, a direct relationship with a related item or items;
- (b) why an entity has concluded that its regulatory capital base has, or does not have, a direct relationship with a related item or items; and
- (c) whether any changes to or from a direct relationship have arisen and the reason for the change.

BC279 Some stakeholders suggested that an entity be required to disclose the amount of its regulatory capital base. The IASB decided that disclosing the amount of the regulatory capital base is not necessary to meet the overall disclosure objective in IFRS 20 or the objective of financial statements.

Effective date

BC280 The IASB decided to make IFRS 20 effective for annual reporting periods beginning on or after 1 January 2029. In determining the effective date, the IASB considered the requirements in the *Due Process Handbook*, including:

- (a) the need to give users and preparers of financial statements enough time to understand the new IFRS Accounting Standard and implement the necessary systems changes; and
- (b) the need to provide sufficient time for endorsement in jurisdictions.

BC281 Entities adopting IFRS 20 are likely to need to change their data-collection processes and IT systems. The extent of the changes required will vary between entities, but even entities that have previously recognised regulatory balances might be required to make changes to processes and systems. Entities will need:

- (a) to ensure these changes are in place in time to capture data for preparing comparative information;
- (b) to explain to internal and external stakeholders—including users of financial statements, auditors and regulators—how the entities will capture the information required to apply the Standard; and
- (c) to explain to those stakeholders how the new requirements are likely to affect the entities' financial statements.

- BC282 Making such changes and having such discussions take time. The IASB proposed in the Exposure Draft that the new Standard become effective 18–24 months after the date of publication. Some stakeholders suggested that 24 months would be the minimum amount of time required. Some suggested an implementation period of 24–36 months. A few, including entities that would be first-time adopters of IFRS Accounting Standards, suggested even longer periods.
- BC283 The IASB weighed up the information needs of users of financial statements against the time required for entities to implement IFRS 20. From a user perspective, IFRS 20 will provide better financial information and reduce the current diversity in practice. In the IASB's view, users should be provided with better information from the earliest possible date.
- BC284 The IASB considered the time necessary for entities to implement the new requirements and the time required for some jurisdictions to incorporate the new requirements into their legal systems. In the IASB's view, giving entities enough time to implement IFRS 20 effectively was important. Therefore, the IASB decided that 1 January 2029 was an appropriate effective date.
- BC285 The IASB also considered feedback from some stakeholders (preparers) who wished their entities to adopt the new requirements as soon as possible. These preparers were keen for their entities to apply IFRS 20 at the earliest possible date to more effectively communicate information about the effects of regulatory assets, regulatory liabilities, regulatory income and regulatory expense in their entities' financial statements. The IASB acknowledged that some entities might require less time to implement the new requirements in IFRS 20 than others—for example, entities that already recognise regulatory balances in their financial statements. Therefore, the IASB decided to permit early application of IFRS 20.

Transition

- BC286 IFRS 20 requires an entity to apply the requirements retrospectively or to use a modified retrospective approach.

Retrospective application

- BC287 Retrospective application in accordance with IAS 8 requires an entity to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented, as if the new accounting policy had always been applied.
- BC288 In the IASB's view, retrospective application provides the most useful information to users of financial statements. However, retrospective application can be costly for preparers. The IASB considered how it could reduce the cost of retrospective application for preparers, while still providing users with comparable information. The IASB decided:

- (a) to limit the requirement to present adjusted comparative information to the annual reporting period immediately preceding the date of initial application. An entity is permitted, but not required, to present adjusted comparative information for any earlier periods presented.
- (b) to provide an entity that applies IFRS 20 retrospectively with partial relief from disclosing the information required by paragraph 28(f) of IAS 8.

Modified retrospective application

BC289 Despite the benefits of retrospective application, the IASB was of the view that it could be difficult for preparers. Retrospective application would require information that spans long periods and entities might not have all the information required. Therefore, the IASB decided to develop a modified retrospective approach, which provides additional transition reliefs to those permitted for entities applying a retrospective approach (see paragraph BC288).

BC290 In developing the transition reliefs, the IASB focused on requirements for which an entity might find it difficult to obtain the information required for retrospective application and for which providing relief would not significantly affect the information provided to users of financial statements. The IASB also focused on requirements that an entity might be unable to apply without using hindsight. Consequently, the transition reliefs focus on:

- (a) the requirements to recognise differences in timing arising from regulatory returns on assets not yet available for use (see paragraphs BC291–BC292);
- (b) the requirements for an implied regulatory interest rate (see paragraphs BC293–BC294); and
- (c) the use of hindsight in applying the requirements in IFRS 20 (see paragraphs BC295–BC296).

Regulatory returns on assets not yet available for use in specific circumstances

BC291 IFRS 20 specifies requirements for differences in timing arising from a regulatory return on assets not yet available for use in specific circumstances (see paragraphs BC67–BC79). The IASB was of the view that an entity could have difficulty in retrospectively applying these requirements if it:

- (a) had stopped tracking capitalised borrowing costs once assets became available for use; or
- (b) had not tracked regulatory returns included in the regulated rates charged during the periods in which the assets were not yet available for use.

BC292 Therefore, the IASB decided to permit an entity to apply these requirements only to assets that are not yet available for use at the transition date.

Implied regulatory interest rate

- BC293 In some cases, IFRS 20 requires an entity to derive an implied regulatory interest rate from the terms of a regulatory agreement instead of using the interest rate specified in the regulatory agreement (see paragraphs BC211–BC212). The IASB decided to permit an entity to apply the requirements for an implied regulatory interest rate disregarding any implied regulatory interest rates that would have been derived from the terms of the regulatory agreement before the transition date.
- BC294 Permitting an entity to use this relief enables the entity to avoid the costs and complexity of applying the implied regulatory interest rate requirements to several interest rates specified before transition. For example, this permission means an entity need not assess whether it is required to calculate an implied regulatory interest rate in a case of uneven interest rates (see paragraph BC211(a)) if the interest rate specified is even from the transition date going forward. In the IASB's view, this relief would not significantly reduce the usefulness of the resulting information to users of financial statements.

Hindsight

- BC295 Paragraph 53 of IAS 8 specifies that hindsight should not be used when applying a new accounting policy to a prior period. If an entity applying IFRS 20 were prohibited from using hindsight, the entity would be required to recreate the circumstances in which it would have made assumptions and judgements to apply the recognition and measurement requirements. The IASB concluded that, in some cases, an entity applying IFRS 20 would not have such information.
- BC296 The IASB agreed that, in the absence of historical data, an entity might need to use current information. Therefore, the IASB agreed to permit an entity using the modified retrospective approach to use hindsight.

Applying the transition reliefs

- BC297 The IASB decided to permit an entity applying the modified retrospective approach to decide which of the transition reliefs to apply. This permission allows an entity to apply these reliefs in a manner appropriate to its circumstances.
- BC298 The IASB decided to require an entity to disclose the transition reliefs it has applied and how it has applied them. This requirement enables users to understand the effect of the reliefs on an entity's regulatory assets and regulatory liabilities.

Past business combinations

- BC299 The IASB discussed possible approaches for accounting for the net amount of the adjustment on transition related to regulatory assets acquired and regulatory liabilities assumed in a past business combination. Specifically, the IASB considered whether to require an entity:

- (a) to adjust the opening balance of retained earnings (or other component of equity, as appropriate); or
 - (b) to adjust the carrying amount of goodwill from a past business combination.
- BC300 The IASB decided to require an entity to adjust the opening balance of retained earnings (or other component of equity, as appropriate) instead of adjusting goodwill because:
 - (a) some adjustments might be unrelated to the goodwill recognised at the acquisition date; and
 - (b) the requirement would avoid the need for the entity to differentiate between regulatory assets acquired and regulatory liabilities assumed in a past business combination and those originated in another way.
- BC301 The IASB acknowledged that adjusting retained earnings instead of goodwill could result in amounts related to regulatory assets acquired or amounts related to regulatory liabilities assumed in past business combinations being accounted for twice—once as part of, or as a deduction from, the goodwill arising on the business combination and once as regulatory assets or regulatory liabilities on transition to IFRS 20. However, in the IASB's view, the costs of adjusting goodwill as described in paragraph BC300 would outweigh the benefits. Furthermore, the IASB noted these concerns were not unique to IFRS 20. Other IFRS Accounting Standards also require an entity to take the net adjustment on transition to retained earnings (or other component of equity)—including adjustments related to assets acquired or liabilities assumed in past business combinations.

Interim financial statements

- BC302 An entity might apply IFRS 20 for the first time in its interim financial statements. The IASB concluded that some of its decisions about applying IFRS 20 for the first time in annual financial statements were also applicable to interim financial statements. The IASB therefore included, in Appendix C to IFRS 20, requirements for presenting or disclosing in the notes comparative information about the effect of applying IFRS 20 for the first time in interim financial statements.

Appendix A

Amendments to the bases for conclusions on other IFRS Accounting Standards

This appendix sets out the amendments to the bases for conclusions on other IFRS Accounting Standards that are a consequence of the IASB issuing IFRS 20 Regulatory Assets and Regulatory Liabilities.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph BC30 is amended. Paragraph BC63N and its related heading are added. New text is underlined and deleted text is struck through.

Opening IFRS balance sheet

...

Exemptions from other IFRSs

BC30 An entity may elect to use one or more of the following exemptions:

...

- (m) severe hyperinflation (paragraphs BC63F–BC63J); ~~and~~
- (n) joint arrangements (paragraphs BC63K and BC63L); ~~and~~
- (o) regulatory assets and regulatory liabilities (paragraph BC63N).

...

Regulatory assets and regulatory liabilities

BC63N The IASB saw no reason to give first-time adopters of IFRS Accounting Standards different transition approaches from other entities. In the IASB's view, retrospective application could also be costly and difficult for first-time adopters. Consequently, the IASB amended IFRS 1 to permit the use of the transition reliefs in IFRS 20 *Regulatory Assets and Regulatory Liabilities*, except that an entity shall not apply the transition relief in paragraph C10 of IFRS 20 to an item to which it applies the deemed cost exemption in paragraph D8B of IFRS 1. An entity using the deemed cost exemption may have already capitalised regulatory returns in excess of capitalised borrowing costs for assets not yet available for use that existed before the date of transition to IFRSs.

A footnote is added to the end of the first sentence in paragraph BC47F. New text is underlined.

* IFRS 20 *Regulatory Assets and Regulatory Liabilities*, issued in May 2026, changed the heading above paragraph 31B of IFRS 1 to 'Use of deemed cost by first-time adopters applying IFRS 20'.

IFRS 3 *Business Combinations*

Paragraphs BC303A–BC303B and the related heading are added. New text is underlined.

Applying the acquisition method

...

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

...

Exceptions to the recognition or measurement principle

...

Exceptions to both the recognition and measurement principles

...

Regulatory assets and regulatory liabilities

BC303A The IASB considered whether to require an entity to recognise and measure regulatory assets acquired and regulatory liabilities assumed in a business combination by applying the recognition and measurement principles in IFRS 20 *Regulatory Assets and Regulatory Liabilities*, or in accordance with IFRS 3. Requiring an acquirer:

- (a) to recognise regulatory assets and regulatory liabilities by applying the recognition principles in IFRS 3 might result in an entity not recognising regulatory assets acquired or regulatory liabilities assumed in a business combination if it is uncertain whether they exist. In contrast, applying the recognition requirements in IFRS 20, an entity would recognise regulatory assets or regulatory liabilities if it is more likely than not that they exist.
- (b) to measure regulatory assets and regulatory liabilities at initial recognition at fair value in accordance with IFRS 3, but thereafter in accordance with IFRS 20, could result in the recognition of subsequent gains or losses. These gains or losses would not depict any economic phenomena but would simply reflect the effect of changing from one measurement basis to another. The IASB noted that IFRS 3 already includes exceptions to its recognition and measurement principles to avoid an entity reporting post-combination gains or losses arising solely from subsequent measurement using a different measurement basis. The IASB also noted that an entity might incur significant costs in determining the discount rate necessary to measure regulatory assets and regulatory liabilities at fair value.

BC303B The IASB concluded that requiring an entity to recognise and measure regulatory assets acquired or regulatory liabilities assumed in a business combination in accordance with IFRS 20 would provide information that is relevant to users of financial statements. Accordingly, the IASB amended IFRS 3 to provide an exception to the recognition and measurement principles in IFRS 3 for regulatory assets acquired and regulatory liabilities assumed in a business combination.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph BC14F is added. New text is underlined.

Scope of the IFRS

...

BC14F The Board decided to exclude regulatory assets from the scope of the measurement requirements in IFRS 5. In the Board's view, it would be difficult for an entity to determine the fair value of regulatory assets because determining the discount rate can be complex. The Board also decided that the measurement requirements in IFRS 20 *Regulatory Assets and Regulatory Liabilities* would provide useful information. Thus, the Board concluded that the costs of requiring an entity to measure regulatory assets in accordance with the measurement requirements in IFRS 5 would outweigh any incremental benefits.

A footnote is added to paragraph BC13. New text is underlined.

* IFRS 20 *Regulatory Assets and Regulatory Liabilities* was issued in May 2026. In developing IFRS 20, the Board decided to exclude regulatory assets from the measurement requirements in IFRS 5 because of difficulties in determining the fair value of regulatory assets (see paragraph BC14F).

IFRS 18 *Presentation and Disclosure in Financial Statements*

Paragraphs BC197A, BC241A and BC315A, and the related subheadings are added. New text is underlined.

Statement of profit or loss

Structure of the statement of profit or loss (paragraphs 46–74 and B29–B76)

...

Financing category and profit or loss before financing and income taxes subtotal (paragraphs 59–66 and B50–B59)

...

Financing category

...

Regulatory interest

BC197A In developing IFRS 20 *Regulatory Assets and Regulatory Liabilities*, the IASB considered how an entity classifies regulatory interest in the statement(s) of financial performance. Although regulatory interest has characteristics of financing, compensation or a deduction for regulatory interest is compensation or a deduction for the regulatory goods or services an entity supplies and therefore is related to the entity's operating activities—amounts related to regulatory interest will be included in determining future regulated rates charged to customers. The IASB therefore decided to amend IFRS 18 to exclude regulatory interest from the financing category and instead include it in the operating category.

...

Items to be presented in the statement of profit or loss or disclosed in the notes (paragraphs 75–85 and B77–B85)

...

Line item for regulatory income or regulatory expense

BC241A IFRS 20 amended IFRS 18 to require an entity to present all regulatory income minus all regulatory expense as a line item in the statement of profit or loss. The IASB concluded that separate presentation would enable users of financial statements to understand how the entity's financial performance was affected by the supply of regulatory goods or services in one period and by the inclusion of part or all of the total allowed compensation for supplying those goods or services in the regulated rates charged to customers, and hence in revenue from contracts with customers, in a different period.

...

Statement of financial position

...

Line items to be presented in the statement of financial position (paragraphs 103–106 and B109–B111)

...

Regulatory assets and regulatory liabilities

BC315A IFRS 20 amended IFRS 18 to require an entity to present line items for regulatory assets and regulatory liabilities in the statement of financial position. The IASB concluded that separate presentation was appropriate because the characteristics of regulatory assets and regulatory liabilities differ from those of other assets and liabilities.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Paragraphs BC125–BC126 and the related subheading are added. New text is underlined.

Maintaining IFRS 19

...

Regulatory assets and regulatory liabilities

BC125 When developing IFRS 20 *Regulatory Assets and Regulatory Liabilities*, the IASB decided to require an entity applying IFRS 19 and IFRS 20 to apply all the disclosure requirements in IFRS 20. The main reasons for the IASB's decision were:

- (a) the population of entities that would be applying IFRS 19 and IFRS 20 is likely to be small—therefore it is unlikely that reducing the disclosure requirements would benefit many entities.
- (b) the limited potential for reducing the disclosure requirements—the potential reductions in disclosure requirements if applying the approach set out in paragraphs BC32–BC53 mainly related to removing disclosure objectives and guidance on how to apply the disclosure requirements. The IASB concluded that these potential reductions would not significantly reduce costs for preparers of financial statements.
- (c) the benefits of requiring, at least initially, compliance with all the disclosure requirements in IFRS 20, namely:
 - (i) IFRS 20 introduces a new model for accounting for regulatory assets and regulatory liabilities that is supported by its disclosure requirements; and
 - (ii) users would be able to become familiar with the model in IFRS 20 (making use of the information disclosed in accordance with IFRS 20) and the IASB would be able to assess the effectiveness of the associated disclosure requirements before testing the effect of any reduced disclosure requirements.

BC126 The IASB noted that its decision in relation to IFRS 20 does not set a precedent for future decisions on whether to reduce disclosure requirements in other IFRS Accounting Standards because many of the reasons cited in paragraph BC125 are specific to IFRS 20.

IAS 8 Basis of Preparation of Financial Statements

Paragraphs BC38–BC40 and the related heading are deleted. New text is underlined and deleted text is struck through.

Amended references to the *Conceptual Framework*

...

Application by rate-regulated entities

~~BC38–
BC40~~

~~[Deleted]*~~

- ~~BC38~~ While assessing possible effects of updating the reference to the *Framework* in IAS 8, the Board identified a potential disadvantage for entities that conduct rate-regulated activities and develop their accounting policies for regulatory account balances by reference to the *Framework* rather than by applying IFRS 14 *Regulatory Deferral Accounts*. If the reference to the *Framework* had been updated, such entities might have needed to revise those accounting policies twice within a short period of time—first, when the 2018 *Conceptual Framework* comes into effect; and, later, when a new IFRS Standard on rate-regulated activities is issued. In the absence of specific guidance, there might have been uncertainty about what would be acceptable if the 2018 *Conceptual Framework* was applied. Establishing what would be acceptable might have been costly and the outcome might have been diversity in practice and a loss of trend information for users.
- ~~BC39~~ To prevent unhelpful and unnecessary disruption for users of the financial statements of entities that conduct rate-regulated activities and for the entities themselves, the Board provided a temporary exception: paragraph 54G prohibits entities from applying the 2018 *Conceptual Framework* to accounting policies relating to regulatory account balances. Instead, entities are required to continue to apply the *Framework* when developing or revising those accounting policies. Once the Board issues a new IFRS Standard on rate-regulated activities, that prohibition is likely to become unnecessary.
- ~~BC40~~ The Board based the definition of ‘a regulatory account balance’ on the definition of ‘a regulatory deferral account balance’ in IFRS 14, with one difference: the definition of a regulatory account balance does not mention qualifying for deferral. The reference to deferral in IFRS 14 reflects the fact that IFRS 14 permits continued recognition of some regulatory deferral account balances that an entity previously recognised as assets or liabilities immediately before it adopted IFRS Standards for the first time. In contrast, paragraph 54G of IAS 8 applies only when an entity is not applying IFRS 14 but is instead developing an accounting policy after considering paragraph 11 of IAS 8. Paragraph 54G applies regardless of whether that accounting policy results in recognition of any assets or liabilities, and regardless of whether such recognition could be viewed as deferral.

The footnote to paragraph BC17(b) is amended. Deleted text is struck through.

- * In 2018 the Board issued a revised *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The Board also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. That document replaced the reference to the *Framework* in paragraph 11(b) of IAS 8 with a reference to the *Conceptual Framework*, ~~except in the case of some regulatory account balances, as explained in paragraphs 54G of IAS 8 and BC38–BC40.~~

A footnote is added to paragraph BC38. New text is underlined.

- * IFRS 20 *Regulatory Assets and Regulatory Liabilities*, issued in May 2026, deleted a temporary exception from applying the 2018 *Conceptual Framework* to accounting policies relating to regulatory account balances and, as a consequence, deleted paragraphs BC38–BC40 and amended a footnote to paragraph BC17(b).

IAS 36 *Impairment of Assets*

Paragraphs BC8A–BC8D are added. New text is underlined.

Scope (paragraph 2)

...

- BC8A** The IASB decided to exclude regulatory assets from the scope of IAS 36. The measurement of regulatory assets would be based on updated estimates of future cash flows, including any estimated changes caused by, for example, demand risk or credit risk. In the IASB's view, excluding regulatory assets from the scope of IAS 36 is consistent with other scope exclusions in IAS 36. Assets are excluded from the scope of IAS 36 if other IFRS Accounting Standards include requirements that ensure the assets are carried at appropriate amounts.
- BC8B** The IASB considered whether to provide further guidance on applying IAS 36, in particular:
- (a) guidance on assessing whether the cash flows arising from a regulatory asset or regulatory liability are largely independent of the cash flows generated by a cash-generating unit within the scope of IAS 36 (see paragraph 43 of IAS 36); and
 - (b) guidance on situations in which regulatory assets or regulatory liabilities are included in the determination of the recoverable amount of a cash-generating unit (see paragraph 79 of IAS 36).
- BC8C** For example, entities might recover regulatory assets by adding amounts in determining future regulated rates. In the IASB's view, the mechanism for recovering regulatory assets does not create interdependence between the cash flows arising from the regulatory assets and the cash flows from supplying regulatory goods or services using an item of property, plant and equipment. Nevertheless, the IASB acknowledged that, in some cases, the cash flows arising from regulatory assets might not be largely independent of the cash flows generated by other assets. The IASB also acknowledged that an entity might find it difficult to determine the recoverable amount of a cash-generating unit before consideration of regulatory assets or regulatory liabilities. In such cases, an entity applying IAS 36 might include regulatory assets or regulatory liabilities in determining the recoverable amount of a cash-generating unit.
- BC8D** Accordingly, the IASB concluded that the requirements in IAS 36 are sufficient for entities to apply them and to use judgement based on their facts and circumstances.

IFRIC 12 *Service Concession Arrangements*

Paragraphs BC19A–BC19B and the related heading are added. New text is underlined.

Scope (paragraphs 4–9)

...

Regulatory assets and regulatory liabilities

BC19A Some arrangements within the scope of IFRIC 12 might create regulatory assets and regulatory liabilities within the scope of IFRS 20 *Regulatory Assets and Regulatory Liabilities*. The IASB decided that an entity is required to apply IFRIC 12 before applying the requirements in IFRS 20 to any remaining rights and obligations to determine whether the entity has regulatory assets or regulatory liabilities. Accordingly, the IASB amended IFRIC 12 to reflect this decision.

BC19B The IASB considered requests from stakeholders for guidance on the relationship between IFRS 20 and IFRIC 12. The IASB decided to provide guidance and illustrative examples in IFRS 20 on how an entity would account for regulatory assets and regulatory liabilities created by service concession arrangements within the scope of IFRIC 12.

Appendix B

Requirements for an entity that applies IFRS 20 before applying IFRS 18

- B1 IFRS 18 *Presentation and Disclosure in Financial Statements* supersedes IAS 1 *Presentation of Financial Statements* for annual reporting periods beginning on or after 1 January 2027. The IASB learned that some entities might elect to apply IFRS 20 *Regulatory Assets and Regulatory Liabilities* before applying IFRS 18. To assist an entity that applies IAS 1 and IFRS 20, Appendix E to IFRS 20 specifies the requirements in IAS 1 the entity is required to apply. Appendix E also contains the amendments to IAS 1 that an entity applies when it applies IFRS 20.



IFRS[®]

Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

ifrs.org

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