

IFRS news

IFRS 20 – The new rate regulation



Executive summary

On 27 May 2026, the International Accounting Standards Board (IASB) issued a new standard on accounting for companies subject to rate regulation entitled IFRS 20 'Regulatory Assets and Regulatory Liabilities' (the Standard).

This Standard replaces IFRS 14 'Regulatory Deferral Accounts' and will impact entities that provide goods and/or services that are subject to specific types of rate regulation. The Standard includes new recognition and measurement requirements, as well as presentation and disclosures to enable users of the financial statements to understand how differences in timing due to rate regulations impact the performance of an entity.

Background

Reporting entities operating in specific industries which provide vital services such as water, gas and electricity are often subject to regulations which determine how much they are allowed to charge their customers. These arrangements are governed by regulatory agreements. This Standard applies to entities that are subject to regulatory agreements that determine the compensation that the entity is entitled to charge for regulatory goods and services, and when the entity is allowed to change that compensation through regulated rates.

In certain circumstances, such agreements give rise to so called differences in timing, where the revenue recognised in a period when applying IFRS 15 'Revenue from Contracts with Customers' does not match the compensation to which an entity is entitled. It is these situations that IFRS 20 aims to address with the requirements summarised below.

Effective date and transition

IFRS 20 is effective for annual reporting periods beginning on or after 1 January 2029, with early application permitted.

Summary of new requirements

IFRS 20 is a standard which supplements the information provided by applying other IFRS Accounting Standards such as IFRS 15. An entity is required to apply other IFRS Accounting Standards to account for rights and obligations created by regulatory agreements before applying IFRS 20. IFRS 20 key requirements are summarised below.

1 Definition of regulatory assets and liabilities

- A regulatory asset or liability is an enforceable present right or obligation, created by a regulatory agreement, to add or deduct an amount when determining a regulated rate charged to customers in future periods.
- Regulatory assets arise when part or all of the total allowed compensation for goods or services already supplied has not yet been included in IFRS 15 revenue. Regulatory liabilities arise when part or all of the allowed compensation for goods or services to be supplied in the future has already been included in IFRS 15 revenue.
- Regulatory income and expenses arise from changes in regulatory assets and liabilities.

2 Recognition and measurement

- Except for certain specific circumstances, an entity must recognise all regulatory assets and liabilities that exist at the end of a reporting period, and all regulatory income and expenses that arise during the reporting period.
- Regulatory assets and liabilities should be measured using a cash-flow-based method using up-to-date estimates of future cash flows, which are discounted using the regulatory interest rate which can be specified or implied by the regulatory agreement.
- When measuring regulatory assets and liabilities after initial recognition, an entity updates the estimated future cash flows arising from the asset or liability. It continues to use the regulatory discount rate determined on initial recognition.

3 Presentation

- All regulatory income and expenses are classified as revenue in the statement of profit or loss. It is presented as a net figure in a separate line item from revenue recognised from applying IFRS 15.
- In some circumstances, applying other IFRS Accounting Standards may result in recognising items of income or expense in other comprehensive income. In these cases, regulatory income or expense relating to the item should also be presented in other comprehensive income.
- Regulatory assets and liabilities should be presented as separate line items in the statement of financial position and should also be classified as current or non-current in accordance with the requirements of IFRS 18.

4 Disclosure

- Disclosures are required to enable users to understand the amounts recognised in respect of regulatory assets/liabilities and income/expenses, as well as the nature of any unrecognised regulatory assets and liabilities.
- For regulatory assets and liabilities, reconciliations are required from opening to closing balances, with changes grouped into changes included in profit or loss, changes included in other comprehensive income, and other changes not included in those categories.
- The Standard includes detailed requirements for the amounts that must be included in the reconciliations.

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