IFRS Accounting

Staff paper

Agenda reference: 9F

IASB® meeting

Date	**July 2024**
Project	**Rate-regulated Activities**
Topic	**Effective date**
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Objective

1. This paper sets out staff analysis and recommendations on the effective date proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft).

Staff recommendation

2. The staff recommend that the final Accounting Standard require an entity to apply the final Standard for annual periods beginning on or after 1 January 2029, with earlier application permitted.

Structure of the paper

3. This paper is structured as follows:

   (a) proposals in the Exposure Draft (paragraphs 5–6);

   (b) feedback (paragraphs 7–8); and

   (c) staff analysis and recommendation (paragraphs 9–38).

4. Appendix A outlines the effective dates of other major IFRS Accounting Standards. Appendix B illustrates a timeline for transition to the final Standard.

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Proposals in the Exposure Draft

5. Paragraph C1 of the Exposure Draft proposes that an entity apply the final Standard for annual reporting periods beginning on or after a date 18–24 months from the date of its publication, with earlier application permitted.

6. The IASB's rationale for proposing a period of 18–24 months was that:

   (a) to a large extent, the proposed model would use inputs that preparers are already expected to gather and process in determining regulated rates; and

   (b) this would allow sufficient time for entities to make necessary updates to their systems, collect the incremental information needed to apply the proposals, and make any other necessary changes.[1]

Feedback

7. A few respondents, including a few preparers from Europe and North America, agreed with the proposed effective date.

8. Most respondents who commented asked for a longer transition period:

   (a) most of those commenting suggested a transition period of at least 24–36 months after the date of publication, with earlier application permitted. Most preparers from North America said that they expect to apply IFRS 1 *First-time Adoption of International Financial Reporting Standards* and this Standard at the same time, which will involve additional complexity and effort. Moreover, entities may need to discuss with the regulator how to align the requirements in their regulatory agreements with the requirements in IFRS 1 and the Standard. A preparer-representative body in North America added that entities may be overwhelmed if the transition period coincides with the preparation for a rate application, and suggested the IASB provide a longer transition period, even if an entity is currently recognising regulatory balances.

[1] Paragraph BC204 of the Basis for Conclusions accompanying the Exposure Draft.

(b) a few respondents, mainly an accounting firm and preparers, suggested an even longer transition period of 36–60 months to allow an entity the flexibility of applying the Standard together with a new regulatory period.

Staff analysis and recommendation

9. This section is structured as follows:

   (a) Due Process Handbook (paragraphs 10–11);

   (b) factors to consider in incorporating the new requirements in legal systems (paragraphs 12–17);

   (c) time for entities to prepare (paragraphs 18–27);

   (d) addressing the diversity in practice (paragraphs 28–29); and

   (e) staff conclusion and recommendation (paragraphs 30–38).

Due Process Handbook

10. The Due Process Handbook (2020) (the Handbook) states that the requirements for the effective date and transition are mandatory parts of an IFRS Accounting Standard.[2] It also states that the mandatory effective date is set so that jurisdictions have sufficient time to **incorporate the new requirements** into their legal systems and those applying the Standards have sufficient **time to prepare** for the new requirements.[3]

11. The Handbook also requires the IASB to consider how **first-time adopters** of IFRS Accounting Standards should apply the Standard and whether any amendments are needed to IFRS 1.[4] Transition requirements and possible transition reliefs for first-time adopters are discussed in Agenda Papers 9C and 9D.

[2] Paragraphs 6.30 and 6.35 of the Handbook.

[3] Paragraph 6.35 of the Handbook.

[4] Paragraph 6.36 of the Handbook.

Factors to consider in incorporating the new requirements in legal systems

12. This section discusses the following factors:

    (a) translation and endorsement processes (paragraphs 13–14);

    (b) IFRS Accounting Taxonomy (paragraphs 15–16); and

    (c) changes to regulatory requirements (paragraph 17).

Translation and endorsement processes

13. Jurisdictions need time to incorporate new requirements into their legal systems. This includes the time required for translation and endorsement processes. The endorsement process for IFRS Accounting Standards is unique to each jurisdiction (see the jurisdiction profiles for the process followed in each jurisdiction). In some jurisdictions, the understandability and the accessibility of the final Standard would depend on the availability of the translated version. Some jurisdictions are required to endorse the translated version or by reference to the translated version of an IFRS Accounting Standard.

14. The IASB expects to issue the final Standard in the second half of 2025. Based on our knowledge of the translation and endorsement processes for other major Accounting Standards, we expect that most jurisdictions would be able to complete these processes by the end of 2027.

IFRS Accounting Taxonomy

15. In some jurisdictions, entities are required to provide digital financial statements, tagged using digital taxonomy, at the same time as paper-based financial statements. The Handbook states that the IFRS Taxonomy for new IFRS Accounting Standards is to be made available in a timely manner.[5]

[5] Paragraph A26 of the Handbook.

16. The IFRS Accounting Taxonomy for the final Standard is expected to be published 9–12 months after the final Standard is published. The endorsement process generally takes up to six months in jurisdictions where IFRS Accounting Taxonomy is subject to endorsement. Therefore, the IFRS Accounting Taxonomy for the final Standard is expected to be available for use within 18 months of the publication of the Standard.

Changes to regulatory requirements

17. Rate regulators may require time to assess the impact of the requirements in the final Standard on their regulatory requirements. For example, regulators may need to review and update the regulatory disclosure requirements considering the requirements in the final Standard, including the disclosures required by the final Standard. The time required for this will depend on the degree of alignment between regulatory and accounting requirements, which varies across regulatory schemes. We expect that regulators of regulatory schemes that have close links between regulatory and accounting requirements, such as cost-based schemes, may need more time to assess the impact of the Standard on their requirements than regulators of other regulatory schemes.

Time for entities to prepare

18. The amount of time that an entity requires to implement the final Standard is likely to be influenced by:
    (a) the time required to gather information and change IT systems for the adoption of the final Standard, having regard to the extent to which the information acquired will be readily available or will need to be gathered and the likely extent of changes to systems and processes (paragraphs 19–23);
    (b) the interaction of the final Standard with other recently published and forthcoming IFRS Standards (paragraph 24); and
    (c) the time required for discussions with internal and external stakeholders (paragraphs 25–27).

Gathering information and changing IT systems

19. Most respondents said that they needed more time to implement the proposals than the 18–24 months proposed in the Exposure Draft.

20. Over the course of this project we have sought information about the ability of entities to comply with the proposals or potential refinements of the model. We have sought to understand concerns raised (including the availability of the required information) and have considered whether the proposals could be clarified or simplified to address those concerns. In its redeliberations the IASB has tentatively decided to introduce changes to address concerns raised, or to clarify or simplify the proposals.

21. Some changes to the proposals in the Exposure Draft may reduce the time required to implement the final Standard or the cost of doing so. These changes include:

    (a) clarifications to the scope proposals should make it easier for some entities to determine whether they need to apply the final Standard. The scope clarifications may mean that some entities are not required to apply the final Standard (for example, entities that have insurance contracts within the scope of IFRS 17 *Insurance Contracts*) or will have a clearer understanding of the fact patterns that may give rise to regulatory assets or regulatory liabilities when they operate subject to a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangements*.[6] Consequently, these scope clarifications will save entities time. In addition, entities affected by the scope clarifications may not be required to make any system changes, or they may be required to make fewer system changes than they envisaged, based on the proposals. For such entities the scope clarifications may also result in cost savings;

    (b) an exemption from discounting estimated future cash flows if the entity expects the period between recognition of the regulatory asset or regulatory liability and its recovery or fulfilment to be 12 months or less. This exemption

[6] IASB Updates dated September 2022 and April 2024.

may mean that an entity is required to make fewer system changes. This exemption may also reduce the time required for implementation as an entity will not be required to apply the minimum interest rate requirements to regulatory assets eligible for this exemption;

(c) an exemption from computing a single discount rate if the entity expects the period between recognition and the date when regulatory interest starts to accrue to be 12 months or less. This exemption may mean that an entity is required to make fewer system changes. This exemption may also reduce the time required for implementation as an entity would not apply the minimum interest rate proposals to regulatory assets eligible for this exemption during the period the exemption is applied;

(d) an exemption from applying the proposals on the minimum interest rate to certain regulatory assets—that is, regulatory assets subject to the exemptions in (b) and (c) above and regulatory assets that arise from variances between estimated and actual costs or volume. This exemption may mean that an entity is required to make fewer system changes. This exemption may also reduce the time required for implementation as an entity might spend less time assessing sufficiency of the regulatory interest rate; and

(e) the inclusion of the direct (no direct) relationship concept to help an entity identify differences in timing arising from the regulatory compensation the entity receives on its regulatory capital base. The introduction of this concept will simplify the system changes that are required by entities whose regulatory capital base has no direct relationship with their property, plant and equipment but it will not affect the system changes required by other entities—particularly entities whose regulatory capital base has a direct relationship with their property, plant and equipment and which have not previously recognised regulatory balances.

22. Agenda Paper 9D recommends a number of reliefs, including some transition reliefs for regulatory returns on assets not yet available for use. We think the

recommendations for transition reliefs will reduce the implementation costs, and possibly the implementation time required by some entities.

23. An entity implementing the final Standard will need to identify the information required by the final Standard, the extent to which that information is already available and the best way to obtain the required information for financial reporting purposes. A few respondents commenting on the proposals said that an entity may need more information than that currently used in setting regulated rates. Determining how to obtain the information required is likely to require liaison between those responsible for financial reporting, regulatory reporting and information systems. Such planning and co-ordination takes time. Systems changes will also take time, particularly for entities that have previously not recognised regulatory balances.

Recently issued Standards

24. This section deals with two additional items that could affect the effective date:

    (a) potential interaction between the final Standard and recently issued Standards by the IASB an ISSB—Table 1 considers this matter. We have not identified any other interactions that need to be considered.

    (b) the implementation periods for IFRS 18 *Presentation and Disclosures in Financial Statements* and IFRS 19 *Subsidiaries without Public Accountability*—the implementation periods of these Standards were both over two and a half years. Because, neither IFRS 18 nor IFRS 19 include recognition or measurement requirements, we think entities would require more time to implement the final Standard than IFRS 18 or IFRS 19.

Table 1—Recent Standards
IFRS 18 *Presentation and Disclosures in Financial Statements* Effective date: 1 January 2027. Earlier application is permitted. Implementation should be complete by the end of 2027. The final Regulatory Assets and Regulatory Liabilities Standard will require that an entity present, in its statement of financial position: (a) line items for regulatory assets and regulatory liabilities; and (b) current and non-current regulatory assets and current and non-current regulatory liabilities as separate classifications by applying paragraphs 66 and 69 of IAS 1 *Presentation of Financial Statements*, except when the entity presents all assets and liabilities in order of liquidity.[7] Upon issuance of the final Standard, paragraph 103 of IFRS 18 will be amended to include line items for regulatory assets and regulatory liabilities in the statement of financial position. The final Regulatory Assets and Regulatory Liabilities Standard will require that an entity present regulatory income or regulatory expense as a separate line item in the statement(s) of financial performance. An entity would include regulatory interest income within regulatory income and regulatory interest expense within regulatory expense. Upon issuance of the final Regulatory Assets and Regulatory Liabilities Standard, paragraph 75 of IFRS 18 will be amended to include the regulatory income or regulatory expense line item. The IASB has tentatively decided to amend IFRS 18 to clarify that regulatory interest is classified in the operating category.[8] Entities will be required to apply those amendments when they apply the final Standard. If the IASB tentatively agrees with the recommendation in paragraph 37 of this paper to permit earlier application of the final Standard, an entity could apply the final Standard at the same time as IFRS 18. This may save an entity having to do changes in presentation twice (at the time IFRS 18 is applied and subsequently when the final Standard is applied). However, if entities were unable to apply IFRS 18 and the final Standard at the same time, the presentation of the additional line items required by the final Standard would not represent a significant cost in terms of time or system changes.

[7] IFRS 18 paragraphs 99–100 and 101–102 correspond to IAS 1 paragraphs 66 and 69.

[8] IASB Update December 2023.

Table 1—Recent Standards
IFRS 19 *Subsidiaries without Public Accountability* Effective date: 1 January 2027. Earlier application is permitted. Implementation should be complete by the end of 2027. Although some entities with rate-regulated activities might be eligible to apply IFRS 19, the IASB has tentatively decided not to develop reduced disclosures for the final Standard at this time.[9] The IASB plans to seek feedback on this decision in a forthcoming exposure draft of proposed amendments to IFRS 19. If respondents support this proposal, then the final Standard will, when issued, amend IFRS 19 to remove the disclosure requirements for IFRS 14 *Regulatory Deferral Accounts* and introduce new disclosure requirements.
IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* Effective date: 1 January 2024. We have not identified any implications of S1 or S2 for the effective date of the final Standard.

Entities' discussions with stakeholders

25. Entities will need to liaise with rate regulators as they consider the impact of the requirements in the final Standard on their regulatory requirements (paragraph 17). They will also need to liaise with financial institutions, investors and customer groups to explain the impact of the final Standard on their financial statements.

26. The impact of the final Standard on covenants is likely to vary. Loan documentation often includes 'frozen GAAP' provisions, with covenants being tested based on the standards in effect when the documentation was entered into. If this is the case, there would be no need to reset or amend financial and other covenants. In some other cases, debt covenants are calculated based on IFRS reported figures. In those cases, the Standard would impact debt covenants. A possibility is that borrowers and lenders will begin to make changes to covenants when entering into new financing agreements to, for example, isolate the effect of the final Standard.

[9] IASB Update March 2024.

27. The final Standard may also affect earnings before interest, tax, depreciation and amortisation which is a measure commonly used in calculations dealing with remuneration. Consequently, the final Standard may trigger changes to remuneration policies which could take some time to process.

Addressing the diversity in current practice

28. Entities with regulatory assets and regulatory liabilities that will be subject to the scope of the final Standard have heterogenous practices for accounting for regulatory balances. They can be grouped as follows:
    - (a) entities that currently report regulatory balances—this group mainly consists of:
        - (i) entities currently applying IFRS 14. IFRS 14 permits a first-time adopter that recognised regulatory deferral balances in its financial statements in accordance with its previous generally accepted accounting principles (GAAP) to continue applying its previous policies on initial adoption of IFRS Accounting Standards and in its subsequent financial statements. IFRS 14 was issued as a temporary standard, to make it easier for regulated entities to adopt IFRS Standards. It did not require entities to change their policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances. However, it did establish requirements for the presentation of such balances;
        - (ii) entities that currently recognise regulatory balances in accordance with accounting policies they have developed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;[10] and
        - (iii) first-time adopters. Within this group there are entities that have been able to defer the adoption of IFRS Accounting Standards until a final

[10] When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements.*

Standard is issued. For example, Canadian Securities Administrators permit certain rate-regulated entities to apply US GAAP in place of IFRS Accounting Standards for a stipulated period of time.

(b) entities that currently do not report regulatory balances:

   (i) entities currently using IFRS Accounting Standards. Within this group there may be entities that transitioned to IFRS Accounting Standards before IFRS 14 was published or after IFRS 14 was published but decided not to adopt that Standard, or were not eligible to apply it; and

   (ii) first-time adopters.

29. Considering that some entities have applied IFRS 14 pending the development of a final Standard, and some entities have deferred the adoption of IFRS Accounting Standards pending the development of a final Standard, the issue of the final Standard is expected to have a major impact on the current diversity in practice. The expected impact of the final Standard on the current diversity in practice lends support to selecting the earliest possible effective date. However, the fact that some entities will be adopting IFRS Accounting Standards at the same time as the final Standard (paragraphs 8(a) and 32), lends weight to allowing more time than proposed in the Exposure Draft.

Staff conclusion and recommendation

30. The Exposure Draft proposed a transition period of 18–24 months. Although some respondents supported this proposal, some said that 24 months was the minimum time required, some suggested 36 months and a few suggested even longer.

31. Taking into consideration the feedback in paragraph 30 and the implementation periods provided for entities applying IFRS 18 or IFRS 19 (paragraph 24(b)), we have considered two possible effective dates: annual reporting periods beginning on or after 1 January 2028 and annual reporting periods beginning on or after 1 January 2029.

An effective date of 1 January 2028 would give entities just over 24 months to transition and 1 January 2029 would give just over 36 months.[11]

32. Even though during the redeliberations the IASB has made tentative decisions that may reduce the time required to implement the final Standard (paragraphs 21–22), we think the following factors should be given a higher weight in deciding on the effective date:

    (a) the final Standard will be applied by entities that are first-time adopters of IFRS Accounting Standards. These entities will require time to make the changes needed to adopt IFRS Accounting Standards as well as implement the final Standard. These entities suggested a transition period of at least 24–36 months after the date the Standard is issued (paragraph 8(a)).

    (b) entities applying the final Standard are subject to the rate application process. Some respondents said that entities may need more time if the transition period coincides with the preparation for a rate application (paragraph 8(a)).

    (c) the application of the final Standard may require system changes, particularly for entities that have not previously recognised regulatory balances (paragraphs 21(e) and 23).

    (d) the application of the final Standard will require input from teams other than the financial reporting team—for example, the regulatory team. Inter-team collaboration can take time.

    (e) application of the final Standard will require discussion with regulators and other stakeholders and some information required for implementation may be dependent on a rate-application process.

33. Considering the factors above, we think an effective date of 1 January 2029 is appropriate.

34. Most respondents supported early application being permitted, although the fact that many respondents requested a transition period of at least 24–36 months after the date

[11] This assumes the final Standard is issued in the second half of 2025.

of publication suggests that only a few would choose to apply the Standard earlier. For example, we think first-time adopters of IFRS Accounting Standards are unlikely to apply the Standard early. However, during redeliberations we have learned that a group of entities in the electricity sector in Europe are interested in the prompt publication of the Standard to enable them to recognise regulatory balances. These entities might choose to early adopt.

35. Earlier application of new Standards is often permitted. This approach enables entities to introduce improvements to financial reporting as soon as they are able to do so. The staff think that permitting early application of the final Standard would be advantageous for entities such as those European entities described in paragraph 34. Permitting earlier application could also allow an entity to adopt IFRS 18 and the final Standard at the same time if the entity wished to do so (Table 1).

36. The main disadvantage of permitting early application is that it could reduce comparability between entities that apply the final Standard early and those that do not. This disadvantage exists in relation to all new Standards that permit early application.

37. The staff think that the advantages of permitting early application outweigh the concerns. Consequently, we recommend that the IASB permits early application of the final Standard.

38. We recommend that the final Accounting Standard require an entity to apply the final Standard for annual periods beginning on or after 1 January 2029, with early application permitted.

Question for the IASB
1. Does the IASB agree with the recommendation in paragraph 38?

Appendix A—Effective dates for other IFRS Accounting Standards

A1. This appendix lists the publication date and the effective date of recent IFRS Accounting Standards. All standards permitted early application. Transition requirements varied.

IFRS Accounting Standard	Publication date	Effective date	Implementation period
IFRS 9 *Financial Instruments*[12]	July 2014	1 January 2018	41 months
IFRS 15 *Revenue from Contracts with Customers*	May 2014	1 January 2018[13]	43 months
IFRS 16 *Leases*	January 2016	1 January 2019	36 months
IFRS 17 *Insurance Contracts*	May 2017	1 January 2023[14]	67 months
IFRS 18 *Presentation and Disclosures in Financial Statements*	April 2024	1 January 2027	32 months
IFRS 19 *Subsidiaries without Public Accountability*	May 2024	1 January 2027	31 months

[12] IFRS 9 (2014) was issued as a complete standard including the requirements previously issued in 2009 for classification and measurement of financial assets, 2010 for classification and measurement of financial liabilities and 2013 for hedge accounting.

[13] The effective date for IFRS 15 was extended by one year. The original effective date was 1 January 2017.

[14] The effective date for IFRS 17 was extended by two years. The original effective date was 1 January 2021.

Appendix B—Illustration of the timeline for the transition

B1. This appendix illustrates the timeline for the transition to the final Standard for an entity (with a calendar year end and half-yearly interim financial reporting), assuming that the final Standard is issued in the second half of 2025. It also assumes that the final Standard requires restated comparative information for one year only (that is for the annual reporting period immediately preceding the date of initial application (see Agenda Paper 9C).

Figure 1: Illustration for effective date of 1 January 2029