



PwC Snapshots

by Capital Markets &
Accounting Advisory Services

August 2026

The MASB has issued a new MFRS Accounting Standard – MFRS 20, ‘Regulatory Assets and Regulatory Liabilities’

Key points

- The Malaysian Accounting Standards Board (‘MASB’) has issued a new MFRS Accounting Standard – MFRS 20, ‘Regulatory Assets and Regulatory Liabilities’.
- It will affect entities subject to rate regulation, which determines how much they can charge customers and when they can charge them. Entities that supply vital services such as electricity, water and gas are often subject to this type of regulation.
- If there is a difference between when a company supplies regulatory goods and services and when it charges customers for those goods and services pursuant to a regulatory agreement, the revenue reported by applying MFRS 15 ‘Revenue from Contracts with Customers’ might not fully reflect the company’s performance for the period. MFRS 20 calls this a ‘difference in timing’.
- The key principle of MFRS 20 is that an entity should recognise the total allowed compensation for regulatory goods or services in the same reporting period that the entity supplies those regulatory goods or services. MFRS 20 requires entities to account for the effects of differences in timing in their financial statements by recognising regulatory assets and regulatory liabilities and the resulting regulatory income and regulatory expense.
- MFRS 20 is effective for annual reporting periods beginning on or after 1 January 2029, with earlier application permitted. It supersedes MFRS 14, ‘Regulatory Deferral Accounts’ which allowed a first-time adopter to continue applying its previous accounting policies for the recognition and measurement of regulatory deferral accounts on first-time adoption of MFRS Accounting Standards.



What is the issue?

On 7 August 2026, the MASB issued a new MFRS Accounting Standard - MFRS 20 Regulatory Assets and Regulatory Liabilities. It will affect the financial statements of entities that are subject to rate regulation. Rate regulation can significantly affect the amount and timing of an entity's revenue, profit and cash flows by specifying: (a) how much compensation an entity is entitled to charge customers for regulatory goods or services supplied in a period; and (b) when the entity can include that compensation in the regulated rates charged to customers.

MFRS 20 supplements the information that an entity provides by applying MFRS 15. It requires an entity to provide information that gives insights into the total amount of compensation to which the entity is entitled for regulatory goods or services supplied in each reporting period. The resulting information better matches revenue to the costs incurred supplying those goods and services.

If there is a difference between when a company supplies regulatory goods and services and when it charges customers for those goods and services pursuant to a regulatory agreement, revenue reported by applying MFRS 15 might not fully reflect the company's performance in a period. MFRS 20 calls this a 'difference in timing'. The new standard requires entities to account for the effects of differences in timing in their financial statements by recognising regulatory assets and regulatory liabilities and the resulting regulatory income and regulatory expense.

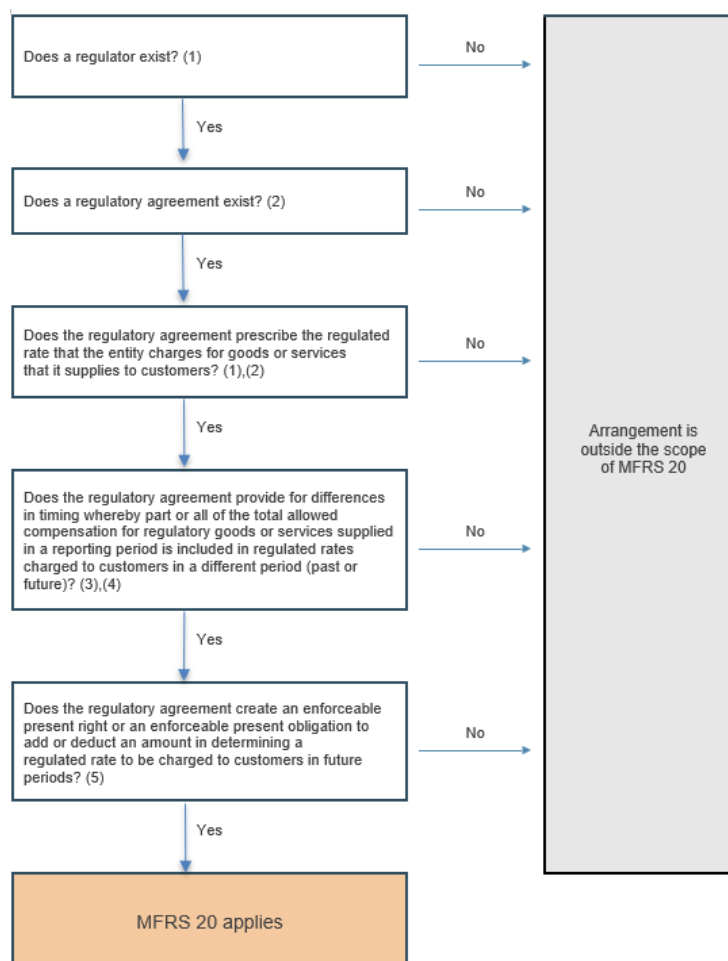
MFRS 20 supersedes MFRS 14, which allowed a first-time adopter to continue applying its previous accounting policies for the recognition and measurement of regulatory deferral accounts on first-time adoption of MFRS Accounting Standards. Entities that are currently applying MFRS 14 will have to discontinue their current accounting practice for regulatory deferral balances and transition to the requirements of MFRS 20 at its effective date.

When does MFRS 20 apply?

MFRS 20 is effective for annual reporting periods beginning on or after 1 January 2029. Earlier application is permitted.

Who is impacted?

MFRS 20 will mainly affect entities in industries such as utilities, energy and transportation that are subject to rate regulation. However, the scope of the standard is not industry specific. All entities will have to work through whether they have arrangements which are within the scope of MFRS 20. The flowchart below is helpful to identify if an arrangement will be within the scope of, and therefore be impacted by the adoption of, MFRS 20. See also the accompanying notes to the flowchart below.



1) A regulator is 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). A regulated rate is a price determined by a regulator that an entity charges for goods or services supplied to customers in a period. [MFRS 20 Appendix A]

2) A regulatory agreement is 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). [MFRS 20 Appendix A]

3) 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. The amount might be charged through regulated rates in either the same period as the entity supplies the regulatory goods or services, or a different period. [MFRS 20 Appendix A]

4) Differences in timing arise if part or all of the total allowed compensation for regulatory goods or services supplied in the period is included in determining the regulated rates charged to customers in a different period (past or future). [MFRS 20 para 9] [MFRS 20 para 16]. Appendix A includes a helpful basic example of a difference in timing.

5) An entity should consider whether enforceable present rights or enforceable present obligations exist in the context of the applicable legal and regulatory framework. [MFRS 20 App B para B5]

A high-level summary of the key principles and requirements of MFRS 20

- The key principle of MFRS 20 is that an entity should recognise the total allowed compensation for regulatory goods or services supplied by the entity in the same reporting period that the entity supplies those goods or services. To apply this principle, MFRS 20 requires an entity to recognise regulatory assets and regulatory liabilities and the resulting regulatory income and regulatory expense. Appendix A to this Snapshot includes an example that explains the application, and impact, of this key principle of MFRS 20.
- MFRS 20 includes guidance to help entities to identify differences in timing, and it provides specific guidance on the most common types of compensation provided or deductions made by regulatory agreements. This includes specific recognition and measurement requirements for certain differences in timing e.g. specific recognition criterion for a regulatory asset or regulatory liability arising from regulatory depreciation of a regulatory capital base, compensation based on a benchmark determined using unobservable inputs and a simplified measurement approach for items that affect regulated rates only when the related cash is paid or received.
- Generally, MFRS 20 requires recognition of all regulatory assets and regulatory liabilities that exist at the reporting date by measuring them using a discounted cash flow model; that is, the estimated future cash flows arising from the recovery of a regulatory asset or fulfilment of a regulatory liability are discounted using the regulatory interest rate specified in the regulatory agreement for that regulatory asset or regulatory liability.
- All regulatory income minus all regulatory expense should be classified as revenue and presented as a line item in the statement of profit or loss. Regulatory income includes regulatory interest income while regulatory expense includes regulatory interest expense. Where regulatory income or regulatory expense relates to an item of expense or income recognised in other comprehensive income ('OCI'), the entity should also include in OCI regulatory income or regulatory expense relating to that item of expense or income.
- MFRS 20 requires detailed disclosures about regulatory assets, regulatory liabilities, regulatory income and regulatory expenses.
- MFRS 20 includes specific transition requirements that entities will need to consider when implementing the standard. Entities can elect to apply the standard retrospectively in accordance with MFRS 108 'Basis of Preparation of Financial Statements' or to use the modified retrospective approach on transition as described in Appendix C of MFRS 20.

What should entities do now?

Entities should first determine if they are subject to a regulatory agreement that prescribes how a regulator determines a regulated rate that the entity charges for goods or services supplied to customers in a period. Where an entity establishes that the rate that it charges to its customers is subject to a regulatory agreement, it should further assess whether that arrangement is within the scope of MFRS 20 by identifying any differences in timing that might exist and whether the regulatory agreement creates enforceable present rights or obligations to adjust rates to be charged to customers in future periods.

Appendix A – Example illustrating a difference in timing and the impact of MFRS 20

A regulated rate that an entity charged for goods or services supplied to customers in 20X1 was based on estimated input costs of CU100. However, the entity recognised actual input costs in that year of CU120. The regulatory agreement gives the entity an enforceable present right to add the resulting CU20 under-recovery of those input costs in determining the regulated rate to be charged to customers in 20X2.

In this example, the entity's MFRS 15 revenue for 20X1 includes compensation of CU100 based on the estimated input costs. Compensation for the CU20 under-recovery of input costs in 20X1 will be added in determining the regulated rates to be charged to customers in 20X2, and hence will be included in MFRS 15 revenue in 20X2. However, that compensation of CU20 forms part of the total allowed compensation for regulatory goods or services supplied in 20X1, not for those supplied in 20X2 – the total allowed compensation for regulatory goods or services supplied in 20X1 is CU120.

MFRS 20 requires the entity to recognise a regulatory income and a corresponding regulatory asset of CU20 in 20X1 that results in total revenue for entity to be CU120 (i.e. CU100 billable to customers during 20X1 and CU20 which results from the recognition of a regulatory asset). The CU20 regulatory asset is de-recognised, with a corresponding regulatory expense in 20X2 when the CU20 is reflected in MFRS 15 revenue (i.e. the CU20 is billed to customers during 20X2 but income is reduced by the reversal of the regulatory asset previously recorded).

This example is based on the example in paragraph 16 of MFRS 20 and assumes that the relevant recognition requirements in MFRS 20 have been met for illustration purposes. For simplicity, this example ignores the effect of regulatory interest.

MFRS 20 Illustrative Example 28 provides a helpful illustration of the classification and presentation requirements of MFRS 20, including an illustration of the statement of profit or loss, statement of comprehensive income, and statement of financial position with the impact of MFRS 20.

Do you need further information on this topic?

Contact: Capital Market & Accounting Advisory Services (CMAAS) team
Email: my_cmaas@pwc.com

Stay up to date with the latest developments in financial reporting and capital markets

CMAAS's monthly newsletter "Accounting & Capital Markets Round-Up" features hot topics written in a way that you can easily access.

Click on [this link](#) to subscribe and receive the newsletter in your inbox as soon as it is released each month. The newsletter is accessible via mobile phone as well.

