



## **ICAC's on IASB's ED/2013/5 Regulatory Deferral Accounts**

GENERAL COMMENT: In our opinion, the approach that has been followed is not appropriate. Given the interim nature of the rule, we believe it would be better to allow the provisional application of the local standard as a whole, instead of applying the regulation contained in it.

Notwithstanding the above, ICAC issues the following views regarding the questions raised.

### **Question 1**

The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP.

Is the scope restriction appropriate? Why or why not?

We are of the view that this scope could lead to a lack of comparability not only among entities that have adopted IFRS before this standard applies and those that can apply it, but due to the fact of the different local GAAP that may be applied. Additionally, the aforementioned scope will introduce discrimination depending on when the first application of IFRS has occurred.

Therefore it would be appropriate to allow a retrospective application so that companies whose regulatory assets and liabilities were derecognized may recognize them again and apply the local GAAP to these operations.



## Question 2

The Exposure Draft proposes two criteria that must be met for regulatory deferral accounts to be within the scope of the proposed interim Standard. These criteria require that:

- (a) an authorized body (the rate regulator) restricts the price that the entity can charge its customers for the goods or services that the entity provides, and that price binds the customers; and
- (b) the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services (see paragraphs 7–8 and BC33–BC34).

Are the scope criteria for regulatory deferral accounts appropriate? Why or why not?

The scope criteria proposed are, in ICAC's view, too much restricted, taking into account that the accounting for rate regulated activities is still as an IASB project. We think that the scope criteria must be the same as those set out in the local GAAP that is the origin of these accounts, especially when the ED proposes to permit the entity to continue applying its previous local GAAP.

## Question 3

The Exposure Draft proposes that if an entity is eligible to adopt the [draft] interim Standard it is permitted, but not required, to apply it. If an eligible entity chooses to apply it, the entity must apply the requirements to all of the rate-regulated activities and resulting regulatory deferral account balances within the scope. If an eligible entity chooses not to adopt the [draft] interim Standard, it would derecognise any regulatory deferral account balances that would not be permitted to be recognised in accordance with other Standards and the Conceptual Framework (see paragraphs 6, BC11 and BC49).

Do you agree that adoption of the [draft] interim Standard should be optional for entities within its scope? If not, why not?



Yes, we agree

#### Question 4

The Exposure Draft proposes to permit an entity within its scope to continue to apply its previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances. An entity that has rate-regulated activities but does not, immediately prior to the application of this [draft] interim Standard, recognize regulatory deferral account balances shall not start to do so (see paragraphs 14–15 and BC47–BC48).

Do you agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so? If not, why not?

We agree but consideration should be given to correct a possible error in the application of the local GAAP.

#### Question 5

The Exposure Draft proposes that, in the absence of any specific exemption or exception contained within the [draft] interim Standard, other Standards shall apply to regulatory deferral account balances in the same way as they apply to assets and liabilities that are recognised in accordance with other Standards (see paragraphs 16–17, Appendix B and paragraph BC51).

Is the approach to the general application of other Standards to the regulatory deferral account balances appropriate? Why or why not?

Yes, in our opinion it is appropriate.

#### Presentation

#### Question 6

The Exposure Draft proposes that an entity should apply the requirements of all other Standards before applying the requirements of this [draft] interim Standard. In



addition, the Exposure Draft proposes that the incremental amounts that are recognized as regulatory deferral account balances and movements in those balances should then be isolated by presenting them separately from the assets, liabilities, income and expenses that are recognised in accordance with other Standards (see paragraphs 6, 18–21 and BC55–BC62).

Is this separate presentation approach appropriate? Why or why not?

Yes, in our opinion it is appropriate.

#### Disclosure

##### Question 7

The Exposure Draft proposes disclosure requirements to enable users of financial statements to understand the nature and financial effects of rate regulation on the entity's activities and to identify and explain the amounts of the regulatory deferral account balances that are recognised in the financial statements (see paragraphs 22–33 and BC65).

Do the proposed disclosure requirements provide decision-useful information? Why or why not? Please identify any disclosure requirements that you think should be removed from, or added to, the [draft] interim Standard.

Yes, the proposed disclosure requirements provide decision-useful information.

##### Question 8

The Exposure Draft explicitly refers to materiality and other factors that an entity should consider when deciding how to meet the proposed disclosure requirements (see paragraphs 22–24 and BC63–BC64).

Is this approach appropriate? Why or why not?

Yes, in our opinion it is appropriate.



Question 9

The Exposure Draft does not propose any specific transition requirements because it will initially be applied at the same time as IFRS 1, which sets out the transition requirements and relief available.

Is the transition approach appropriate? Why or why not?

Yes, we agree with this transition, without prejudice to the answer to question 1.

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