September 4, 2013

Attention: Mr. Hans Hoogervorst
IFRS Foundation Publications Department
1st Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

via electronic submission at: www.ifrs.org

Dear Mr. Hoogervorst:

Re: Exposure Draft ED/2013/5 Regulatory Deferral Accounts

In April 2013, the International Accounting Standards Board ("IASB") issued an invitation to comment on the Exposure Draft ("ED") Regulatory Deferral Accounts. Members of the Coalition of Large Distributors (the "CLD members") and Hydro One Inc. appreciate the opportunity to respond to the ED and support the interim standard and believe it achieves its objective to encourage more rate-regulated entities to transition to International Financial Reporting Standards ("IFRS"). These CLD members consist of Enersource Hydro Mississauga Inc., Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited, and Veridian Connections Inc. The CLD members and Hydro One Inc. are electricity distribution companies operating in Ontario, Canada.

We hope that our comments on the ED provided in Appendix 1 will be useful to the IASB and we commend the IASB for its efforts to provide this optional interim standard in light of the uncertainties around the IASB's project on Rate-Regulated Activities.

If you wish to discuss these issues further, please do not hesitate to contact me at +1 (416) 542-3166 or by email at jcouillard@torontohydro.com.

Signed on behalf of the CLD members and Hydro One Inc. by,

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Appendix 1 – Responses to Invitation to Comment ED 2013/5 Regulatory Deferral Accounts

Question 1

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

Is the scope restriction appropriate? Why or why not?

The CLD members and Hydro One Inc. are in agreement that the ED should be restricted to first-time adopters of IFRS, which aligns with one of the ED's main objectives being the removal of the barriers to entry related to the adoption of IFRS. The ED is particularly important in jurisdictions such as Canada where the lack of clear direction on a rate-regulated accounting standard has led to entities seeking alternatives to IFRS to suit their own jurisdictional needs. By allowing entities to adopt this type of interim standard, it encourages more entities to transition to IFRS which should lead to increased comparability for financial reporting as a whole.

The [draft] interim standard serves as a compromise for first-time adopters. As already noted in the ED, the IASB has not seen evidence of significant diversity in practice within jurisdictions that are already applying IFRS. If the IASB were to open the scope to all IFRS adopters, it may create new diversity in a jurisdiction where previously none existed. It would be more beneficial for entities that have already transitioned to IFRS to continue with their existing IFRS accounting treatment instead of introducing new volatility into their statements, especially given that the outcome of the comprehensive standard remains unknown. The CLD members and Hydro One Inc. instead encourage the inclusion of the wider scope of IFRS adopters in the development of the comprehensive standard for rate-regulated accounting.

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.**

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

The CLD members and Hydro One Inc. agree with the scope criteria included in the [draft] interim standard and recognize that the IASB has taken steps towards a broader scope as compared to the previous ED Rate-regulated Activities issued in 2009. The broader scope ensures that the [draft] interim standard will diminish the barriers to entry for more entities in Canada.

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 derecognize any regulatory deferral account balances that would not be permitted to be recognized in accordance with other Standards and the *Conceptual Framework*.

The CLD members and Hydro One Inc. agree that the [draft] interim standard should remain as an optional standard for first-time adopters. Consistent with other IFRS exemptions provided in IFRS 1, the entity is in the best position to judge whether it should adopt the exemption to suit its specific reporting requirements. One of the major concerns for rate-regulated entities is the uncertainty surrounding the comprehensive standard. By keeping the [draft] interim standard optional, entities can choose to adopt IFRS without the [draft] interim standard and wait for the outcome of the comprehensive standard which may mitigate potential changes in accounting policies prior to a comprehensive standard being finalized.

Question 4

The Exposure Draft proposes to permit an entity within its scope to continue to apply its previous GAAP accounting policies for 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.

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

The CLD members and Hydro One Inc. are in agreement that the [draft] interim standard should not be adopted by entities that previously did not recognize regulatory deferral accounts. The ED does not provide sufficient in-depth recognition, measurement, and impairment guidance for entities under IFRS to start to recognize new regulatory deferral accounts. In addition, the scope requirements of the [draft] interim standard are similar to an entity's previous local GAAP such that it would be highly unlikely that such an entity would meet the [draft] interim scope requirements now under IFRS but not under their previous 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 recognized in accordance with other Standards.

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

The CLD members and Hydro One Inc. are in agreement that in the absence of any specific exemption or exception, the regulatory deferral account balances should not be treated any differently than other existing assets and liabilities. Other standards should not be changed in an interim solution before a comprehensive standard can be developed.

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 recognized in accordance with other Standards.

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

The CLD members and Hydro One Inc. agree that the requirements of all other Standards should still rank ahead of the [draft] interim standard, especially given its interim nature. The separate presentation approach is a reasonable compromise and solution to ensure comparability amongst entities that have and have not adopted the [draft] interim standard. The separate presentation achieves the IASB's second objective in ensuring financial statement users have the ability to clearly distinguish between the financial impact of regulatory deferral accounts and other accounts and increase transparency in the financial statements. This presentation ensures that the statement of financial position and statement of profit or loss and other comprehensive income above the regulatory movement lines is comparable to an entity that has derecognized regulatory assets and liabilities under IFRS. The presentation guidance proposed in the ED should alleviate any concerns regarding decreases in comparability amongst industry peers.

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 accounts that are recognized in the financial statements.

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.

The CLD members and Hydro One Inc. consider the disclosure requirements as set out in the ED to be appropriate and agree that they provide decision-useful information. The disclosure requirements, coupled with the separate presentation approach on the financial statements, will provide users with a comprehensive qualitative and quantitative interpretation of the true effects of rate-regulation. The CLD members and Hydro One Inc. agree with all suggested disclosure requirements. By prefacing the disclosure section of the ED with a general statement of the objective, the financial statement preparer will have the ability to add or remove any disclosure requirements that they deem necessary or are immaterial to tailor to the users of the financial statement needs.

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.

Is this approach appropriate? Why or why not?

The CLD members and Hydro One Inc. support the IASB's inclusion of materiality and other factors that should be considered in the disclosure section of the [draft] interim standard. The financial statement preparers are in the best position to make such judgments about the importance of certain disclosures. The [draft] interim standard should not be treated differently compared to any other standard in terms of materiality. By explicitly referring to materiality, it highlights to the financial statement preparers the importance to consider what would be considered decision-useful information.

<u>Question 9</u>

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?

The CLD members and Hydro One Inc. agree that the transition approach is appropriate and consistent with the ED's intent to apply only to first-time adopters. By having rate-regulated entities apply the standard at the same time as IFRS 1, it effectively eliminates the need for any specific transition requirements.

<u>Question 10</u>

Do you have any other comments on the proposals in the Exposure Draft?

The CLD members and Hydro One Inc. commend the IASB for its efforts in drafting the ED and recognizes that the eventual issuance of the [draft] interim statement will mark a major milestone in this continuing rate-regulated accounting project. Although the ED cannot be applied by some members of the CLD and Hydro One Inc., we collectively support the merits of the [draft] interim standard and believe it will encourage more preparers to transition to IFRS and create unity in the international accounting landscape.