ATCO GROUP

Corporate Office

September 3, 2013

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst:

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

The ATCO Group ("ATCO") appreciates the opportunity to provide comments on ED/2013/5 – Regulatory Deferral Accounts. We understand that the objectives of the draft interim Standard are to enhance comparability of financial reporting for entities with rate-regulated activities until guidance is developed through the IASB's comprehensive Rate-Regulated Activities project and to ensure that users of financial statements will be able to identify regulatory deferral account balances and movements in those balances. We support the IASB's efforts to provide guidance in this important area and look forward to being actively involved in the process.

We do not agree with restricting the scope to entities with rate-regulated activities that have not yet adopted IFRS. As explained in our response to Question 1, we recommend expanding the scope to include entities that recently chose to adopt IFRS instead of deferring the adoption of IFRS as permitted by their local accounting standards board. Allowing such entities to reinstate the accounting for their rate-regulated activities will put them on equal footing with entities that will continue under this interim Standard to apply their previous GAAP to their rate-regulated activities.

ATCO is an investor-owned, worldwide group of companies based in the Province of Alberta, Canada, with more than 9,400 employees and assets of approximately $15 billion. ATCO operates in the utilities, energy, structures and logistics, and technologies industries. ATCO's rate-regulated activities are comprised of the distribution and transmission of natural gas and electricity. Rate-regulated activities represent approximately one-half of ATCO's 2012 consolidated revenues and earnings and more than three-quarters of its consolidated assets and capital expenditures.

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If there are further questions, please contact me at rob.neumann@atco.com.

Yours truly,

Robert C. Neumann
Vice President, Controller

The ATCO Group is pleased to provide the following responses to the questions put forward by the IASB in the Exposure Draft on Regulatory Deferral Accounts. In order to assist in your review of this submission, we have structured our responses around the questions outlined in the Exposure Draft.

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 their previous GAAP.

Is the scope restriction appropriate? Why or why not?

ATCO supports the IASB's objective of enhancing comparability of financial reporting for entities with rate-regulated activities.

However, ATCO does not agree with restricting the scope to entities that have not yet adopted IFRS. Entities, like ATCO, that chose not to defer the adoption of IFRS as permitted by their local accounting standards board should be included in the scope of this interim standard. By adopting IFRS, these entities achieved comparability of their non-rate-regulated operations with peer companies, but had to forego comparability of their rate-regulated activities with entities that either chose the deferral option or converted to United States Generally Accepted Accounting Principles (US GAAP).

In order to enhance comparability with those entities that are expected to adopt IFRS in conjunction with this interim Standard, entities that recently chose to adopt IFRS should be allowed to reinstate the accounting for rate-regulated activities in accordance with their previous GAAP.

ATCO recommends that the scope of the interim Standard be expanded to include entities that meet the following criteria:

1. the entity adopted IFRS on or after January 1, 2011; and
2. the option to defer adoption of IFRS was granted by the entity's local accounting standards board.

As it stands now, ATCO compensates for the lack of comparability with its rate-regulated peers by presenting Adjusted Earnings in the Segmented Information note to the consolidated financial statements. Adjusted Earnings facilitates comparability of ATCO's financial results with those rate-regulated peer companies that have deferred the adoption of IFRS, as well as with entities that utilize US GAAP to account for rate-regulated activities. While this disclosure does not identify regulatory deferral account balances, it provides extensive disclosure on the movements in those accounts as they affect earnings.

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 for regulatory deferral accounts are appropriate.

Requiring there to be a third-party regulator supports the legitimacy of the regulatory deferral accounts recognized by the entity and scopes out entities that self-regulate without the support of statutes or contracts that bind the entity's customers.

The criteria require that the rate-setting mechanism be designed to recover the entity's allowable costs. The high probability of recovery is addressed by ensuring that those who adopt the draft interim Standard are regulated by legislation or statute or contract that allows them to recover their prudently incurred costs as well as a fair return on investment.

The criteria in the draft interim Standard are consistent with US GAAP Topic 980-10-15, section 15-2 stating that: an entity must have rates set by a regulator empowered by statute or contract to establish rates that bind customers, the rates are designed to recover the costs of providing the product or service, and there is a reasonable presumption that the rates set will be able to be charged to and collected from customers.

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 (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?

We agree that adoption of the draft interim Standard should be optional. Assuming that the scope is expanded to include entities that meet the recommended criteria set out in the response to Question 1, entities with rate-regulated activities that currently do not recognize regulatory deferral accounts may not wish to invest the time and costs of adopting this interim Standard given the uncertain outcome of the IASB's comprehensive Rate-Regulated Activities project.

For the same reason, entities with rate-regulated activities that have not yet adopted IFRS, but that voluntarily choose to adopt IFRS, or at some point are required to do so because the option to defer adoption is no longer available, should be given the choice whether or not to adopt the interim Standard.

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 recognize regulatory deferral account balances should not be permitted to start to do so? If not, why not?

As stated in our response to Question 1, we do not agree with the scope restriction proposed.

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 (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?

We agree with the approach outlined for recognition, measurement, and impairment of regulatory deferral account balances as outlined in paragraphs 14 and 16 of the draft interim Standard. In conjunction with our response to Question 6, this presumes that the previous GAAP accounting policies that are used to recognize incremental regulatory deferral account balances are in no way changed or compromised by the application of other Standards.

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.

We agree with this approach as the regulatory deferral accounts will record the incremental amounts that are recognized in addition to the assets and liabilities recognized in accordance with other Standards (i.e. IFRS before application of this 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 (see paragraphs 6, 18–21 and BC55–BC62).

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

We agree that separately presenting regulatory deferral accounts is acceptable.

However, we do not agree with the guidance outlined in paragraph BC62 that all regulatory deferral account balances are non-current. While current and non-current balances do not need to appear on the statement of financial position, they should at the very least be provided in the notes to the financial statements.

Such disclosure would already be provided by entities following US GAAP for rate-regulated activities. It maintains consistency with the classification of other assets and liabilities, and is useful in the analysis of financial metrics, such as current and working capital ratios.

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 recognized 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.

We agree with the proposed disclosure requirements as they provide decision-useful information regarding the nature of the regulatory environment and the risks associated with rate-regulated activities.

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?

The approach is appropriate as specific references to materiality remind preparers to focus on material disclosure only. The focus on materiality helps to address the concerns raised by the public discussion forum on *Disclosures in Financial Reporting* in January 2013 to avoid "disclosure overload."

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?

Should the scope be expanded to include entities that meet the recommended criteria set out in the response to Question 1, there should be specific transition requirements for those entities to adopt this interim Standard.

Question 10
Do you have any other comments on the proposals in the Exposure Draft?

ATCO continues to support the IASB's comprehensive Rate-Regulated Activities project and this draft interim Standard is a step in the right direction.