ASC
ACCOUNTING STANDARDS COUNCIL

5 September 2013

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON REGULATORY DEFERRAL ACCOUNTS

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on Regulatory Deferral Accounts (the ED) issued by the International Accounting Standards Board (IASB) in April 2013.

We understand that the current lack of an IFRS that specifically addresses the accounting for rate-regulated activities has created a significant barrier to IFRS adoption in certain jurisdictions and appreciate that the interim standard proposed to be issued by the ED was primarily motivated by the IASB's desire to assist these jurisdictions in overcoming that barrier.

However, we do not support the issue of the proposed interim standard due to the following reasons:

a) The proposed interim standard could result in the recognition of balances in IFRS financial statements that do not meet the existing definitions of assets and liabilities in the *Conceptual Framework*. Specifically, we note that the IASB has indicated in paragraph BC11 of the ED's Basis for Conclusions that almost all rate-regulated entities have eliminated regulatory deferral accounts when making the transition to IFRS and thus do not recognise them in IFRS financial statements. This appears to suggest that IFRS constituents generally consider that such accounts do not meet the existing definitions of assets and liabilities in the *Conceptual Framework*.

b) The proposed interim standard would introduce inconsistent accounting treatment into IFRS reporting, thereby impairing comparability between entities that apply the proposed interim standard and those that are not permitted to (e.g. existing IFRS users) or choose not to apply the proposed interim standard. It would also result in a lack of comparability between entities that apply the proposed interim standard, as these entities may use different previous GAAPs to account for their regulatory deferral accounts. Although the proposed interim standard requires entities to isolate the impact of recognising regulatory

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deferral accounts by presenting the accounts separately and providing specific disclosures on the accounts, we consider that the effects of inconsistent accounting and reduced comparability cannot be mitigated by enhanced presentation and disclosure.

c) The proposed interim standard would create more than one version of "IASB endorsed IFRS" until such time it is withdrawn by the IASB. Whilst the IFRS Foundation and the IASB have been "battling" against IFRS carve-out by jurisdictions, it appears that the IASB is on the brink of creating an IFRS carve-out itself. This also appears at odds with the IFRS Foundation's objective of developing a single set of IFRS.

d) We do not support an approach of creating "temporary" exceptions or exemptions to entice IFRS adoption as such an approach is not built on any conceptual grounds and could result in the IASB setting a dangerous precedent of (i) introducing additional interim standards for first-time IFRS adopters, and (ii) implementing a policy of adopting a temporary solution whenever a major project is initiated. Such an approach to standard-setting also begs the question of where and how the IASB should define the line in its attempt to resolve barriers to IFRS adoption. For instance, we understand that certain jurisdictions have introduced an industry-specific carve-out from mandatory IFRS adoption for their real estate industry in the light of the Revenue Recognition project. Should the IASB then consider whether to allow real estate entities in these jurisdictions to grandfather their existing GAAPs for revenue recognition until the new IFRS for Revenue Recognition is developed, so that the entities could adopt IFRS immediately, and if not, why not? Furthermore, the experience with interim standards such as IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* suggests that "interim" could mean a substantial period of time.

e) Although IFRS 1 *First-time Adoption of IFRS* accords relief to first-time IFRS adopters from restating the accounting treatment of certain items from previous GAAPs to IFRS, we note that those reliefs are generally intended to provide a suitable starting point for the subsequent accounting of the items in accordance with IFRS. As such, we consider that the proposed interim standard is of a different nature from the reliefs in IFRS 1.

We recommend that the IASB channel its efforts to the comprehensive project on Rate-regulated Activities.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Yat Hwa Guan at guan_yat_hwa@asc.gov.sg.

Yours faithfully

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