CLP 中電

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International Accounting Standards Board
30 Cannon Street
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Dear Sir/Madam

Responses to IASB Exposure Draft of Regulatory Deferral Accounts

We refer to the Exposure Draft ("ED") of Regulatory Deferral Accounts issued by the IASB in May 2013 and are pleased to provide our comments below.

We support the IASB to restart the project on Rate-regulated Activities. We believe that the recognition of the regulatory assets and liabilities together with appropriate disclosures could reflect the underlying economic environment and financial effects of rate regulation on the entity's activities.

However, we think it is not appropriate to issue the proposed Interim Standard on Rate-regulated Activities, which only serves a limited purpose. Not until the standard of Rate-regulated Activities is finalised, any recognition of regulatory deferral account balances may hardly be consistent with the IFRS Conceptual Framework.

Scope

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 disagree to the scope restriction. This scope restriction reduces barriers to the first-time adopters of IFRS. However, this is achieved on the cost of the comparability of the financial reports between industry players and the consistency of IFRS. If the Board considers that regulatory deferral accounts enable users of financial statements to understand the nature and financial effects of rate regulation on the entity's activities, this scope restriction should be removed for all eligible reporting entities.

This scope restriction may give a wrong signal to the first-time adopters that the final standard may not be substantially deviated from the Interim Standard. This may have an adverse effect on the finalisation of the comprehensive Rate-regulated Activities accounting standard.

The consultation in 2009 demonstrates that it is a complicated and controversial task to define assets and liabilities for rate-regulated activities. It is questionable that without a proper scope definition, the accounting policy adopted by the first-time adopter would be consistent with the Conceptual Framework. Users of financial statements may be confused of the basis of recognition of assets and liabilities between the rate-regulated regime and the IFRS framework.

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 authorised 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 "Rate regulator" defined under Appendix A is too general. It appears that any private contracts empowered to set rates that bind any entity's customers could fall into the scope of the proposed standard. If it is not the intention to apply the proposed standard to such private contracts, the scope should be revisited.

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?

As mentioned in our reply to question 1, we disagree to the proposal to issue this Interim Standard.

Recognition, measurement and impairment

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, recognise 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 strongly advocate for having one and only one Conceptual Framework under the IFRS. Therefore, we agree to this proposal.

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?

As mentioned in our reply to question 1, we disagree to the proposal to issue this Interim Standard.

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 recognised 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?

As mentioned in our reply to question 1, we disagree to the proposal to issue this Interim Standard.

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.

As mentioned in our reply to question 1, we disagree to the proposal to issue this Interim Standard. However, appropriate disclosures under the existing framework may be helpful in assisting financial statements users to understand the significance of rate-regulated activities to the entity and how they impact the financial position and performance of the entity.

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?

All IFRSs are governed by the concept of materiality as described in IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. There have no reasons why this ED should deviate from other Standards.

Transition
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?

As mentioned in our reply to question 1, we disagree to the proposal to issue this Interim Standard.

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

The Board had received the responses to the consultation on the Exposure Draft Rate-regulated Activities in 2009. The Board decided to suspend the project in view of the complex and fundamental issues involved. We are puzzled to note the Board's intention to issue the Interim Standard by ignoring the conclusion made previously.

As a rate-regulated entity, we welcome the proposal to start the project again. We think it is more beneficial for the Board to allocate sufficient resources to tackle the issues identified in the previous consultation and make meaningful progress towards the target of publishing a comprehensive Rate-regulated Activities accounting standard.

Yours sincerely,

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