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**International Accounting Standards Board**
30 Cannon Street
London - United Kingdom
EC4M 6XH

Mr. Hans Hoogervorst
IASB Chairman

Ms. Jane Pike (jpike@ifrs.org)
Senior Technical Manager

**Reference: Exposure Draft – Regulatory deferral accounts**

Dear Mr. Hoogervorst and Ms. Pike,

The Brazilian Association of Infrastructure and Basic Industry (ABDIB) is a private non-profit business association founded in 1955. Its major goal is to help development and growth of Brazilian infrastructure and basic industry market, to fortify this industry and improve its standards and competitiveness to an international level.

ABDIB appreciate that IASB has been working on this issue for a long time, which is especially important for the Brazilian Power Industry. We have had recently the opportunity to collaborate with the Request for Information about Rate regulation project.

Regulatory assets and liabilities is a sensitive issue for Brazilian Electricity companies. In 2001, the Brazilian Government implemented a mandatory rationing program, which motivated a debate and, as a result, regulatory assets and liabilities were formally constituted through the "Energy Sector General Agreement", among ANEEL (Brazilian Electricity Regulatory Agency), generators and distribution companies. This agreement allowed the initial recognition of regulatory assets and liabilities in the financial statements of distribution and generation companies in Brazil. Since then, the weight of regulatory assets and liabilities have increased in the energy tariffs, and recognition of these assets and liabilities have become imperative to these companies present an understandable financial statements for their stakeholders.

Since then, ANEEL has authorized the constitution of regulatory assets and liabilities, mainly for inflation pass-through and differences between forecasted and incurred costs. These regulatory assets and liabilities are annually inspected by the regulator and recognized in the tariffs charged from the customers' base. Up to the full IFRS adoption in Brazil, in 2010, those regulatory assets and liabilities were recorded by financial statement preparers and accepted by both CVM (Brazilian SEC) and Independent Auditors. Additionally, these regulatory assets and liabilities were and still are recorded in financial statements in accordance with USGAAP (applying SFAS 71) which were required to be filled in SEC. Through this mechanism, revenues and expenses are recorded in accrual basis, and there is a perfect match between revenues derived from the regulated tariffs and expenses considered in these tariffs in each reporting period, representing accurate financial statements to the users of such information.

However, during the first-time adoption process of IFRS in Brazil, regulatory assets and liabilities were fully written-off as the mainstream indicated that their recognition were not in accordance with IFRS conceptual framework. Because of that, in our view, the Financial Statements, especially of the Distribution Companies, have been inaccurate since the IFRS was adopted in 2010. Market players share this view (such as financial institutions, regulator and others) and have required the Companies to adjust their Financial Statements by recognizing regulatory assets and liabilities since 2010 in order to analyze the companies' financial position. In this context, most of Distribution Companies negotiated with financial institutions to adequate financial covenants as if regulatory assets and liabilities were not written-off. Financial institutions have accepted this suggestion, and then covenants have been still calculated based on an "adjusted" Financial Statements.

In this context, ANEEL issued a requirement creating Regulatory Financial Statements in which regulatory assets and liabilities are registered. Companies are obliged to public this information in their website.

There have been many discussions about this *Exposure Draft,* as well as the *Request for Information* of this project among Brazilian players to elaborate a single paper that reflects the Brazilian Power Industry and we are sending the same paper circulated by other institutions what also ratifies our understanding. These players are:

- ABRACONEE (Brazilian Association of Energy Sector Accountants) is a non-profit organization, founded in 1986, that congregates the accounting professionals and promotes training and integration of the energy sector accounting community in Brazil;

- ABRADEE (Brazilian Association of Electricity Distributors) is a not-for-profit organization, founded in 1995, and, since then it has acted as facilitator in the relations between electricity distributors (its members) and other agents / entities operating in the Brazilian electricity sector.

If you, other members of the Boards or your staff have questions or seek further elaboration of our views, please feel free to contact José Maria Garcia by email at jmaria@abdib.org.br by phone at +55 (11)3094.1966.

Sincerely,

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## 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 understand that this is a very complex issue and the Board will take time to reach a conclusion on the current comprehensive Rate-regulated activities Project, but we strongly disagree with the proposal of this interim ED to be applied only for first time adopters . We believe that the scope should be applicable to all adopters which used to recognize regulatory assets and liabilities in its financial statements in accordance with local GAAP, before the IFRS adoption.

As described in the above letter, regulatory assets and liabilities are sensitive issues for Brazilian Electricity companies, especially in the last ten years, when the weight in tariffs of the costs eligible to become a regulatory asset or liability have increased substantially. Since then, ANEEL has authorized the constitution of regulatory assets and liabilities, mainly for inflation pass-through and differences between forecasted and incurred costs. Through this mechanism, revenues and expenses are recorded on an accrual basis, and there is a perfect match between revenues derived from the regulated tariffs and expenses considered in these tariffs in each reporting period, representing, in our point of view, a more faithful financial statements to the users of such information.

A narrow scope Standard will reduce the comparability among the global financial reporting, which is the most important aspect of having an International GAAP (anyone could read any Financial Statements, without concern about adjustments to be in the same comparison basis). Observe that, this interim ED may cause diversity in accounting practice in a jurisdiction that already adopts IFRS, since first-time adopters in this jurisdiction would be allowed to use regulatory deferral accounts and remaining adopter not.

We know the Board has tried to mitigate this problem with changes in the disclosure of these balances, but we believe that a proposal that limits a group of entities to recognize regulatory deferral accounts will certainly bring diversity and lack of comparability into IFRS practice. Furthermore, it will be substantially unfair and not isonomic with the ones who have already adopted IFRS and were not allowed to recognize these amounts.

Furthermore we know this interim Standard does not represent an anticipation of the outcome of the comprehensive Rate-regulated activities project.

### 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?

Both scope criteria are appropriate. The presence of a regulator to establish prices and the level of quality services is essential to ratify that the concessionaires have a limited power to decide its own actions relating prices and services. The second scope criterion is the formal rate-setting process designed to recovery over-costs and pay under-costs, which represents strong evidence that there is an asset or a liability granted by the regulator.

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Considering the concepts established by conceptual framework (paragraphs 53 and 89), an asset should be recognized when it is probable that future economic benefits will flow to the entity and it is reliable measured. According to paragraph 60 and 90, a liability represents a present obligation to the entity, and has to be recognized when it is probable that an outflow of resources will settle the present obligation that is reliable measured. In this context, we agree these two scope criteria restrict the activities to the situations that will generate an asset or a liability. Furthermore, Brazilian Accounting previous rules were pretty similar to these concepts described in the proposed scope.

**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?

The adoption of any Standard should **not be** optional, if the companies were obliged to register these amounts according to previous local GAAP. We believe the comparability among players will be strongly damaged, and it will cost to companies to prepare information to clarify doubts of financial analysts and financial institutions.

**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, 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 believe that the Standard should be applicable for all entities that are under regulated activities and were obliged to register these amounts according to previous local GAAP, including jurisdictions that have already adopted IFRS. It would be extremely unfair and not isonomic with countries that have already adopted IFRS not include them in the scope of this interim Standard.

**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?

We agree that, in the absence of a specific exemption or exception in interim Standard, other Standards should be applied in the same way as they apply to other assets and liabilities to regulatory deferral accounts balances.

However, we consider that is very important the conclusion of the Rate-regulated activities project. A specific standard would clarify which kind of regulation would be in the scope of registration of deferral account balances and which situations would not be appropriate to recognize them. It is also important to say that it will be essential to conclude the Framework amendments in order to be possible the recognition of these balances according to the IFRS general concepts.

**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?

We agree with the Board that separate presentation is essential, since these amounts are extremely material in our Financial Statements. Furthermore, separate disclosure enables users to manage figures the way they need.

**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.

We believe these requirements are appropriate. In Brazil, required disclosure by grant authorities include, among others, principal amount, accrued interest and monetary restatement, segregated by nature of asset and liability and the period of which they are related to. Therefore, we believe it is important to disclose separately the nature and amounts.

**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?

We believe that the approach is appropriate, because these concepts are according to Conceptual Framework.

**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?

Since we strongly disagree with the narrow approach of this proposed interim Standard, in our point of view, these interim ED should be applied to all IFRS adopters.  We suggest the inclusion of transitional rules for e non-first time adopters.

**Other comments**

**Question 10**

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

As described in question 4, we believe that the Standard should be applicable for all jurisdictions and unrestrictively by all IFRS adopters that are under regulated activities and registered regulatory assets and liabilities according to their previous local GAAP, including the ones that have already adopted IFRS. It would be extremely unfair and not isonomic with Companies in jurisdictions  that have already adopted IFRS not include them in the scope of this interim Standard.

We share the point of view that the outcome of the comprehensive "Rate-regulated activities" Project needs to be in accordance with IFRS Conceptual Framework review.

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