Toronto Hydro-Electric System Limited
14 Carlton Street
Toronto, Ontario M5B 1K5

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

Toronto Hydro Corporation ("THC") would like to thank the International Accounting Standards Board ("IASB") for the opportunity to provide its comments in response to the Exposure Draft ("ED") for regulatory deferral accounts as issued by the IASB on April 25, 2013. We are in full support of the proposals set out in the ED and are encouraged with the direction that the IASB is taking with regards to this project. The ED serves as a stepping stone in the right direction to alleviate concerns around comparability and transparency for users of financial statements and is a suitable compromise until a full standard can be developed.

THC is a holding company, which wholly-owns Toronto Hydro-Electric Systems Limited ("THESL"), which in turn owns and operates an electricity distribution system, delivering electricity to approximately 723,000 customers located in the City of Toronto, Ontario, Canada. THESL is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario, Canada.

We hope that our comments on the ED provided in Appendix 1 will be useful to the IASB in its re-deliberations and commends 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 jcouillard@torontohydro.com.

Yours sincerely,

JS Couillard, CPA, CA
Chief Financial Officer
Toronto Hydro Corporation

Appendix 1 – Comments to 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?

THESL is in agreement with the scope restriction. As stated in the ED, one of the major reasons there is significant divergence in the accounting landscape in various jurisdictions is the lack of specific guidance related to the regulatory deferral accounts. Canada is one such jurisdiction that as a result, has at least three different accounting frameworks being utilized by Canadian rate-regulated entities. By restricting the scope to first-time adopters, it encourages more entities to adopt IFRS, which enhances overall comparability amongst its peers.

Entities who have already adopted IFRS may argue that the restriction unjustly impacts them and introduces further disparity amongst rate-regulated entities. THESL believes that this argument should be considered in the context of the average financial statement user. For jurisdictions such as Europe that have already adopted IFRS and have eliminated regulatory deferral account balances, the [draft] interim standard should have minimal impact because the average financial statement user will be comparing rate regulated entities within the same jurisdiction. It is unlikely that a direct comparison will be made of a rate-regulated entity in Europe to one in North America. Even if such a comparison was to be made, all other captions of the financial statements would be more comparable as both entities would be reporting under IFRS and the impact of the rate regulation could easily be isolated given the presentation requirements of the [draft] interim standard. Permitting already IFRS compliant entities to adopt this [draft] interim standard would be premature especially given the possibility of a full comprehensive standard. In addition, the current [draft] interim standard is an optional accounting policy. By opening up the [draft] interim standard to jurisdictions which have already fully transitioned to IFRS, it potentially could create disparity in a jurisdiction where little to none existed previously should some entities decide not to adopt the [draft] interim standard.

The argument is slightly different for jurisdictions such as North America where IFRS has only been marginally adopted by rate-regulated entities and there is a clear disparity between accounting frameworks used. THESL acknowledges that there will be some inconsistency created in Canada between first-time adopters who can use the [draft] interim standard and existent IFRS adopters who will be out of scope as it relates to the recognition and presentation of regulatory balances. However, THESL believes that the benefit of having more entities reporting under IFRS in Canada outweigh any inconsistency issues. The presentation guidelines proposed in the ED sufficiently grant financial statement users the ability to compare those who have derecognized regulatory deferral accounts and those who have adopted the [draft] interim standard and recognized regulatory deferral accounts. Both objectives of the ED, which were to reduce barriers to entry and to ensure that the impact of regulatory deferral accounts is clearly identifiable, are met despite the scope restriction.

<u>Question 2</u>

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?

THESL is in agreement that the scope requirement is appropriate and notes that it is more inclusive than the previous ED on rate-regulated accounting. THESL is encouraged by the fact that the IASB incorporated feedback from the previous ED on Rate-regulated Activities. By broadening the scope, it further enhances the IASB's objective to remove barriers to entry for first-time IFRS adopters and avoids becoming a narrowly focused industry-specific standard.

<u>Question 3</u>

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*.

THESL is in agreement that keeping the [draft] interim standard as an elective standard continues with the ongoing theme to make the standard less restrictive. Entities would have the option to not adopt the [draft] interim standard until such a time the comprehensive standard is completed.

<u>Question 4</u>

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?

THESL agrees that the [draft] interim standard should not be available to entities that currently do not recognize regulatory deferral account balances. Such an entity would not have a previous GAAP accounting policy to apply and this may create even more of a hindrance in its adoption of IFRS. The ED as a stand-alone guidance also does not provide sufficient in-depth recognition, measurement and impairment direction for entities that historically have not recognized regulatory deferral accounts to start doing so upon transition.

<u>Question 5</u>

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?

THESL agrees with the general application of other Standards to the regulatory deferral accounts. The regulatory deferral accounts are conceptually no different than other assets and liabilities and would not require preferential or different treatment under other Standards. Other Standards should not be negatively impacted by the [draft] interim solution until the comprehensive project can be completed.

<u>Question 6</u>

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?

Overall THESL agrees that the separate presentation approach is appropriate and sufficiently resolves concerns that there will be a loss in comparability across and within jurisdictions. It allows users of the financial statements to isolate the impact of regulatory deferral accounts which allows for direct comparability with other industry peers who may have already transitioned to IFRS and derecognized these balances. The presentation approach helps facilitate transparency which is key in achieving the overall goal of increased comparability.

THESL suggests a point of consideration to improve presentation consistency with other Standards. While THESL conceptually agrees with the separate presentation of the net movement in the regulatory deferral accounts, the [draft] interim standard assumes that all regulatory balances would otherwise result in a revenue or expense movement and omits the possibility of an impact to other comprehensive income ("OCI"). By including the entire net movement in the regulatory deferral accounts in the profit or loss section of the statement of profit or loss and comprehensive income, it can create an artificial impact to the net income. Similarly, the same presentation inconsistency would ensue with the tax impact to the net movement in the regulatory deferral accounts. THESL however does recognize that there is no net impact to *comprehensive* income but that this would create some inconsistency in the calculation of net income which is used to calculate the two proposed earnings per share balances.

THESL proposes a couple of options for the IASB to consider. The net movement in the regulatory deferral accounts that would otherwise have an OCI impact could be carved out into a separate line for a similar net movement in regulatory deferral accounts within the OCI section. This option would highlight the impact of the regulatory deferral accounts to net income and OCI and would not artificially impact the earnings per share calculation.

The other option would be for a separate disclosure requirement to identify the OCI impact that has been included in the net movement in regulatory deferral accounts and impact to the two proposed earnings per share calculation, subject to the same materiality considerations already included in the ED.

Despite the small consideration raised above, THESL supports and recognizes the [draft] interim standard as a major milestone in the rate-regulated accounting project, and supports its issuance even if adopted as drafted without modification.

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.

THESL agrees that the disclosure requirements in the ED provide decision-useful information. The additional disclosure requirements for regulatory deferral accounts are comprehensive and will aid in helping to reach the ED's second objective, to ensure financial statement users can clearly identify the impact of the regulatory deferral accounts and increase comparability. In addition, by prefacing the disclosure section with a statement allowing entities to choose to omit or add disclosures as they deem fit to meet the overall objectives of the [draft] interim standard allows for sufficient room to tailor to different rate-regulated industries. THESL commends the IASB for recognizing that there is no template that will fit all industries and that a narrow interpretation may impose undue operational changes or challenges on an entity prior to the development of a comprehensive standard.

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?

THESL agrees that materiality and other factors should be considered when deciding how to meet the proposed disclosure requirements. Materiality is not a new concept and is referenced in other standards.

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?

THESL agrees that specific transition requirements will not be necessary as the [draft] interim standard makes it clear that the standard is only available to first-time adopters. It will allow rate-regulated entities to apply the [draft] interim standard at the same time as the exemption contained in paragraph D8B of IFRS 1 which is also specific to entities with operations subject to rate regulation.

Question 10

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

Overall, THESL believes that the proposed interim standard accomplishes a major milestone and a step in the right direction for the overall rate-regulated accounting project. In particular for Canada, all the objectives for publishing this [draft] interim standard are met which should foster more transparent and faithful representation of the true nature of these regulatory deferral accounts. The option to apply previous GAAP accounting policies excluding some presentation changes serves as a good compromise for first-time adopters in Canada and overcomes one of the major hurdles for entities in choosing to adopt IFRS.