המוסד הישראלי לתקינה בחשבונאות
Israel Accounting Standards Board

**August 1st, 2013**

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

Dear Madam/Sir,

**Exposure Draft ED/2013/5 - Regulatory Deferral Accounts**

The Israel Accounting Standards Board is pleased to have this opportunity to comment on the IASB's Exposure Draft ED/2013/5 *Regulatory Deferral Accounts* published in April 2013.

The IASB states in paragraph BC11 "The increased use of IFRS has increased the pressure on the IASB to address whether regulatory deferral accounts balances should be recognised in IFRS financial statements. The pressure has come not only from jurisdictions that have not yet adopted IFRS and that currently recognise such regulatory items in accordance with their current GAAP, but also from entities in jurisdictions that already apply IFRS…"

We understand the IASB's will to encourage additional jurisdictions to adopt IFRS. However, we believe that there is no justification to give advantage to first-time adopters that will adopt the IFRS in the future compared to those entities that have adopted the IFRS in previous years. In our opinion, the method of providing exemptions only to first-time adopters (such as this interim Standard and Annual Improvements published on May 2010) is inappropriate. We believe that if the IASB wishes to benefit a certain industry until a final comprehensive Standard is issued, the IASB should provide the exemption to all entities in this industry rather than only to first-time adopters, as the IASB did in certain areas (for example, IFRS 4 and IFRS 6).

If the IASB will decide to proceed with the interim Standard, here are our detailed comments to the questions raised:

**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?**

In our opinion, the IASB should not restrict the scope of the proposed IFRS in this manner. We believe that the scope restriction is inappropriate since it will create different accounting policies between entities based on their IFRS adoption date and will impair comparability between entities. As mentioned in the introduction to our letter, we believe that the proposed IFRS should apply to all entities having rate-regulated activities that meet the criteria in paragraph 7. In this manner, all entities having rate-regulated activities that meet the specified criteria will have an accounting policy choice between adopting the proposed IFRS or not.

**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?**

In our opinion, the proposed scope criteria are appropriate. We believe that additional criterion should be added in accordance with the third criterion set out in paragraph 10-15-2 of ASC 980. According to paragraph 10-15-2 of ASC 980 in addition to the criteria above, a third criterion should be met in order for an entity to recognise deferral accounts:

a. …

b. …

c. In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. (FAS 071, paragraph 5)]

We believe that this criterion should be added as a third scope criterion.

**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?**

We agree that an entity that is eligible to adopt the interim Standard should be permitted, rather than required, to apply the Standard. We believe that it would be inappropriate to require entities to apply an interim Standard until the Standard becomes final. We also agree that this choice should be treated as an accounting policy choice and thus if an entity chooses to apply the Standard, it should apply it to all of its rate regulated activities and if the entity chooses not to apply the Standard, it should derecognise any regulatory deferral account balances.

**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?**

See our comment to question 1 regarding the Standard's scope. If our position as described in our response to question 1 would not be accepted, we agree that the interim Standard should allow only entities that have recognised in accordance with their previous GAAP regulatory deferral account balances to apply the 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 to the application of other Standards to the regulatory deferral account balances.

However, we believe that application of IAS 36's requirements to cash-generating units that contain regulatory deferral account balances (paragraph B10), but not to the separate regulatory deferral account balances themselves (paragraph B9) could result in a distortion. The carrying amount of the cash-generating unit containing the rate-regulated activity would be greater if the entity decides to adopt the interim Standard, even if its recoverable amount is the same, regardless whether the entity adopted the interim Standard or not. Consequently, if according to its previous GAAP the entity did not recognise an impairment loss of the regulatory deferral account balances, the impairment loss of the cash-generating unit containing the rate-regulated activity would be allocated to the other assets of the cash-generating unit, and not to the regulatory deferral account balances themselves. We believe it is inappropriate.

**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?**

We agree to the separate presentation approach proposed by the IASB. We believe that the separate presentation of incremental amounts that are recognised as regulatory deferral account balances and movements in those balances would assist users of financial statements to assess the prospects for future net cash inflows to an entity and to compare entities that adopted this interim Standard with entities that did not.

**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.**

The disclosure requirements in paragraph 25 refer to the nature and extent of rate-regulated activities and the risks and uncertainties surrounding such activities. We believe that these disclosure requirements should be placed in the management commentary rather in the financial statements. Therefore, these disclosures should not be incorporated in this 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 (see paragraphs 22–24 and BC63–BC64). Is this approach appropriate? Why or why not?**

We agree with this approach and believe that materiality should always be assessed when determining the appropriate disclosures.

**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 long as the Standard applies only to first-time adopters, no specific transition requirements are necessary.

We appreciate the opportunity to provide our comments.

Sincerely,

Dov Sapir, CPA, Chairman
Israel Accounting Standards Board