CONSEJO MEXICANO DE NORMAS DE INFORMACIÓN FINANCIERA A.C.

CINIF

September 4, 2013

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

Dear Board members:

Consejo Mexicano de Normas de Información Financiera (the Mexican Financial Reporting Standards Board, or CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the ***Exposure Draft: ED/2013/5 Regulatory Deferral Accounts*** (the ED) issued in April 2013, with comments to be received no later than September 4, 2013.

Set forth below you will find our comments on the topics included in the ED, as well as on responses to the questions includes therein.

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?

CINIF's reply:

We do not agree. We believe that proposals should apply to all entities, even if not first-time adopters.

Paragraph D8B of IFRS 1 allows an entity to use its previous GAAP for the recognition of regulatory deferral account balances, and this proposal complements the exemption to maintain such balance establishing that the requirements of this standard may be applied in subsequent periods to indicate the manner of applying its previous GAAP, assuming that the entities use their previous GAAP under the option in paragraph D8B of IFRS 1, which may not necessarily be confirmed. In fact, we would expect paragraph D8B of IFRS 1 to be superseded so that the scope could be expanded to all entities and, if not, only clarify the manner of recovering costs at the end of modified paragraph D8B, as indicated in Appendix D.

This project is somewhat repetitive since it indicates that the recognition, measurement and impairment criteria of the previous GAAP must be applied and establishes additional presentation and disclosure criteria. In summary, the substitute application of the local standard is maintained, whatever it is, only for first-time adopters.

This project restricts its application to entities that applied IFRS 1, that is:

1. Project: use its previous GAAP for the recognition of regulatory deferral account balances if they comply with the criteria of paragraph 7 for prior periods,
2. D8B: use its previous GAAP for the recognition of regulatory deferral account balances or derecognize such balances if they do not comply with IFRS at the transition date;

We recommend that the IASB expand the scope to all entities and not those that applied IFRS 1.

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?

CINIF's reply:

In theory we believe it is appropriate that the two criteria be met for regulatory deferral accounts to be within the scope of the proposed interim Standard, as indicated in paragraph 7 of the project; but we do not agree that this should be a choice for the entity, but rather a single criteria should be established without options, since options negatively impact the comparability and transparency of financial information.

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?

CINIF's reply:

As we understand it, paragraph 4 of the project indicates that for regulatory deferral account balances recognized under its previous GAAP the presentation and disclosure requirements of this project may be used; as a result, we assume the regulatory deferral account balances recognized under its previous GAAP are maintained as an exception as allowed by paragraph D8B of IFRS 1. However, the assets and liabilities recognized as permitted by this project would otherwise have been recognized in the results of operations for not complying with the definition of assets liabilities in the Conceptual Framework.

The recognition of assets and liabilities that are in conflict with the Conceptual Framework requires clear justification to reach a consensus. If adequate justification for not complying with the Conceptual Framework does not exist, we do not agree. We prefer to avoid any conflict with the Conceptual Framework.

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?

CINIF's reply:

We understand that paragraph 12 indicates that an accounting change may be made only to recognize, measure and, if necessary, recognize impairment of the regulatory deferral accounts if the relevance and reliability of the information is improved for economic decision making purposes from the time of initial recognition. Accordingly, if its recognition is allowed despite being in conflict with the Conceptual Framework, any entity should be allowed to make the change; in fact we believe it should be a requirement to promote comparability.

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?

CINIF's reply:

We agree that complementary IFRS should be applied for the recognition, measurement and impairment criteria of assets and liabilities other than regulatory deferral accounts. On the other hand, although there is some question as to which local criteria of each country are applicable to regulatory deferral accounts, which could be very different, we believe that the IASB should issue guidance and not leave it up in the air, since the result could be information that is very diverse and therefore not comparable.

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?

CINIF's reply:

We agree with standardizing the presentation.

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.

CINIF's reply:

We agree with standardizing the disclosures.

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?

CINIF's reply:

Materiality is addressed in the Conceptual Framework and, therefore, it is unnecessary to address it in this project.

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?

CINIF's reply:

If the scope of this project is expanded to all entities, the initial application should be indicated in the transition paragraphs.

Other comments

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

CINIF's reply:

We believe the IASB should issue a standard for regulatory deferral accounts, since which local standard applies is undoubtedly unknown. We assume that ASC 980 - Regulated Operations of the FASB Codification is applicable, although other countries may have their own standards, which may not align with those of the FASB.

Should you require additional information on our comments listed above, please contact Luis Cortes at (52) 55 5596 5633 ext. 114 or me at (52) 55 5596 5633 ext. 103 or by e-mail at lcortes@cinif.org.mx or fperezcervantes@cinif.org.mx, respectively.

Kind regards,

C.P.C. Felipe Perez Cervantes
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

cc: Jan Angstrom
Amaro Gomes