Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

277 Wellington Street West, Toronto, ON Canada M5V 3H2 Tel: (416) 977-3322 Fax: (416) 204-3412 www.frascanada.ca

277 rue Wellington Ouest, Toronto (ON) Canada M5V 3H2 Tél: (416) 977-3322 Téléc : (416) 204-3412 www.nifccanada.ca

September 4, 2013

International Accounting Standards Board
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Dear Sirs:

Re: Exposure Draft, Regulatory Deferral Accounts
IASB Reference ED/2013/5

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the Exposure Draft, *Regulatory Deferral Accounts*, issued in April, 2013.

The AcSB is Canada's national accounting standard setting body, which has adopted a strategy of importing IFRSs into Canada for publicly accountable enterprises. The AcSB consists of members from a variety of backgrounds, including financial statement users, preparers, auditors and academics. Additional information about the AcSB can be found at www.frascanada.ca.

The AcSB unanimously supports the proposed interim Standard and the objective behind it. We see the proposals of the International Accounting Standards Board (IASB) as a workable solution to challenges posed by a unique set of circumstances, pending the completion of the Board's comprehensive Rate-regulated Activities project. The proposed interim Standard facilitates the first-time adoption of IFRSs while reducing the risk of two major accounting changes in a short period of time for entities in jurisdictions, including Canada, that currently permit or require the recognition of regulatory deferral account balances — one when an entity adopts IFRSs for the first time and derecognizes any such balances in its statement of financial position in accordance with established IFRS practice, and the second should the IASB's comprehensive project, when completed, permit the recognition of regulatory deferral account balances. We think it does so without a deterioration in the quality of IFRS reporting.

Appendix A to this letter responds to the questions posed in the Exposure Draft.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Peter Martin, Director, Accounting Standards (+1 416 204-3276 or email pmartin@cpacanada.ca) or Karen Jones, Principal, Accounting Standards (+1 416 204-3463 or email kjones@cpacanada.ca).

Yours truly,

Linda F. Mezon, FCPA, FCA
CPA (MI)
Chair, Canadian Accounting Standards Board
lmezon@cpacanada.ca
+1 416 204-3490

APPENDIX A

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 think the scope restriction makes sense given the IASB's stated objective of reducing barriers to the adoption of IFRSs for the first-time by entities with rate-regulated activities until guidance is developed through its comprehensive Rate-regulated Activities project.[1] Restricting the scope to first-time adopters avoids changes in the accounting practices of entities currently reporting under IFRSs. Until the IASB's comprehensive project is completed, such changes would be premature.

We note that IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* were, similarly, intended to facilitate first-time adoption of IFRSs by providing interim guidance for use until the IASB completed major projects on those topics. However, both those Standards were issued in time for use by the first wave of IFRS adopters in 2005. Therefore, it was unnecessary to incorporate a "first-time adopters only" scope restriction into the Standards themselves. The proposed interim Standard on regulatory deferral accounts is different, in that the need for interim guidance has arisen at a time when IFRSs have wide global application. This time, in order to reflect the IASB's objective and limit the application of the proposed interim Standard to first-time adopters, that scope restriction must be made explicit.

It is also appropriate to limit application of the proposed interim Standard to first-time adopters that recognized regulatory deferral account balances in their financial statements in accordance with their previous GAAP. An entity without such balances faces the same challenges associated with first-time adoption of IFRSs as any other publicly accountable enterprise and requires no special relief relating to rate-regulated activities.

[1] These barriers are especially noticeable in jurisdictions, including Canada, where preparations by rate-regulated entities to adopt IFRSs for the first time have coincided with IASB project activities in this topic area, resulting in prolonged uncertainty regarding their continued ability to recognize regulatory deferral account balances.

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?

We support the use of the proposed scope criteria on an interim basis for the reasons stated in the Exposure Draft. The IASB's comprehensive Rate-regulated Activities project will determine the scope of more definitive guidance resulting from that project.

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 entities within the scope of the [draft] interim Standard should be given the choice of whether to adopt it. Pending the completion of the IASB's comprehensive project in this topic area, such entities should have the ability to decide between continuing to recognize the effects of rate regulation through the use of regulatory deferral account balances, or derecognizing such balances consistent with the established practice in IFRSs described in paragraph BC11.

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 agree, for reasons similar to those given in our response to Question 1. The proposed interim Standard is essentially a "holding" mechanism facilitating the first-time adoption of IFRSs by entities currently recognizing regulatory deferral account balances. It is not intended as an opportunity for first-time adopters that currently do not recognize such balances to begin doing so. Any opportunity for entities, whether first-time adopters or existing IFRS reporters, to change their accounting policy to begin recognizing regulatory deferral account balances should result not from an interim Standard, but from the IASB's comprehensive Rate-regulated Activities project.

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 with the concept that IFRSs other than the [draft] interim Standard should apply to regulatory deferral account balances as they would to assets and liabilities recognized in accordance with other Standards. The [draft] interim Standard determines the extent to which an entity is permitted to recognize regulatory deferral account balances in its statement of financial position. Notwithstanding the fact that the IASB has not yet decided on the theoretical merit of such recognition over the long term, we think that once recognition has occurred in accordance with the [draft] interim Standard, other Standards should apply to the resulting financial statement items in the usual manner. For the reasons stated in paragraph BC51, we agree that any exceptions to or exemptions from this general rule should be incorporated into the proposed interim Standard, rather than other IFRSs.

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 proposed requirement for separate presentation of regulatory deferral account balances and movements in those balances, and consider it a key component of the [draft] interim Standard. The separate presentation approach ensures total transparency regarding the existence and financial statement effects of regulatory deferral account balances. Clear identification of such balances would allow for comparisons between IFRS reporters around the globe regardless of whether or not they have activities subject to rate regulation, and whether or not they recognize regulatory deferral account balances. As the proposed interim standard could increase the global population of IFRS reporters and, thus, the number of entities accounting for financial statement items other than regulatory deferral account balances in the same manner, we think the overall effect would be an increase in comparability.

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 think the proposed disclosure requirements provide decision-useful information and note their similarity to the requirements of Accounting Guideline AcG-19 "Disclosures by Entities Subject to Rate Regulation" in pre-changeover Canadian GAAP. Our experience with the Canadian requirements has been that preparers do not consider them burdensome and financial statement users find them beneficial. We consider the table required by paragraph 28 of the Exposure Draft to be an improvement over pre-changeover Canadian GAAP disclosure requirements for the reasons stated in paragraph BC65.

We have no suggested additions or deletions as regards the detailed requirements. However, we suggest that the [draft] interim Standard be expanded to clarify the extent to which those requirements apply to interim financial reports in the year the Standard is adopted.

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 note the Exposure Draft's departure from the IASB's practice of not explicitly referring to materiality considerations in individual Standards and agree with the Board's previous conclusion that such references aren't usually necessary because the concept of materiality in IAS 1 *Presentation of Financial Statements* and in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* governs all Standards. However, materiality is only one of several considerations referenced in paragraph 24 that we agree could be helpful in achieving the disclosure objective for the proposed interim Standard. Further, the reference reinforces, rather than contradicts, the guidance in IAS 1 and IAS 8. Therefore, we are not opposed to the proposed approach.

We also note the high level of discretion provided in the proposed disclosure requirements but do not find it troublesome. Together with the considerations listed in paragraph 24, the disclosure expectations of users and rate regulators should ensure that the objective in paragraph 22 is met.

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?

We agree with the transition approach for the reason stated in the Question and explained more fully in paragraph BC68.

Question 10:

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

We have no further comments.