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Wednesday, 04 September 2013

Hans Hoogervorst
Chairman IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

IASB Exposure Draft ED/2013/5 Regulatory Deferral Accounts

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Exposure Draft (ED/2013/5) – Regulatory Deferral Accounts; issued by the International Accounting Standards Board (IASB).

The Institute believes that the there is need to have a standard on rate regulated activities. However, we do not support the proposed interim standard since it is not principle based coupled with the fact that presentation and disclosure are not sufficient to mitigate the effects of inconsistency in application of IFRS and lack of comparability between entities. The proposals to allow rate-regulated entities to recognise regulatory account balances when adopting IFRS introduces inconsistent accounting treatment into IFRS reporting. Adopting the proposals will impact significantly on the qualitative characteristic of comparability between entities that apply the proposals to use previous GAAP and entities that already apply IFRS or do not wish to apply the proposals. The proposals would also result in lack of comparability between entities that apply the reprieve provided in the proposals, as they may follow different previous GAAPs for their regulatory deferral account balances.

We have included our responses to each of the questions set forth in this ED, in an appendix to this letter.

If you would like to discuss these comments further, please contact the undersigned on icpak@icpak.com or the undersigned at nixon.omindi@icpak.com.

Yours Faithfully,

Nixon Omindi
Manager, Professional Standard

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?

ICPAK is concerned that the interim standard as it is will have a negative impact on reliability and relevance of the financial information. We however support the scope limitation pending the completion of the comprehensive project on the rate regulated activities.

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?

Should the proposed interim standard be issued, we believe that the scope criterion is appropriate as it will restrict the use of this standard to those entities that are regulated by an authorised body. There is however need to clearly define "authorised body" e.g. the Board of Directors' of a company are authorised and should they set price caps' their actions might be construed to fall within the provisions of this interim standard.

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 are of the view that entities that wish to apply existing IFRSs should be permitted and encouraged to do so subject to question (4) below.

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?

ICPAK supports the scope limitation only to entities that recognise regulatory deferral account balances. This serves to limit the population that will adopt the interim standard when issued and will also serve to help the IASB in monitoring implementation and see any gaps to be incorporated in the comprehensive review of rate regulation.

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 the general application of other standards to regulatory deferral account balances would seem to be appropriate provided that this is clearly disclosed in the financial statements.

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 proposal to isolate amounts that are recognized as regulatory deferral account balances and movements in those balances. This will ensure that they are clearly identified which to a degree, which will help to facilitate comparability

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.

ICPAK supports the IASB's proposal on disclosures on regulatory deferral accounts.

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?

Materiality is an important component of relevance (QC) and we support proposed disclosure requirements as they will ensure financial statements do not become cluttered thus obscuring relevant financial information.

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?

We agree with the transition requirements as set out in this ED.

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

We do not have any other comments on the Exposure Draft.