IEAF International Energy Accounting Forum

IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, September 6, 2013

Re: Exposure Draft ED/2013/5 Regulatory Deferral Accounts

We thank you for the opportunity to comment on the IASB Exposure Draft ED/2013/5 Regulatory Deferral Accounts.

As raised by the IEAF in its previous letters, the RRA accounting is an issue for many entities in Europe, therefore there is no reason to limit the scope to first-time adopters of IFRS.

In addition to this general comment, answers to the questions of the invitation for comments are provided in the appendix.

Should you like to discuss any of these matters please do not hesitate to contact me.

Kind regards,

On behalf of IEAF

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Scope

IASB questions

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?

Answer

No.

On one hand, as raised by the IEAF in its previous letters, the RRA accounting is an issue for many entities in Europe, therefore there is no reason to limit the scope to first-time adopters of IFRS. Please find enclosed the letter sent by IEAF in March 2011.

On the other hand, we do not understand paragraph 6 of the Draft Standard, particularly the following sentences: "Although rate regulators can affect the timing of the recovery of costs or the reversals of over-recoveries in rates, rate regulators do not change the characteristics of assets and liabilities that exist and would be recognized in accordance with existing IFRS. Consequently, this ED interim standard is only applicable to the incremental amounts that would not otherwise be recognized as assets or liabilities in accordance with other Standards and the Conceptual Framework for Financial Reporting."

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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:

- 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
- price binds the customers; and 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?

Answer

We consider that a "full" standard, and not an interim standard only applicable to first time adopters, should be issued (see answer to Q1).

IEAF view is that any IFRS on RRA should:

- *be principle based*
- *reflect the sub-lying economics of the regulatory environment*
- *clarify that scope regulatory assets /liabilities could be accounted for if they qualify for asset /liability recognition according to the framework and/or other IFRSs*

However, considering the spectrum of Regulations over Europe and worldwide we consider that the definition of regulatory deferral accounts should be broad enough and leave room for judgment. In other words, we feel that the scope criteria are too restrictive. Entities should use their judgment in assessing recoverability of regulated asset first when measuring it and later when testing it for impairment. In other words, no automatic recognition.

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?

Answer

No as we consider that a "full" standard, and not an interim standard only applicable to first time adopters, should be issued (see answer to Q1).

Recognition, measurement and impairment

IASB questions

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 recognize regulatory deferral account balances should not be permitted to start to do so? If not, why not?

Answer

No as we consider that a "full" standard, and not an interim standard only applicable to first time adopters, should be issued. All entities should apply the same principles to account for RRA whatever the accounting under local gaap is. Indeed, we do not support the Temporary Exemption from IAS 8 paragraph 11.

You may know that the 2005 IFRIC for rejection about accounting for regulated activities, which was unclear, has been restrictively interpreted by the BIG 4. They do not accept the accounting for any regulatory asset or liability even if the asset /liability meets the requirements of the framework on the basis of this Wording for Rejection.

At the time of the first application of IFRSs in Europe this did not cause much trouble as the regulation was not mature enough to generate eligible assets/ liabilities according to the framework definitions. Hopefully many European markets have now gained maturity and Regulation has been put in place (In France for example) with the opening of the Energy markets; unfortunately auditors position has not changed and we are now facing a big problem.

Accounting should reflect the performance of the regulated activities.

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?

Please refer to answer to Q2. Once a "full" standard will be issued, we agree that other Standards shall apply to regulatory deferral account balances in the same way as they apply to other assets and liabilities recognised in IFRS financial statements.

Presentation

IASB questions

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?

See answer to Q1.

Disclosure

IASB questions

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.

Answer

As said above we consider only a "full" standard should be issued.

However, if an interim standard were to be issued, we think that as stated in IAS 1.18 "inappropriate accounting policies cannot be rectified by notes or explanatory material". Therefore, if the assets & liabilities criteria are met RRA should be accounted for together with the related qualitative and "judgment" disclosures; if criteria are not met, risks and uncertainties should be disclosed.

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?

Answer:

See Answer to Q7. Materiality and other factors should be considered as for any item in the financial statements.

Transition

IASB questions

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?

Answer

See answer to Q1.

Other comments

IASB questions

Question 10

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

Answer

No.

Appendix 1: Members of the International Energy Accounting Forum

Alpiq	www.Alpiq.de
Axpo	www.axpo.ch
BG Group	www.bg-group.com
EDF	www.edf.com
EnBW	www.enbw.com
EWE	www.ewe.de
Fortum	www.fortum.com
Gas Natural	www.gasnatural.com
Gazprom Marketing & Trading	www.gazprom-mt.com
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