02 August 2013

Our ref: ICAEW Rep 112/13

Your ref: ED/2013/5

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Hans

ED/2013/5 *Regulatory Deferral Accounts*

ICAEW welcomes the opportunity to comment on the exposure draft ED/2013/5 *Regulatory Deferral Accounts* published by the International Accounting Standards Board in April, a copy of which is available from this link.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

As the scope of the proposed interim standard is limited to first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP, it will not affect many – if indeed any – UK reporting entities. On this occasion, we will not be responding to each of the detailed questions included within the exposure draft. Instead we set out below our general views on the proposed approach. We are supportive of the board's comprehensive project on rate-regulated activities. We would welcome a solution that not only makes it easier for those entities that currently recognise regulatory deferral accounts under their local GAAP to move to IFRS, by providing clarity, but which also ensures consistent treatment of any regulatory deferral account

The Institute of Chartered Accountants in England and Wales
Chartered Accountants' Hall
Moorgate Place London EC2R 6EA UK
icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX 877 London/City

balances once they have done so. We will provide a full response to the forthcoming discussion paper in due course. However, we strongly disagree with the proposals to introduce an interim standard.

A universal 'financial language' offers many benefits that are both well-documented and well-rehearsed by those who support the move to a global set of financial reporting standards. This case would be undermined by the introduction of an interim standard that would result in entities in different jurisdictions being allowed to carry forward a range of existing practices while still claiming full compliance with IFRSs. Moreover, the proposed interim standard would potentially offer entities in jurisdictions currently in the process of moving to IFRSs an advantage over those in jurisdictions that have already adopted the board's standards. Having two – or more – sets of IFRSs that are sanctioned by the IASB will only serve to create diversity in practice and may create confusion among users of financial statements. This cannot be desirable.

Moreover, we are concerned that regulatory deferral account balances may not meet the Conceptual Framework definitions of assets and liabilities. While we have not considered this matter fully, at this stage we can see no principles-based reason for them to be recognised in the financial statements.

While we acknowledge that the board has issued interim standards on insurance and extractive industries as a means of reducing diversity in practice, we believe that doing so in this case would, for the reasons outlined above, be inappropriate.

For these reasons we urge the board to abandon its plans for an interim standard and to instead focus its efforts on developing a longer-term solution via its on-going comprehensive rate-regulated activities project.

Yours sincerely

Eddy James FCA
Technical Manager
Financial Reporting Faculty

T +44 (0)20 7920 8701
E eddy.james@icaew