6 September 2013

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

Dear Hans

AOSSG comments on Exposure Draft ED/2013/5 *Regulatory Deferral Accounts*

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the Exposure Draft ED/2013/5 *Regulatory Deferral Accounts*. In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region. This submission has been circulated to all AOSSG members for their comment after having been initially developed through the AOSSG Chair's Advisory Committee.

Some AOSSG members are generally supportive of the IASB's consideration to allow entities that currently recognise regulatory deferral account balances in accordance with their current GAAP to continue to do so when making the transition to IFRS.

On the other hand, some AOSSG members recommend that the IASB does not proceed ED/2013/5 as an interim standard. These members are particularly concerned that the proposals would reduce comparability between entities. They are also concerned that the introduction of an interim standard as proposed in ED/2013/5 could (i) establish a pattern of introducing interim standards for first-time adopters of IFRS to encourage transition to IFRS or (ii) result in the IASB implementing a broader policy of adopting an interim solution whenever a major standard-setting project is activated. These members are opposed to such standards as they do not believe that gaining acceptance of IFRS should be placed ahead of serving the needs of users. These members acknowledge that IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* are interim standards that have facilitated the adoption of IFRS since 2005. However, those interim IFRSs were issued at a time when few entities applied international standards. Almost ten years has elapsed over which time many entities have adopted IFRS and, in the process, surrendered many jurisdictional accounting policies in the interests of being part of a global standard-setting framework. The proposed interim standard would set a dangerous precedent that may be seen by some jurisdictions with particular accounting policies that do not comply with IFRS as a basis for negotiating further exceptions. That could lead to lengthy delays in those jurisdictions adopting IFRS. It would also damage the credibility of the IFRS brand.

Our views are explained in more detail in the Appendix.

If you have queries regarding any matters in this submission, please contact me.

Yours sincerely

K.M. Stevenson

Kevin M. Stevenson
AOSSG Chair

APPENDIX
Detailed comments on ED/2013/5 Regulatory Deferral Accounts

Overview of AOSSG response

AOSSG members have mixed views on ED/2013/5.

Some AOSSG members are generally supportive of the direction of the proposals in ED/2013/5 but have some concerns.

On the other hand, some AOSSG members recommend that the IASB does not proceed with the interim standard (ED/2013/5). These members are particularly concerned that the proposals would reduce comparability between entities. They are also concerned that the introduction of an interim standard as proposed in ED/2013/5 could (i) establish a pattern of introducing interim standards for first-time adopters of IFRS to encourage transition to IFRS or (ii) result in the IASB implementing a broader policy of adopting an interim solution whenever a major standard-setting project is activated. These members are opposed to such standards as they do not believe that gaining acceptance of IFRS should be placed ahead of serving the needs of users. These members acknowledge that IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* are interim standards that have facilitated the adoption of IFRS since 2005. However, those interim IFRS were issued at a time when few entities applied international standards. Almost ten years has elapsed over which time many entities have adopted IFRS and, in the process, surrendered many jurisdictional accounting policies in the interests of being part of a global standard-setting framework. The proposed interim standard would set a dangerous precedent that may be seen by some jurisdictions with particular accounting policies that do not comply with IFRS as a basis for negotiating further exceptions. That could lead to lengthy delays in those jurisdictions adopting IFRS. It would also damage the credibility of the IFRS brand.

AOSSG members' comments, whether in support or otherwise of ED/2013/5, are detailed below.

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?

Some AOSSG members that are supportive of ED/2013/5 recommend that the scope of the proposals includes newly established entities that might have regulatory deferral account balances. These members consider the proposed scope exclusion in ED/2013/5 would reduce comparability within the same jurisdiction that have entities with existing regulatory deferral account balances and those entities that would have regulatory deferral account balances in the future. For example, a parent entity with existing regulatory deferral account balances that are in the scope of ED/2013/5 may establish a new entity to carry out rate regulated activities that would not be allowed to implement the proposed interim standard, and accordingly, different accounting policies would need to be applied within the same financial reporting group.

In addition, some AOSSG members recommend that the scope of the proposals includes those IFRS-entities that would have had deferral account balances in accordance with their previous GAAP as this proposed segregation would lead to an unfair outcome.

Those AOSSG members that do not support ED/2013/5 do not want to see any extension of the scope. If the IASB proceeds with an interim standard, they want its adverse impact to be limited as possible.

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?

Scope criterion (a)

If the IASB decides to proceed with the proposed interim standard, those AOSSG members that do not support ED/2013/5 are concerned that the definition of 'rate regulator' may be too broad and could capture the activities of self-regulated entities that set price caps, particularly in a monopolistic environment. These members recommend that the IASB refines the definition, to explicitly require that the regulator be an authority independent of the reporting entity to ensure that self-regulated entities do not fall within the scope of the proposed interim standard.

Scope criterion (b)

One of the objectives of the IASB for proposing the interim standard is to reduce the barriers to the adoption of IFRS for entities with rate-regulated activities until guidance is developed through the IASB's comprehensive Rate-regulated Activities project. If the IASB decides to proceed with the proposed interim standard, given the IASB's stated project objective, it is unclear to some AOSSG members why the proposed scope is restricted to price regulation that is designed to recover an entity's specified cost.

It appears that the scoping is targeted to allow rate-regulated entities in some jurisdictions to apply the proposals but not others.

APPENDIX
Detailed comments on ED/2013/5 Regulatory Deferral Accounts

The IASB has stated that the proposed scope criterion (b) requires that there be an identifiable causal effect that links the regulatory deferral account balances to the rate-setting mechanism and the IASB intends that this criterion provides reasonable assurance that the deferred amounts will be recovered through future rates. Some may consider this scope criterion implies that the IASB considers regulatory deferral balances that arise from such rate-setting mechanisms to be assets or liabilities. Some AOSSG members consider this implication to be unwarranted given that the IASB's comprehensive Rate-regulated Activities project is not yet completed.

If the IASB decides to proceed with the proposed interim standard, those AOSSG members that do not support ED/2013/5 would prefer that the scope of the proposed interim standard be limited to the greatest extent possible—restricting the scope to a cost recovery based regulation could be one such approach. However, these members would urge the IASB to make it clear in the interim standard that the regulatory deferral balances that fall within the scope criteria would not be assets or liabilities nor is it the IASB's view that they could be assets or liabilities.

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?

If the IASB decides to proceed with the proposed interim standard, those AOSSG members that do not support ED/2013/5 consider it appropriate to only permit, rather than to require, the application of the proposed interim standard. This would allow first-time adopters that wish to be comparable with entities that already apply IFRS to achieve that aim.

However, other AOSSG members that support ED/2013/5 consider it appropriate to require the application of the proposed interim standard as they are concerned that comparability within a jurisdiction (between an entity that would apply the proposed interim standard and another that elects not to) would be compromised.

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?

If the IASB decides to proceed with the proposed interim standard, those AOSSG members that do not support ED/2013/5 agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so. This approach would help minimise the impacts of the proposed interim standard until such time that the IASB's comprehensive project on Rate-regulated Activities is completed.

However, as mentioned earlier, some AOSSG members consider the scope of the proposed interim standard should include:

(i) newly established entities that might have regulatory deferral account balances; and

(ii) those IFRS-entities that would have had deferral account balances in accordance with their previous GAAP.

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?

If the IASB decides to proceed with the proposals, those AOSSG members that do not support ED/2013/5 agree that entities with rate-regulated activities should apply other Standards to regulatory deferral account balances in the same way as they apply to assets and liabilities that are recognised in accordance with other Standards. As noted above, these members would much prefer that the IASB maintains its objective of requiring high-quality, transparent and comparable information in financial statements by requiring like transactions and events to be accounted for and reported in a like way rather than provide interim solutions to entities and particular jurisdictions.

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?

If the IASB decides to proceed with the proposed interim standard, those AOSSG members that do not support ED/2013/5 agree that regulatory deferral account balances and movements in those balances should be isolated by presenting them separately from the assets, liabilities, income and expenses that are recognised in accordance with other Standards. This approach provides some degree of transparency and is consistent with the fact that regulatory deferral account balances are not assets or liabilities in accordance with other Standards or the IASB's Conceptual Framework.

However these AOSSG members are of the view that presentation and disclosure are not sufficient to mitigate the effects of inconsistency in application of IFRS and lack of comparability between entities that would arise from implementing the proposals.

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.

If the IASB decides to proceed with the proposed interim standard, AOSSG members consider that the proposed disclosure objective and requirements appear to be adequate to provide useful information to users.

However, as noted above, some AOSSG members are of the view that presentation and disclosure are not sufficient to mitigate the effects of inconsistency in application of IFRS and lack of comparability between entities that would arise from implementing the proposals.

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?

If the IASB decides to proceed with the proposed interim standard, some AOSSG members do not object to the references to materiality and other factors that an entity should consider when deciding how to meet the proposed disclosure requirements as this could help reduce voluminous disclosures that obscure relevant information.

However, other AOSSG members that support ED/2013/5 consider that such reference to materiality is not necessary, and accordingly should be removed from the proposed interim standard, as the concept has been clearly described in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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?

If the IASB decides to proceed with the interim standard, AOSSG members agree with the IASB's rationale in paragraph BC68 that no specific transition requirements are needed as an entity that chooses to apply the proposed interim standard would continue with its previous GAAP accounting policies for the recognition and measurement of regulatory deferral account balances.

Question 10

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

No.