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Exposure draft: Regulatory Deferral Accounts

The successful introduction of IFRS across the globe is a major success in the business world for which the IASB should take enormous credit.

However, the successful implementation of IFRS was dependent upon the many organizations and individuals who worked extremely hard to make global accounting standards a reality.

The introduction of IFRS in the EU in 2005 was probably the single greatest example of IFRS endorsement. As part of the transition to IFRS in 2005, many accountants had to solve many accounting problems. I recall much debate at the time about the accounting treatment of regulatory assets and liabilities by EU entities which owned rate-regulated businesses, particularly in North America where local GAAP required use of regulatory accounting. These accountants had to rely on the IFRS (draft) Conceptual framework and its definition of assets and liabilities because there was no specific guidance on regulatory accounting in IFRS. My recollection is that EU entities decided that, even where the impact was adverse to their particular financial position, regulatory assets and liabilities did not qualify as recognisable assets and liabilities under IFRS.

And now, in 2013, because of pressure on the IASB to facilitate even wider adoption of IFRS, the exposure draft above contemplates allowing future first-time IFRS adopters to continue to recognise regulatory balances in their financial statements which do not meet the IFRS definition of assets and liabilities. The Exposure Draft readily admits this because it uses a new term of deferral accounts instead of assets and liabilities. It also confirms that the (draft) Conceptual Framework definition of assets and liabilities will be reviewed such that these balances may, in time, become recognisable as assets and liabilities in the Statement of Financial Position.

Those of us who worked hard in 2005 to implement IFRS did so because we supported IFRS based on sound principles and the vision of global accounting standards. Regrettably, with these proposals, I fear the IASB is at great risk of compromising both its principles and its vision for short-term political gain. I would ask the IASB to remember the approach of the professionals who interpreted the principles the IASB once espoused and who, by their efforts, made the introduction of IFRS in the EU a huge success. If the current proposal succeeds, it will be a huge insult to those professionals who acted in good faith and used professional judgment based on sound principles, sometimes at the expense of wider corporate objectives.

The views expressed in this letter are my entirely my own.

Yours sincerely

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