The Voice of Ontario's Electricity Distributors

September 4, 2013

Mr. Hans Hoogervorst
Chair, International Accounting Standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

Dear Mr. Hoogervorst:

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

The Electricity Distributors Association (EDA) is the voice of Ontario's 75 local distribution companies (LDCs), or electricity utilities, the publicly and privately owned companies that safely and reliably deliver electricity to all Ontarians in Canada through almost 5 million homes, businesses, and public institutions. Our LDC members proudly employ approximately 10,000 employees and invest approximately $2 billion annually in capital upgrades to the distribution system on capital assets valued at $16 billion. The Ontario Energy Board, a provincial regulator regulates LDCs in the public interest under the authority of the Ontario Energy Board Act, 1998, the Electricity Act, 1998, and a number of other provincial statutes.

The EDA is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Regulatory Deferral Accounts* ('the Exposure Draft').

Overall, the EDA supports the proposals contained in the Exposure Draft for regulatory deferral accounts. The proposals meet the objective to enhance the comparability of financial reporting by reducing barriers to the adoption of IFRS by entities with rate-regulated activities until guidance is developed through the comprehensive Rate-Regulated Activities project. Attached are the EDA's detailed responses to the questions in the invitation to comment.

If you have any questions, or require any further information, with respect to our comments, please contact me at (905) 265-5313 or by email at tsarkesian@eda-on.ca.

Sincerely,

Teresa Sarkesian
Vice President, Policy & Government Affairs

Electricity Distributors Association
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Exposure Draft ED/2013/5 Regulatory Deferral Accounts

Question 1
The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognized regulatory deferral account balances in their financial statements in accordance with their previous GAAP.

Is the scope restriction appropriate? Why or why not?

The EDA agrees with the scope restriction.

The restriction to first-time adopters is consistent with the objective of removing barriers to first-time adoption. The EDA supports the objective as comprehensive guidance has not yet been developed. Entities that have already made the transition to IFRS should continue with their current practices. The difference in practice will not prohibit comparability across the industry. In fact the proposals will actually improve comparability. Canada's adoption of IFRS for publicly accountable enterprises, effective January 1, 2011, has led to a wide diversity of practice in terms of the accounting frameworks currently being used by rate-regulated entities. This limits the ability to compare the results of regulated utilities in Canada. The non-recognition of regulatory assets and liabilities under IFRS has been a significant barrier to the adoption of IFRS by the Canadian utilities. The proposed interim Standard will enable entities currently using Canadian GAAP or US GAAP to adopt IFRS and, therefore, enhance comparability. The proposed standard will allow such entities to avoid making major changes in accounting policy on transition to IFRS until guidance can be developed through the comprehensive project.

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 authorized 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?

The EDA agrees with the scope criteria for regulatory deferral accounts.

Currently in Canada, rate-regulated entities that recognize regulatory assets and liabilities follow Canadian GAAP criteria modelled after the US GAAP (FASB – 71) for entities with rate-regulated operations. The criteria in the proposed interim standard are much wider in scope than those included in the 2009 Exposure Draft and will, therefore, enable almost all Canadian rate-regulated utilities to adopt IFRS.

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 derecognize any regulatory deferral account balances that would not be permitted to be recognized 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?

The EDA agrees with the options included in the interim Standard.

The [draft] interim Standard makes it more likely that rate-regulated utilities in Canada will adopt the proposed interim standard as the interim standard would recognize regulated assets and liabilities.

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?

The EDA agrees that entities that currently do not recognize regulatory deferral balances should not be allowed to do so. The Standard is an interim one for first time adopters. It is in the best interests of users and entities to continue with current practices until final comprehensive guidance has been developed.

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 recognized 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?

Yes, the approach to the general application of other Standards to the regulatory deferral account balances is appropriate. Implementation of the [draft] interim Standards should not result in amendments to the other Standards.

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 recognized in accordance with other Standards (see paragraphs 6, 18–21 and BC55–BC62).

Is this separate presentation approach appropriate? Why or why not?

The EDA supports the presentment of regulatory deferral balances separately from assets, liabilities, income and expenses recognized in accordance with other standards. This presentation achieves the desire to have such balances recognized versus the opinion that such balances should not be recognized. The proposed presentation approach will create more comparability between entities for all other items on the balance sheet and statement of comprehensive income.

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 recognized 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.

The EDA agrees that the proposed disclosure requirements will provide decision-useful information. There are no disclosure requirements to remove or add to the proposed interim Standard.

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?

The EDA believes this approach is appropriate. Judgment and materiality should be used when determining disclosure in relation to regulatory deferral accounts.

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?

The EDA agrees that the transition approach is appropriate. The proposed interim Standard should be applied at the same time as IFRS 1.

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

Canada's transition to IFRS has created a wide divergence in financial reporting among regulated entities, in the Province of Ontario and across Canada. This has resulted in significant comparability issues. The proposed interim Standard's presentation requirements will allow more comparability between entities as rate regulated balances will be required to be presented separately and will not be embedded in other items within the financial statements. This will allow users to compare easily between entities around the world, regardless of whether or not they recognize regulatory deferral accounts.

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