Exposure Draft

Regulatory Deferral Accounts

Comments to be received by 4 September 2013

Securities and Exchange Board of India (SEBI) welcomes the opportunity to respond to the above exposure draft.

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?

We do not agree with the proposal to restrict the scope only to first-time adopters of IFRS. This would create a wrong precedent. We believe on merits the proposals made in the ED are conceptually sound and should be made applicable to all users of IFRS.

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?

We agree with the proposed criteria in general. It is, however, necessary to recognise that the price established by a regulatory authority is designed to recover not merely the entity's allowable costs but also a reasonable return on its investment. The second condition needs to incorporate this. We would also suggest that following additional conditions be included as additional criteria:

i. Regulator must specify finite time period (say not exceeding 5 years) under which the cost must be recovered and the said time period cannot exceed the life of the regulation/ regulator/license period.
ii. regulatory deferral account is subject to periodic tests for impairment
iii. ability of the company to recover the asset keeping in mind market forces (whether the company is a monopoly), political stability, future demand for the product, nature of the guarantee by the government and its ability to meet those commitments, etc

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?

We do not agree with the proposal that if an entity is eligible to adopt the [draft] interim Standard it is permitted, but not required, to apply it. We believe that a Standard cannot be optional. We believe that the standard should apply to all the applicable entities and irrespective of whether they are first time adopters or not.

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

See response to Question 3.

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?

We agree with the proposal.

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?

We agree with the proposal.

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.

We agree with the proposal. However, we believe that the IASB expedite its effort to consider disclosure requirements across all standards in order to reduce them and make them more meaningful.

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?

We agree with the proposal.

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?

We believe that all companies should recognize rate regulated assets subject to conditions/criteria already mentioned and that the change in accounting policy or first time adoption adjustment should be reflected in the retained earnings (OCI).

Question 10

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

No