AGA
American Gas Association

22 January 2009

International Accounting Standards Board
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@iasb.org
Reference: Exposure Draft: Additional Exemptions for First-time Adopters

Dear Sir or Madam,

The American Gas Association ("AGA") is pleased to submit its comments concerning the International Accounting Standards Board's *Exposure Draft on Additional Exemptions for First-time Adopters, Proposed amendments to IFRS 1*. The AGA, founded in 1918, represents 202 local energy companies that deliver natural gas throughout the United States of America. There are nearly 70 million residential, commercial, and industrial natural gas customers in the U.S., of which 92 percent – more than 64 million customers – receive their natural gas from AGA members. Today, natural gas meets one-fourth of the U.S.'s energy needs. Most of the AGA member utility companies are regulated by state and local authorities.

Overall Comments
AGA sincerely appreciates the IASB's consideration of amending IFRS 1 to provide additional exemptions for first time adopters of IFRS. We welcome the opportunity to respond to the exposure draft and address the questions raised by the Board.

Question 3
Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternative do you propose and why?

We support the contemplation of providing an exemption related to property, plant and equipment for rate regulated entities as retrospective application of IFRS would result in costs that would exceed the benefits to users of the financial statements in most cases. However, there are a few items included in the exposure draft for which we seek additional clarity or revised language.

As currently written, it is unclear if the exemption applies to all variances in the carrying amount of property, plant and equipment as recorded under previous GAAP versus the depreciated cost under IFRSs. While paragraph 19B of the exposure draft acknowledges that some entities hold property, plant and equipment for use in rate regulated activities that may include "amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with IFRSs", it is important to note that the variances between IFRS and US GAAP as it relates to property, plant and equipment relate to more than just capitalisation. In particular, there are significant differences between the composite depreciation methodology employed by many rate regulated utilities in the US and Canada and the componentization required in IAS 16. These differences would have had an impact not only on the depreciation recorded in prior periods, but also on the way in which gains or losses on the disposals of property, plant and equipment had been recorded. Additionally, many entities subject to rate regulation have items capitalised within intangible assets for which similar issues will be encountered upon implementation of IFRS. Accordingly, we propose amending the wording of paragraph 19B by removing the reference to "capitalisation" to ensure that all relevant variances are included in the exemption.

Paragraph IG7 of IFRS 1 states "an entity's depreciation methods and rates under previous GAAP may differ from those that would be acceptable under IFRSs (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening IFRS statement of financial position retrospectively so that it complies with IFRSs". While the periodic income might vary under the two different methodologies, these discrepancies average out over time. Accordingly, it would not be expected that the adjustment required to the opening IFRS accumulated depreciation balance would be significant. However, the anticipated costs required to determine the amount of the variance in beginning accumulated depreciation as of the IFRS implementation date would likely be extremely high. The utility industry is extremely capital intensive, and many US utilities have property, plant and equipment on their books that dates back decades. In many cases, information related to older assets will not be available. Additionally, the cost required to analyze the information that is available would be excessively high due to the numerous ongoing additions and retirements of property, plant and equipment common to most utilities subject to rate regulation, and the value to users of the financial statements would be minimal.

Additionally, entities subject to rate regulation may have items capitalised within intangible assets for which issues similar to those noted for property, plant and equipment will be encountered upon implementation of IFRS. As with property, plant and equipment, certain intangibles will include amounts that met the criteria for capitalisation under previous GAAP, but that do not qualify under IFRS. In many cases, these items date back numerous years, and retroactive application of IFRS would be extremely costly without providing a significant benefit to users of the financial statements. Accordingly, we recommend that the scope of the exemption in paragraph 19B be expanded to include intangible assets when the same criteria required for property, plant and equipment are met.

One of the stated objectives of IFRS 1 was to provide exemptions that allowed first time adopters "to avoid costs that would likely exceed the benefits to users of the financial statements", but proposed language in paragraph 19B of the exposure draft states that this exemption is allowed when it is "otherwise impracticable to meet the requirements of this IFRS". While the basis of conclusions included in the exposure draft discusses the objective of avoiding excessive costs, the inclusion of the criterion that adopters demonstrate the impracticability of meeting the IFRS's requirements could result in companies incurring excessive costs because they cannot demonstrate impracticability. This will limit the availability of this exemption to some companies and result in it not meeting the stated objective. As the other exemptions provided within IFRS do not include this concept, we believe the wording of paragraph 19B should be amended to focus on the avoidance of excessive costs if there is minimal benefit to financial statement users.

It is also unclear if it is necessary for companies to demonstrate impracticability of determining both depreciated cost under IFRS as well as fair value. As paragraph 17 of IFRS 1 allows companies to elect to value property, plant and equipment at either depreciated cost under IFRS or at fair value on the date of transition, it is unclear if an adopter will be allowed to apply the proposed exemption in instances in which it is impracticable to determine depreciated cost under IFRS, but practicable to determine fair value. Similar to the issues related to applying this criterion to determining depreciated cost under IFRS, it may be costly for utilities to determine the fair value due to the nature of their operations, but at the same time it could be practicable to do so. In order to determine fair value, companies will need to factor in the impact of the utilities' regulatory structures and their monopolistic operations, which may prove costly. Also, the historical depreciated cost is a more useful measure for users of the financial statements as these are the balances that form the basis for the rates that regulated entities are allowed to charge to customers. Accordingly, we seek clarification regarding whether or not the Board's intention is for companies to only apply the exemption if it is impracticable to determine both the IFRS depreciable cost and fair value, or also if companies for whom determination of depreciable cost under IFRS is impracticable and fair value is practicable. If the Board's intention is for companies to apply both criteria before utilizing the exemption, we again suggest the concept of impracticability be replaced with a cost versus benefit determination.

Upon implementation of IFRS, Paragraph 19B requires entities electing to apply this exemption to test "each item" for impairment, but the term "item" is not defined. It could be interpreted that this impairment test needs to be performed at a lower level of detail than what is required by IAS 36, *Impairment of Assets* ("IAS 36"). We believe that an impairment test at the level of a "cash-generating unit" as defined in IAS 36 is appropriate as it would only be possible to assess impairment indicators and ultimate recoverability can only be assessed on a combined level for items covered by the proposed exemption. Accordingly, we recommend that clarity be added regarding the level at which the impairment tests required in paragraph 19B should be performed.

We appreciate your consideration of this issue. We support the amending of IFRS 1, although we recommend the Board reviews the points noted above and addresses them within the final amendments.

Very truly yours,

[s] Roy R. Centrella

Roy R. Centrella
Chairman, American Gas Association, Accounting Advisory Council
Vice President and Controller, Southwest Gas Corporation