



January 19, 2009

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

Dear Sirs;

Re: Additional Exemptions for First-time Adopters – Proposed amendments to IFRS1

In response to the IASB's exposure draft entitled "Additional Exemptions for First-time Adopters – Proposed amendments to IFRS1", I have the following comments related to Question 3, which asked:

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?

I agree with the principle; however I disagree with the wording in the exposure draft, and in particular with the attempt to define the term "operations subject to rate regulation."

Paragraph 19B says:

For the purposes of this paragraph, operations are subject to rate regulation if they provide services or products to customers at prices (ie rates) established by legislation, an independent regulator or other authorised body that are designed to recover the cost of providing the services or products and allow the entity to earn a determined return on investment.

I do not believe that the IASB should be defining "operations subject to rate regulation" in this particular exposure draft. The definition of rate regulation should be subject to due process as part of the regulatory accounting project that I believe the IASB has decided to add to its agenda. By including this definition in IFRS1, it may be inferred that the IASB has already decided what qualifies as a rate-regulated operation. Furthermore I do not believe the standard requires any definition – essentially the paragraph should apply to any organization that has been applying rate-regulated accounting regardless of the definition. It will be equally difficult for any organization that has been using rate regulated accounting to adjust asset balances even if the organization does not meet the definition included in paragraph 19B. Finally, I believe the definition is faulty – I also believe the definition in SFAS 71 is faulty since the effect has been that in some instances the regulator is not independent of the organization that is regulated – the use of the term "or other authorized body" makes the definition particularly unclear. For rate regulation to create an asset or liability, in my opinion the regulator has to be independent.

I also think that paragraph 19B should be clear that to the extent it is possible to remove the impact of items that do not qualify for capitalization under IFRS, those impacts should be removed. The standard could be read to mean that the IASB is deeming the removal of all such costs as impractical when in fact it may be practical to remove at least some of the costs. For example it may be very practical to remove recent costs.

As an additional comment, I believe that if regulated assets and liabilities are going to be considered by the IASB in the future, that there needs to be very clear principles established. I believe that the North American practice is unacceptable because there is confusion about how independent the regulator has to be, there is confusion about whether regulatory assets are incurred costs to be recovered in the future or whether they are a legal right to revenue in the future, and there is confusion about the degree of certainty about future cash flows that is required.

I suggest changing paragraph 19B from:

Some entities hold, or have previously held, items of property, plant and equipment for use in operations subject to rate regulation. The carrying amount of such items sometimes includes amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with IFRSs. If this is the case, a first-time adopter may elect to use the carrying amount of such an item at the date of transition to IFRSs if it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS. An entity shall apply this election item by item. At the date of transition to IFRSs, an entity shall test each item for which this exemption is used for impairment in accordance with IAS 36 and, if necessary, reduce the carrying amount. For the purposes of this paragraph, operations are subject to rate regulation if they provide services or products to customers at prices (ie rates) established by legislation, an independent regulator or other authorised body that are designed to recover the cost of providing the services or products and allow the entity to earn a determined return on investment.

To:

For some entities, the carrying value of some items of property, plant and equipment includes amounts that were added because of the application of previous GAAP related to rate regulated entities. The carrying amount of such items sometimes includes amounts that do not qualify for capitalisation in accordance with IFRSs. If this is the case, a first-time adopter may elect to use the carrying amount of such an item at the date of transition to IFRSs if it is otherwise impracticable (as defined in IAS 8) to meet the requirements of this IFRS. An entity shall apply this election item by item. At the date of transition to IFRSs, an entity shall test each item for which this exemption is used for impairment in accordance with IAS 36

and, if necessary, reduce the carrying amount. If it is practical to remove some of the non-qualifying amounts from an individual item of property plant and equipment, but not all of the costs, the amounts that can be practically removed from the carrying amount of that asset should be removed.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Ferguson', with a long horizontal flourish extending to the right.

Mike Ferguson, C.A.

Auditor General

Province of New Brunswick, Canada