

STAFF PAPER

September 2013

IASB Meeting

Project	Rate-regulated Activities: Interim IFRS		
Paper topic	Interim ED: Early feedback from comment letters		
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Introduction

1. In April 2013, the IASB published the Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the interim ED). Those proposals for an interim IFRS that is intended to allow entities that adopt IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, ie the basis of accounting that a first-time adopter used immediately before adopting IFRS), to continue to do so. This is intended to allow those entities to avoid making major changes in accounting policy on transition to IFRS until guidance can be developed through the IASB's comprehensive Rate-regulated Activities project.
2. The closing date for comments on the Exposure Draft *Regulatory Deferral Accounts*, published in April 2013 (the interim ED), was 4 September 2013.

Purpose of the paper

3. This Agenda Paper 9C summarises the high-level messages identified in the responses received up to that closing date. The staff will provide an oral update during the September IASB meeting of further responses received. A more formal analysis of responses will be presented to the IASB at the October 2013 meeting.

Summary of respondents

4. 84 responses¹ were received from 23 countries, representing 7 geographical regions. Appendix A shows a breakdown of the geographical distribution of respondents.
5. An analysis of the respondent types is also provided in Appendix B. The largest number of respondents (51 per cent) are preparers of financial statements and preparer representative bodies. Other respondents are primarily standard-setters (18 per cent), accounting firms or bodies (14 per cent).

Summary of high-level messages received

6. The overall support or disagreement with the general proposal to issue an interim Standard available to first-time adopters of IFRS is mixed:
 - (a) 43 responses support the issue of an interim Standard applicable to first-time adopters only;
 - (b) 23 responses disagree with the issue of an interim Standard; and
 - (c) 18 responses disagree with providing an interim Standard only for first-time adopters. It is not always clear whether they would support an interim Standard that was applicable to a wider range of entities.
7. There was general support for the IASB's comprehensive rate-regulated Activities project, with many respondents noting that the IASB should prioritise the completion of that work in a timely manner.

Support for the proposals

8. Those responses that expressed support for the proposals, including limiting availability only to first-time adopters provided the following reasons:
 - (a) agreement with the IASB's stated objective of enhancing the comparability of financial reporting by reducing barriers to the adoption of IFRS by entities with rate-regulated activities until guidance is

¹ Responses received by midday, UK time on 5 September 2013

developed through the IASB's comprehensive Rate-regulated Activities project;

- (b) in Canada in particular, the proposals will help improve comparability because currently there are different accounting frameworks being used, which reduces comparability of non-rate-regulatory balances in the financial statements;
- (c) the proposals allow entities within their scope to continue to reflect what they believe are the economic effects of rate regulation in their financial statements, at least until the comprehensive project is completed;
- (d) restricting the proposals to first-time adopters would not increase diversity among existing IFRS preparers; and
- (e) the separate presentation and disclosure requirements will help comparability across IFRS preparers.

9. Generally, when the responses expressing general support for issuing an interim IFRS provided comments on the individual questions contained in the interim ED, they also expressed agreement with most of the proposals. However, there are some points of detail on which alternative views are given, including:

- (a) if the scope is limited to those first-time adopters that currently recognise regulatory deferral accounts in accordance with their previous GAAP (as defined in IFRS 1), there is no need to further define the scope by reference to the type of rate regulation in place;
- (b) there is general agreement with the isolation and separate presentation of regulatory account line items but some suggested greater flexibility should be permitted, especially in the profit or loss account; and
- (c) there are some requests for further guidance on the interaction with other IFRSs.

10. A few respondents who agreed with the proposals noted that entities that application of an interim Standard would provide practical knowledge and experience with the financial reporting and disclosure aspects in an IFRS context

that could provide useful information and knowledge to the comprehensive project.

Reasons for disagreeing with the proposals

11. The responses that disagreed with issuing an interim solution gave the following reasons:
- (a) agreement with the dissenting views expressed by IASB members:
 - (i) it will reduce comparability and introduce inconsistency with existing IFRS practice;
 - (ii) the proposal to isolate the impact of recognising regulatory deferral account balances by presenting them separately is not sufficient to eliminate the effect of this inconsistency; and
 - (iii) it may be perceived as setting a precedent of implementing a policy of adopting an interim solution whenever a major standard-setting project is activated, which might create uncertainty as to what the IASB's approach might be when major projects are being researched in the future;
 - (b) the proposals are contrary to the IASB's policy of publishing a single set of Standards that are available to all on equal terms, ie creating a 'level playing field'. This will weaken the reputation of the IFRS 'brand' and is unfair to entities that previously eliminated regulatory balances on adoption of IFRS;
 - (c) experience with IFRS 4 and IFRS 6 suggest that an interim Standard will not be a 'short-term' solution;
 - (d) although the IASB has stated that the interim proposals will not prejudice the outcome of the comprehensive project, the recognition of regulatory balances through the interim Standard will naturally increase the pressure to continue this treatment for all; and
 - (e) do not see a conceptual basis for recognition of the regulatory balances because it is still not clear that they are assets and liabilities, and non-technical objectives should not form the basis for standard-setting.

Reasons for disagreeing that the interim proposals should apply only to first-time adopters

12. The responses that disagreed with issuing an interim solution only for first-time adopters of IFRS suggested that if an interim Standard is published, it should be available to all rate-regulated entities on the grounds of consistency and comparability.
13. However, those responses did not provide any clear recommendations as to how rate-regulated activities should be accounted for and how entities that currently do not recognise such balances in their financial statements would make the transition to an accounting policy that does recognise them.
14. In addition, these responses displayed the greatest diversity of opinions on the details proposals.

Next steps

15. We will continue our analysis of the responses received and present a more detailed summary to the IASB during the October 2013 meeting.

Appendix A: Summary of responses to the Exposure Draft Regulatory Deferral Accounts, published in April 2013 – geographical analysis

A1. The following analysis relates to those responses to the interim ED that were received up to midday (UK time) on 5 September 2013. The closing date for comment was 4 September 2013.

Region	Total	Support	Disagree	Other
Europe	14	1	9	4
North America	38	36	0	2
Asia	9	1	6	2
Latin America	9	0	0	9
Oceania	2	0	2	0
Global	8	5	3	0
Africa	4	0	3	1
Total	84	43	23	18

Appendix B: Summary of responses to the Exposure Draft Regulatory Deferral Accounts, published in April 2013 – analysis by type

B1. The following analysis relates to those responses to the interim ED that were received prior to 4 September 2013, which was the closing date for comment.

Respondent type	Total	Support	Disagree	Other
Accountancy body	6	0	5	1
Accounting firm (Big 4 and others)	6	5	1	0
Preparer	30	19	3	8
Preparer / Representative body	13	9	1	3
Regulator / Other	9	5	2	2
Standard-setting body [incl. endorsement advice bodies]	15	2	9	4
Individual	2	0	2	0
User / representative body	3	3	0	0
	84	43	23	18