



International Association of Consultants, Valuators and Analysts

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4 September 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
By submission to ifrs.org/comments

Ladies and Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters covering 55 countries, listed in the appendix, serving about 10,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the accounting standards related to valuation especially in Canada (an IFRS country), where we are incorporated, as well as in the United States, which has, at the moment, a majority of our members. We appreciate the opportunity to comment on the IASB Exposure Draft "*Regulatory Deferral Accounts*". Our responses to the questions are as follows:

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?

As IFRS may differ significantly from the previous GAAP, no scope restrictions seem necessary.

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?

The first (a) scope limitation is reasonable; the second less so as in many situations the price established by the regulations (while intended to do so) will not in practice result in full cost recovery over a reasonable period. We would prefer that the second requirement relate to projected realty rather than design.

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 agree that the adoption of the Standard be voluntary but recommended.

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, recognise 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 answer to Question 1. We feel that regulatory deferral accounts (effectively either an asset or a liability) are the best way to match costs and revenues. Therefore, any rate regulated entity should be able to establish them even if not allowed or required by previous GAAP.

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?

As we consider regulatory deferral accounts to effectively be assets and liabilities, all other statements should apply to them as if they actually met the definitions.

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 recognised 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 do not believe the separate presentation is desirable as it suggests that those amounts are in essence different in nature from the other reported balances. From a valuation point of view, they are an effective measurement of material costs and revenues.

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 consider the disclosure requirements of sections 22 to 33 and BC63 to 65 to be satisfactory.

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?

Materiality is always an important factor.

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 transition approach leaves out situations where a regulated entity has already adopted IFRS. We believe that such entities should be able to apply the amendments retroactively to the date of adoption of IFRS 1, if the period is less than 24 months.

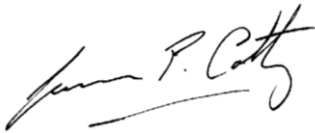
Question 10

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

We have no additional comments.

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of IACVA
Per

A handwritten signature in black ink, appearing to read 'James P. Catty', with a horizontal line underneath.

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CGMA, CFE
Chair

Appendix

IACVA List of Countries

Americas

Bahamas
Canada
Grenadine Islands
Guatemala
United States
Mexico
Puerto Rico
Argentina
Brazil

Africa

Ghana
Kenya
Nigeria
South Africa
Uganda

Europe

Austria
Germany
Netherlands
Switzerland
Romania
Ireland
United Kingdom

Asia/Pacifica

China
Taiwan
Japan
South Korea
Hong Kong
Singapore
Malaysia
Thailand
Australia
India

Middle East

Lebanon
Egypt
Syria
Jordan
Kuwait
United Arab Emirates
Saudi Arabia
Israel
Bahrain

Commonwealth of Independent States

Armenia
Azerbaijan
The Republic of Belarus
Kazakhstan
Kyrgyzstan
Moldova
Russia
Tajikistan
Turkmenistan
Ukraine
Uzbekistan
Georgia
Estonia
Latvia
Lithuania