

2013 09 04

International Accounting Standards Board  
30 Cannon Street  
London EC4M6XH  
United Kingdom

Submitted electronically through the IFRS Foundation website ([www.ifrs.org](http://www.ifrs.org))

Dear Sir or Madam:

**Re: Invitation to Comment IASB Exposure Draft Regulatory  
Deferral Accounts (ED/2013/05)**

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Manitoba Hydro appreciates the opportunity to comment on the International Accounting Standards Board's (IASB) Exposure Draft Regulatory Deferral Accounts ('the Exposure Draft'). For your information, Manitoba Hydro is a provincial Crown Corporation, and operates as a monopoly in providing electricity to approximately 549,000 customers throughout the province of Manitoba and natural gas service to approximately 270,000 customers in various communities in Manitoba. The Corporation also exports electricity to wholesale markets in Canada and the mid-western United States. The prices charged for the sale of electricity and natural gas within Manitoba are subject to approval by the Public Utilities Board of Manitoba.

Manitoba Hydro has adopted the Canadian Accounting Standards Board optional deferrals of transition to IFRS and will be transitioning to IFRS in its 2015/16 fiscal year. Manitoba Hydro appreciates that an interim standard that permits the continued recognition of regulatory assets and liabilities upon transition to IFRS will eliminate a significant barrier to adoption for rate-regulated entities and will assist in facilitating their transition from Canadian Generally Accepted Accounting Practices.

Manitoba Hydro's comments to the questions in the Exposure Draft reflect its support for the proposals contained within it. Manitoba Hydro agrees that the proposals meet the objective of enhancing the comparability of financial reporting by reducing barriers to the adoption of IFRS and the objective of ensuring that users of financial statements will be able to identify regulatory deferral accounts and their impacts so as to be able to compare the financial statements of entities that do and do not recognize such balances.

Manitoba Hydro hopes that its comments will be useful to the IASB deliberations on this Exposure Draft. If you have any questions on Manitoba Hydro's comments, please feel free to contact me at (204) 360-3588 or e-mail me at [drainkie@hydro.mb.ca](mailto:drainkie@hydro.mb.ca).

Yours truly,

A handwritten signature in dark ink, appearing to read 'D.B. Rainkie', with a stylized flourish at the end.

D.B. (Darren) Rainkie, CA, CBV  
Vice-President  
Finance & Regulatory

DBR/kam

## **Manitoba Hydro response - Exposure Draft ED/2013/5 Regulatory Deferral Accounts**

### **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?*

Manitoba Hydro agrees with the scope restriction as it is consistent with the IASB objective of removing barriers to first-time adoption so as to enhance the comparability of financial reporting.

Given the significance of regulatory asset and liability accounts to the financial statements of Canadian utilities and their shareholders (including provincial governments), the inability to recognize such accounts under IFRS has been a significant barrier to its adoption. To date, Canada's adoption of IFRS for publicly accountable utilities has led to a wide diversity of practice in terms of the accounting frameworks currently being used. In order to continue to recognize regulatory assets and liabilities, many utilities adopted the Canadian Accounting Standards Board optional deferral of transition to IFRS through to 2015 or have adopted U.S. GAAP based on temporary exemptions provided by their local securities regulator (approved through to 2015).

### **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?*

Manitoba Hydro agrees with the scope criteria proposed for regulatory deferral accounts. The criteria are generally consistent with US GAAP which are the criteria currently applied by Canadian utilities that recognize regulatory deferral accounts in their financial statements. This should result in minimal or no accounting changes upon transition to IFRS. This is also consistent with the intent of the Exposure Draft which is to allow first-time adopters of IFRS to continue to apply their previous GAAP accounting policies.



### 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?*

Manitoba Hydro agrees that the adoption of the interim standard should be optional for first-time adopters of IFRS. To the extent that some entities adopt the interim standard and some entities do not, the presentation and disclosure requirements as proposed in the interim standard will enable the users of the financial statements to continue to make comparisons amongst entities that do and do not recognize regulatory deferral accounts.

### 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?*

Manitoba Hydro agrees that entities that currently do not recognize regulatory deferral balances should not commence doing so under the interim standard. Since the proposed Standard is for an interim period only, it is best if entities continue with their existing accounting practices until the comprehensive project is completed and final guidance becomes available.

### 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?*

Manitoba Hydro agrees that the approach to the general application of other Standards to the regulatory deferral account balances is appropriate and is consistent with existing standards. Manitoba Hydro recognizes that another standard may also need to be applied to regulatory deferral account balances in order to reflect such accounts appropriately in the financial statements (eg. IAS 10 Events after the Reporting Period).

#### **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?*

Manitoba Hydro supports the proposal to present regulatory deferral balances separately from assets, liabilities, income, and expenses recognized in accordance with other standards. Manitoba Hydro views this as a reasonable approach that will highlight the impact of recognizing regulatory assets and liabilities and will create more comparability between entities in the same industry and between entities of different jurisdictions where differences as to the nature and form of regulation may exist.

Given that this is an interim standard only and it is applicable only to first-time adopters of IFRS, Manitoba Hydro views the separate presentation approach as an appropriate means by which to enable financial statement users of rate-regulated entities to compare the statements of those currently reporting under IFRS and those that will be first-time adopters.

#### **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.*

Manitoba Hydro agrees that the proposed disclosure requirements provide decision-useful information. Separating the regulatory deferral accounts on the face of the financial statements improves the comparability of the financial statements amongst rate-regulated and non rate-regulated entities. However, in order to for a user of the financial statements to understand the current and future impacts of such accounts on the net income and cash position of an entity, disclosure as to the nature of the account and how it will be accounted for is also required. The proposed tabular format for this disclosure as stipulated in the Exposure Draft will provide for an effective means by which to provide this information in the notes to the statements.

Manitoba Hydro did not identify any disclosure requirements that should be removed or added to the proposed interim Standard.



#### 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?*

Manitoba Hydro agrees that, similar for the application of existing IFRS, appropriate judgement (including an assessment of materiality), should be used when determining what information should be disclosed with respect to regulatory deferral accounts; in particular as it pertains to additional information that users may require to evaluate the net income and cash flow impacts of a regulatory deferral account.

#### 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?*

Manitoba Hydro agrees that the transition approach is appropriate as no retrospective application of the standard should be needed since it proposes the continuation of an entity's existing accounting policies. Paragraph BC68 of the basis of Conclusions for the Exposure Draft states, "*First-time adopters of IFRS can use the deemed cost exemption for property, plant and equipment and intangible assets that is already available in IFRS1 that allows adopters to use their previous GAAP carrying amounts at the date of transition to IFRS. Consequently, they will only need to change their presentation policies for these items to isolate the regulatory deferral account amounts on a prospective basis from the date of transition to IFRS.*" As such, the deemed cost exemption for PP&E and intangible should provide sufficient transition relief.

#### Question 10

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

Manitoba Hydro has no other comments on the proposals in the Exposure Draft.