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International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
E-mail: [commentletters@iasb.org](mailto:commentletters@iasb.org)

Dear Sir,

**COMMENTS ON EXPOSURE DRAFT (ED/2013/5) : REGULATORY DEFERRAL ACCOUNTS**

The Zambia Institute of Chartered Accountants welcomes the opportunity to provide comments to the International Accounting Standards Board (IASB) on the Exposure Draft ED/2013/5 Regulatory Deferral Accounts issued in April 2013, with the comment period closing on September 4, 2013.

**General Comment**

The Institute does not generally support the issue of the proposed interim standard. The Institute strongly feels that the regulatory deferral account balances do not meet the definitions of assets and liabilities as provided for in the Conceptual framework. However, we believe that interim standard might not have a significant impact on the rate regulated entities in our jurisdiction given that Zambia adopted the use of the International Financial reporting Standards (IFRSs) in 2005. Consequently, it is expected that all entities are complying with the IFRSs.

Although we do not support the introduction of this interim standard, our responses to your specific questions, as an interim measure, 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?

#### Comment

The scope restriction to only the first time adopters of the IFRSs who have been recognising the regulatory deferral account balance is appropriate.

We believe this position taken by the IASB is a compromise position aimed at encouraging such entities to adopt the IFRSs.

### 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?

#### Comment

We agree with the proposed scope criteria for regulatory deferral accounts, the proposals are appropriate.

### 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?

**Comment**

The non-mandatory adoption of the interim Standard by eligible entities is appropriate in order not to impose on eligible entities the requirements of IFRSs as this may be a deterrent to the adoption of IFRSs. In line with the Conceptual framework, those entities that do not adopt this interim standard should derecognize the regulatory deferral account balances.

**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, recognize 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?

**Comment**

Yes we agree that the entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so. As per our comment to question one (1), the allowing of the entities that recognise regulatory deferral account balances is compromise and temporal position to ensure that those entities adopt IFRSs.

**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?

**Comment**

We do agree that the proposed approach to the general application of other Standards to the regulatory deferral account balances would be appropriate.

## 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 recognized 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?

### Comment

The separate presentation will enhance comparability among the eligible entities. By presenting the regulatory deferral account balances separately, it will help users of financial statements make useful decisions on such entities.

## 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.

### Comment

Yes, we agree with the proposed disclosure requirements on regulatory deferral accounts. However, the option of disclosing the requirements on regulatory deferral account balances in other statements other the financial statements, such as management commentary or risk report is not appropriate. All disclosures must be made in the financial statements.

## 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?

**Comment**

We have no problem with the proposed reference to “*materiality*” in the proposed interim standard. The concept of materiality is an acceptable accounting practice that allows professional accountants to use judgement.

**Question 9**

The Exposure Draft does not propose any specific transition requirements because it will Initially be applied at the same time as IFRS1, which sets out the transition requirements and relief available.

Is the transition approach appropriate? Why or why not?

**Comment**

The Institute, consider the proposed transition requirements to be appropriate.

**Question 10**

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

**Comment**

The Institute does not have any other comments on the proposals in the Exposure Draft. Refer to our general comment above.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi  
**Technical and Standards Manager**