



International Accounting Standards Board (IASB)

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Email: CommentLetters@ifrs.org

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Dear Sirs

COMMENT ON ED/2013/5 REGULATORY DEFERRAL ACCOUNTS

We welcome the opportunity to provide comment on an Exposure Draft that deals with regulatory deferral accounts with the objective to issue it as an interim Standard. As we are the official standard-setter for the public sector in South Africa, our comment focus on the impact of the proposed IFRS on entities that carry out rate-regulated activities in the public sector.

From a South African public sector perspective, this Exposure Draft may affect large state-owned utilities, but also local authorities to the extent that they undertake regulated activities, such as electricity distribution.

We have reservations about the development of an interim IFRS for regulatory deferral accounts to be applied by first-time adopters of IFRSs only, as we are of the view that the IASB should rather consider previous comment received on rate regulated activities in developing appropriate guidance for all entities that apply IFRSs, and not only first-time adopters.

As with our previous comment made on ED/2009/08 on Rate Regulated Activities, we again would like to express our reservation about whether the development of such guidance will apply to general or special purpose financial statements. We do not believe that this is an appropriate means of reporting financial information that is meant to meet the need of a wide range of users, particularly where these entities provide essential services to the public at

large. As we have also noted in our response to the previous comment letter on ED/2009/08 on Rate Regulated Activities, we are of the view that regulatory assets and liabilities do not meet the definition of an asset and a liability as outlined in the Conceptual Framework.

As we do not support the recognition of regulatory assets and liabilities, we have only provided comment on selected specific matters as set out below, if the IASB decides to continue with the proposed Exposure Draft.

Please feel free to contact me should you wish to discuss any of the issues outlined in our letter.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Erna Swart". The signature is written in a cursive, flowing style with a large initial 'E'.

Erna Swart

Chief Executive Officer

Response to Specific Matters

Scope

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?

We are of the view that the scope restriction is not appropriate. As noted above, we have reservations about the development of an interim IFRS for regulatory deferral accounts to be applied by first-time adopters of IFRSs only. In our view, the IASB should rather consider previous comment received on rate regulated activities in developing appropriate guidance for all entities that apply IFRSs, and not only first-time adopters.

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 do not agree with the proposal that an entity should have a choice as to whether it want to adopt an interim Standard or not. To ensure consistency and to allow for comparability, the application of the proposed interim Standard should be consistent.

Recognition, measurement and impairment

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?

We are of the view that rate regulated entities should all apply the same accounting principles once they have adopted IFRSs. Thus, if the proposed interim IFRSs is to be applied by rate regulated entities, it should be applied by all entities required to do so, irrespective of their accounting policy prior to adoption of IFRSs.

However, we again emphasise our reservation above that the IASB should rather consider previous comment received on rate regulated activities in developing appropriate guidance for all entities applying IFRSs, and not only first-time adopters.

Presentation

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?

As noted in our response to the previous comment letter on ED/2009/08 on Rate Regulated Activities, we are of the view that regulatory assets and liabilities do not meet the definition of an asset and a liability as outlined in the Conceptual Framework. We are also of the view that the development of this guidance will not apply to general purpose financial statements, but rather to special purpose financial statements, and we therefore do not believe that this is an appropriate means of reporting financial information that is meant to meet the need of a wide range of users.

Disclosure

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.

See our comment to question 6 above.

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?

The concept of materiality is dealt with in the Conceptual Framework and should therefore not be differently dealt with in this proposed interim Standard than in other IFRSs. We are therefore of the view that the approach followed in this Exposure Draft is not appropriate as it will then be different to other IFRSs.

Transition

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?

As noted above, we are of the view that an interim IFRS on regulatory deferral accounts should not only be developed for first-time adopters of IFRSs. Based on this comment, we are of the view that specific transitional requirements should be addressed in the proposed interim IFRS that should be applicable to all entities applying IFRSs.

Other comments

Question 10

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

We have no other comment.