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Mr Hans Hoogervorst
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Dear Hans

**AASB comments on IASB Exposure Draft ED/2013/5 *Regulatory Deferral Accounts***

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide its comments on ED/2013/5 *Regulatory Deferral Accounts*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation.

Overall, the AASB recommends that the IASB does not proceed with the interim standard. The AASB is concerned that the proposals would reduce comparability between entities. The AASB is also concerned that the introduction of an interim standard as proposed in the ED could (i) establish a pattern of introducing interim standards for first-time adopters of IFRS to encourage transition to IFRS; or (ii) result in the IASB implementing a broader policy of adopting an interim solution whenever a major standard-setting project is activated. We are opposed to such standards as we do not believe that gaining acceptance of IFRS should be placed ahead of serving the needs of users.

## Impairing comparability

The AASB is concerned that, if adopted, the proposals would reduce comparability between first-time adopters of IFRS that choose to apply the proposals and entities that already apply IFRS, as well as with first-time adopters of IFRS that do not elect to apply the proposals.

We see little difference between the IASB providing a “carve in” for the practices of some but not all entities affected by rate regulation and the practices in some countries of providing “carve outs” for some entities for other standards. In both cases IFRS is being discriminately amended.

The proposals will also result in lack of comparability between entities that apply the relief provided in the proposals, when they follow different previous GAAPs for their regulatory deferral account balances.

The AASB acknowledges that the ED requires entities to isolate the impact of recognising regulatory deferral account balances by presenting them separately. However, the AASB is of the view that presentation and disclosure are not sufficient to mitigate the effects of inconsistency in application of IFRS and lack of comparability between entities.

**Introduction of interim standards**

The AASB notes that one of the objectives of the IASB for proposing the interim standard is to reduce the barriers to the adoption of IFRS for entities with rate-regulated activities until guidance is developed through the IASB's comprehensive Rate-regulated Activities project. The AASB has concerns with this objective and would much prefer that the IASB maintains its objective of requiring high-quality, transparent and comparable information in financial statements by requiring like transactions and events to be accounted for and reported in a like way rather than provide interim solutions to entities.

AASB acknowledges that the interim standard proposed by the IASB ED is similar to the interim approach taken in IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* that enables entities to continue with their previous GAAP, with limited improvements, pending the development of a comprehensive IFRS. However, the experience with IFRS 4 and IFRS 6 suggests that 'interim' could mean an inappropriately long period of time.

The AASB also acknowledges that IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides relief to first time adopters of IFRS from restating the accounting treatment of certain items (for example borrowing costs) from previous GAAP to IFRS. However the AASB notes that most IFRS 1 reliefs are merely intended to provide a suitable starting point for subsequently accounting for the items in accordance with IFRS. Accordingly, it would appear that the proposed interim standard is inconsistent with most reliefs provided in IFRS 1.

The AASB's responses to the specific questions in the Invitation to comment section of ED/2013/5 are included in the Appendix to this letter to assist the IASB if it decides to proceed with the interim standard. If you have queries regarding any matters in this submission, please contact Kala Kandiah (kkandiah@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M Stevenson
Chairman & CEO

# APPENDIX

## AASB comments on IASB ED/2013/5 *Regulatory Deferral Accounts*

### 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?

The AASB recommends that the IASB does not proceed with the interim standard. The AASB is concerned that the proposals would reduce comparability between entities.
The AASB is also concerned that the introduction of an interim standard as proposed in the ED could (i) establish a pattern of introducing interim standards for first-time adopters of IFRS to encourage transition to IFRS or (ii) result in the IASB implementing a broader policy of adopting an interim solution whenever a major standard-setting project is activated. We are opposed to such standards as we do not believe that gaining acceptance of IFRS should be placed ahead of serving the needs of users.

However, if the IASB decides to proceed with the proposed interim standard, the AASB agrees with the scope restriction as the proposed restriction reduces the number of entities that would be able to apply the proposed interim standard.

**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?

### Scope criterion (a)

If the IASB decides to proceed with the proposed interim standard, the AASB is concerned that the definition of 'rate regulator' may be too broad and could capture the activities of self-regulated entities that set price caps, particularly in a monopolistic environment. The AASB recommends that the IASB refines the definition, for example by clarifying the limited circumstances in which an entity's own governing board may be the rate regulator, to help ensure that self-regulated entities do not fall within the scope of the proposed interim standard.

### Scope criterion (b)

The AASB notes that one of the objectives of the IASB for proposing the interim standard is to reduce the barriers to the adoption of IFRS for entities with rate-regulated activities until guidance is developed through the IASB's comprehensive Rate-regulated Activities project. If the IASB decides to proceed with the proposed interim standard, given the

IASB's stated project objective, it is unclear to the AASB why the proposed scope is restricted to price regulation that is designed to recover an entity's specified cost.

It appears that the scoping is targeted to allow rate-regulated entities in some jurisdictions to apply the proposals but not others.

The IASB has stated that the proposed scope criterion (b) requires that there be an identifiable causal effect that links the regulatory deferral account balances to the rate-setting mechanism and the IASB intends for this criterion to provide reasonable assurance that the deferred amounts will be recovered through future rates. Some may consider this scope criterion implies that the IASB considers regulatory deferral balances that arise from such rate-setting mechanisms to be assets or liabilities. The AASB considers this implication to be unwarranted given that the IASB's comprehensive Rate-regulated Activities project is not yet completed.

If the IASB decides to proceed with the proposed interim standard, the AASB would prefer that the scope of the interim standard be limited to the extent possible and restricting the scope criteria to a cost recovery based regulation could be one such approach. However, the AASB would urge the IASB to make it clear in the interim standard that the regulatory deferral balances that fall within the scope criteria would not be assets or liabilities nor is it the IASB's view that they could be assets or liabilities.

**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? and BC33–BC34).

If the IASB decides to proceed with the proposed interim standard, the AASB supports the proposal to permit, rather than to require, the application of the proposed interim standard as this would allow first-time adopters that wish to apply IFRS without the proposed interim standard to do so. In fact, such an approach should be encouraged as it promotes comparability between first-time adopters of IFRS and entities that already apply IFRS.

**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?

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If the IASB decides to proceed with the proposed interim standard, the AASB agrees that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so. This approach would help minimise the impacts of the proposed interim standard until such time that the IASB's comprehensive project on Rate-regulated Activities is completed.

### 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?

If the IASB decides to proceed with the proposals, the AASB agrees that entities with rate-regulated activities should apply other Standards to regulatory deferral account balances in the same way as they apply to assets and liabilities that are recognised in accordance with other Standards. As noted above, the AASB would much prefer that the IASB maintains its objective of requiring high-quality, transparent and comparable information in financial statements by requiring like transactions and events to be accounted for and reported in a like way rather than provide interim solutions to entities.

### Presentation

> **Question 6**
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> 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?

If the IASB decides to proceed with the proposed interim standard, the AASB agrees that regulatory deferral account balances and movements in those balances should be isolated by presenting them separately from the assets, liabilities, income and expenses that are recognised in accordance with other Standards. This approach provides some degree of transparency and is consistent with the fact that regulatory deferral account balances are not assets or liabilities in accordance with other Standards or the IASB's Conceptual Framework.

However the AASB is of the view that presentation and disclosure are not sufficient to mitigate the effects of inconsistency in application of IFRS and lack of comparability between entities.

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### Disclosure

| **Question 7** |
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| 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).<br><br>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. |

If the IASB decides to proceed with the proposed interim standard, the proposed disclosure objective and requirements appear to be adequate to provide useful information to users.

However, as noted above, the AASB is of the view that presentation and disclosure are not sufficient to mitigate the effects of inconsistency in application of IFRS and lack of comparability between entities.

| **Question 8** |
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| 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).<br><br>Is this approach appropriate? Why or why not? |

If the IASB decides to proceed with the proposed interim standard, the AASB does not object to the references to materiality and other factors that an entity should consider when deciding how to meet the proposed disclosure requirements as this could help reduce voluminous disclosures that obscure relevant information.

### Transition

| **Question 9** |
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| 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.<br><br>Is the transition approach appropriate? Why or why not? |

If the IASB decides to proceed with the interim standard, the AASB agrees with the IASB's rationale in paragraph BC68 that no specific transition requirements are needed as an entity that chooses to apply the proposed interim standard would continue with its previous GAAP accounting policies for the recognition and measurement of regulatory deferral account balances.

### Other comments

| **Question 10** |
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| Do you have any other comments on the proposals in the Exposure Draft? |

No.