Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

7 October 2013

Dear Kevin

Re: AASB ED 240 *Regulatory Deferral Accounts*

I am enclosing a copy of PricewaterhouseCoopers' response to the International Accounting Standards Board's exposure draft ED/2013/5 *Regulatory Deferral Accounts.*

The letter reflects the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the request for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment

In relation to application in Australia, we are not aware of any entities whose financial statements will be directly impacted by the proposals in the ED. We are also not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit or public sector entities.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 3574 if you would like to discuss our comments further.

Yours sincerely

Gordon Thomson
Partner

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International Accounting Standards Board
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29 August 2013

Exposure Draft ED/2013/5 – Regulatory Deferral Accounts (the 'Exposure Draft')

We are pleased to respond to the invitation by the IASB to comment on the Exposure Draft ('ED'), Regulatory Deferral Accounts, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms who commented on the ED.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the proposed interim standard on regulatory deferral balances. The interim standard will help resolve practice problems in some jurisdictions and reduce the barriers to adopting IFRS, but will not increase diversity in practice among entities that already apply IFRS. The proposed disclosures will facilitate comparability between entities that apply the interim standard and those that do not.

Interim standards can embed diversity in the accounting for specific issues under IFRS and allow entities to continue applying national practices that have not been discussed and agreed by the IASB, and have not been subject to due process. The Board should therefore use this approach sparingly and only where there is a clear plan to resolve the practice issue in a reasonable time frame. However, we support the Board's decision to pursue a practical solution to the accounting for regulatory deferral balances for the reasons described above. We also support the Board's clear statement that the proposed interim solution does not prejudge the conclusions of the longer-term project to address the accounting for rate-regulated activities, and we look forward to commenting further on the discussion paper on this topic.

We agree that the interim standard should be restricted to first-time adopters, which is consistent with the Board's objectives in proposing the interim solution. This approach will limit diversity in practice within jurisdictions that apply IFRS for the first time and within jurisdictions that already apply IFRS. The accounting should be supported by transparent disclosures that permit comparability across different jurisdictions.

The proposal to define the scope of the interim standard by reference to a description of rate-regulated activities is unnecessarily restrictive and will be impractical to apply. We are also concerned that any scope limitation other than by reference to IFRS 1 might presuppose the final conclusion of the longer-term project to address accounting for rate-regulated activities.

We also agree that the interim standard should include limited guidance on recognition, measurement and impairment. The approach that is most consistent with the Board's objectives for the interim solution is that an entity should be permitted to apply all of its previous GAAP accounting policies for regulatory deferral balances. The Board might, however, consider providing additional guidance on the intended interaction of the interim standard and IFRIC 12.

The interim standard should require transparent presentation and disclosure, but we are concerned that the presentation requirements are too prescriptive and might be impractical to apply. There should be a clear objective that the effects of applying the standard are presented clearly, so users of the financial statements understand the impact of applying the interim standard. This objective would give management flexibility to continue presenting the effects of rate regulation consistently with their existing accounting policies and explaining the effects of regulatory deferral accounting in the footnotes.

The overall approach to disclosures in the interim standard is a welcome development. The explicit reference to relevance will assist preparers in evaluating which disclosures should be included in the financial statements. This is consistent with the guidance in the Conceptual Framework and IAS 1. However, as this is the first time that this wording has been used, there is a risk that preparers and other interested parties might misunderstand the Board's objectives, and so we suggest that the Board expands the discussion in the basis for conclusions.

Our answers to the specific questions in the ED provide more detail on the views expressed above and are included in the Appendix.

If you have any questions on this letter, please contact John Hitchins, PwC Global Chief Accountant (+44 207 804 2497) or Tony de Bell (+44 207 213 5336).

Yours faithfully

PricewaterhouseCoopers

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APPENDIX

***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 agree that the scope of the interim standard should be limited to first-time adopters of IFRS. This might create diversity in practice across jurisdictions but will limit diversity within jurisdictions, which is consistent with the Board's objective for proposing an 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?

We disagree that the scope of the interim standard should be limited by criteria that describe rate-regulated activities. The wider project on rate regulation has identified a broad range of regulation that varies across different jurisdictions and industries. A scope limitation other than by reference to IFRS 1 might presuppose the final conclusion of the wider project. It might also imply that only regulation that meets these criteria could result in rights and obligations that could be recorded as assets and liabilities under IFRS.

A description of rate regulation provides context as to why the interim standard has been developed, and we suggest that this description is included as background information – or in the basis for conclusions – and is not used to determine the scope of the guidance.

The Board should also consider the interaction of the ED with IFRIC 12. We suggest that it be clarified, perhaps in the basis for conclusions, that an entity should apply IFRIC 12 before applying the interim standard. There are circumstances in which regulatory deferral balance might still be relevant to the accounting for a service concession arrangement (for example, where a deferral or variance account is included in the setting of future rates by the grantor). This might also be clarified in the basis for conclusions.

***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?*

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We agree that an entity, if eligible, should be permitted but not required to apply the interim standard. An entity that elects to apply the interim standard should apply it to all of its rate-regulated activities where an entity has previously applied a policy to recognise regulatory deferral account balances in accordance with previous GAAP.

***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 agree that an entity that has rate-regulated activities, but does not apply an accounting policy to recognise regulatory deferral account balances under previous GAAP prior to the application of IFRS, should not be permitted to begin to recognise such regulatory deferral balances. This is consistent with the objective of the interim standard to reduce barriers to adopting IFRS and to limit diversity in practice within jurisdictions.

***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?*

We support the proposed approach to recognition, measurement and impairment. The principle in the interim standard is that an entity should be allowed to apply its previous GAAP accounting policies. It is therefore appropriate to limit the specific guidance on recognition, measurement and impairment.

We agree that an entity should first apply the requirements of other IFRSs. We also agree that the application guidance should explain how the interim standard interacts with other accounting standards. For example, IAS 36 should not be applied to the separate regulatory deferral accounts, because the balances are measured under previous GAAP accounting policies; but it should be applied to cash-generating units that contain regulatory balances in the normal way.

There are circumstances in which it is not appropriate to apply another IFRS. We agree that IAS 12 should be applied to regulatory deferral accounts. However, an entity's previous GAAP policies should be applied to the accounting for the deferred tax consequences of regulatory balances arising from deferred tax. Many local GAAPs that provide specific guidance on rate-regulated accounting also provide an exemption from recognising deferred tax on regulatory deferral balances that arise from deferred tax. This approach reduces complexity but does not omit relevant information. It would be consistent with the approach to recognition and measurement in the interim standard to apply an entity's previous GAAP accounting policy for deferred tax on regulatory deferral balances rather than IAS 12. Entities should therefore be required to apply their previous GAAP in this area.

The interim standard does not provide any guidance on the interaction with IFRIC 12. See further discussion under Question 2.

***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 acknowledge the Board's effort to ensure transparency but are concerned that the presentation requirements are too prescriptive. One of the objectives of the proposals is to identify and explain the amounts recognised in the financial statements. These requirements should focus on ensuring that the effects of applying the interim standard are presented clearly in a way that allows the users of the financial statements to understand the performance of the business and the effect of applying the interim standard. This approach would also give management flexibility to present the effects of rate regulation in a manner that provides the most relevant information in the context of their existing accounting policies (for example, presenting deferral balances split between current and non-current, or providing greater detail in the footnotes).

The following requirements should be reconsidered:

- Separate presentation of regulatory deferral balances on the face of the financial statements – We agree with the proposal that regulatory deferral balances should not be embedded within other assets and liabilities defined by IFRS (such as property, plant and equipment or intangible assets). IAS 1, however, already provides adequate guidance about which balances should be presented separately on the face of the financial statements.

- Separate presentation of earnings per share on the face of the income statement – An entity should not be required to show earnings per share, excluding the movement in the regulatory deferral balances, on the face of the primary financial statements. An entity should be permitted to disclose this measure of earnings per share in the notes consistent with the guidance in IAS 33.

- Regulatory deferral balances held for sale or included as part of a discontinued operation – Deferral balances that relate to businesses held for sale are relevant information that should be included within assets and liabilities held for sale and the results of discontinued operations. The composition of assets and liabilities held for sale (including material regulatory deferral balances) should be disclosed in the notes.

***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).*

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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 support the disclosure objective which allows users to understand diverse accounting practices across jurisdictions, but also allows management to use judgement when determining what to disclose.

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?*

We support the approach to disclosures in the interim standard. The explicit reference to relevance should help preparers to evaluate which disclosures should be included in the financial statements. This approach is consistent with the guidance in the Conceptual Framework and IAS 1.

Preparers and other interested parties (that is, users, auditors and regulators) will require additional guidance to understand the Board's objectives in this area, because this explicit reference to materiality is not included in other standards apart from IAS 1. We suggest that the Board expands the discussion in the basis for conclusions to clarify how to evaluate relevance by reference to the existing guidance in IAS 1 and the definition of materiality.

This principle also applies to the disclosure requirements in other standards, and we encourage the Board to evaluate how it might clearly communicate that this principle could be applied more broadly.

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?*

We agree that the interim standard does not need specific transition requirements because it will initially be applied at the same time as IFRS 1.

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

We support the Board's clear statement that the proposed interim solution does not prejudge the conclusions of the longer-term project to address the accounting for rate-regulated activities. We are concerned, however, that the ED uses definitive language about the accounting for rate-regulated activities under existing IFRS guidance. For example, paragraph B1 states that, in some cases, other standards explicitly prohibit an entity from recognising regulatory deferral balances in the absence of the interim standard. This discussion is inconsistent with the Board's clear statement and might be misinterpreted. We suggest that any references to the implications of existing IFRS guidance for regulatory deferral balances, including that in paragraph B1, be deleted.

We have no further comments on the proposals in the ED.