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File No.: **HQ 502/141 Pt.21**

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Hong Kong Institute of  
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Dear Mr. Riley,

**Invitation to Comment on IASB Exposure Draft  
Of Regulatory Deferral Accounts**

I refer to your letter dated 13 May 2013 inviting for comment on the above IASB Exposure Draft.

Although rate regulation can have a significant impact on the timing and amount of an entity's revenue, there is currently no Standard in IFRS that specifically addresses the accounting for rate-regulated activities. The lack of specific guidance results in diversity of approaches taken to reporting the effects of rate regulation. It could also be a significant barrier to the adoption of IFRS for those entities that are engaged in rate-regulated activities.

In response to ongoing requests for guidance on the issue, the IASB has started a comprehensive Rate-regulated Activities project. In the meantime, the IASB is proposing an interim standard which is to apply until guidance is developed through the comprehensive project.

It is one of the main proposals of the interim standard to permit first-time adopters of IFRS to continue to apply their previous GAAP accounting policies for the recognition, measurement and impairment of regulatory deferral account balances. The proposal aims to facilitate entities' transition to IFRS and help them avoid the need to make major changes to their accounting policies for regulatory deferral account balances on such transition. Regrettably, as pointed out by the alternative views (i.e. AV2 and AV3), the proposal may introduce further inconsistency in accounting causing reduction in comparability, for entities currently adopting IFRS would have already derecognised the rate-regulated account balances when they first adopted IFRS and different existing practices may not be comparable. In this connection, whilst the introduction of an interim standard to provide guidance pending the development of a comprehensive standard is welcomed, it is hoped that after deliberating comments and feedbacks from stakeholders, the proposed interim standard could be further refined and improved to address the deficiencies identified by the dissenting members of the Board.

As for the proposed presentation and disclosure of the rate-regulated account balances, in general, I welcome the requirement of the proposed interim standard for the entities to present their regulatory deferral account balances as separate line items in the statement of financial position and to present movements in those account balances as a separate line item in the statement of profit or loss and other comprehensive income. I also support the requirement for the entities to make specific disclosure to enable users of financial statements to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances.

I would appreciate it if you could keep me informed of the development in the accounting for rate-regulated activities.

Yours sincerely,



(Mrs WU LAM Choi-wah)  
for Commissioner of Inland Revenue