Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

2 September 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IASB Exposure Draft of Regulatory Deferral Accounts

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft. Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We appreciate the effort of the IASB to restart the project on rate-regulated activities, however, we express our concerns with the proposals contained in the ED. The proposal to allow entities that currently recognise regulatory deferral account balances in accordance with their current GAAP when transitioning to IFRS would only result in a lack of comparability between entities that adopt the requirements contained in the ED and entities that are either IFRS-compliant or those that opt not to adopt the interim relief contained in the ED.

As mentioned in our comments to the IASB 2009 ED on Rate-regulated Activities, we are concerned whether the recognition of regulatory deferral account balances (or previously regulatory assets and liabilities) would meet the definitions of assets and liabilities in the *Conceptual Framework*.

In this connection, rather than proposing an interim standard which we believe will only result in reducing comparability (contrary to the objective of the ED), we would recommend the IASB to accelerate the pace on the project on rate-regulated activities with a view to developing interim, non-authoritative, guidance at first, which can then be refined and developed into a standard on accounting for the consequences of rate regulation in the medium-term.

If you have any questions regarding the matters raised in this letter, please contact Ben Lo, our Associate Director of Standard Setting at ben@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

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Hong Kong Institute of CPAs

Comment on IASB Exposure Draft of Regulatory Deferral Accounts

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?

Under the proposals, the interim relief would only be available to first-time adopters of IFRS if they recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP, so as to facilitate their adoption of IFRS.

As stated in the alternative views on the ED, the established practice in IFRS has been that rate-regulated entities do not recognise such balances in IFRS financial statements. We are concerned that the interim standard would allow the recognition of assets and liabilities that are inconsistent with the *Conceptual Framework*.

Even though it is the belief of the IASB to regard such proposed requirements as a 'short-term interim solution' (paragraph BC 51), the other 'interim' standards issued by the IASB (for example, IFRS 4 *Insurance Contracts* and IFRS 6 *Exploration for and Evaluation of Mineral Resources*) are not considered as short-term. The finalisation of such an 'interim' standard would only perpetuate the inconsistent accounting treatment by those entities which continue to recognise regulatory deferral account balances and reduce comparability within the IFRS community.

In this connection, we believe that existing IFRS is sufficient and robust enough to provide guidance for entities which are subject to rate regulation, and this is certainly the case for power generation, distribution and supply entities which operate in Hong Kong.

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?

The IASB issued a Request for Information on Rate Regulation in March to identify a range of rate-regulatory schemes to help determine the scope of the research project. Without further analysing the results from this fact-finding exercise, we believe it would not be appropriate to define the scope of this interim standard at the current time.

Moreover, the scope criteria for regulatory deferral accounts in the ED is similar to that of the 2009 ED. As mentioned in our comments on the 2009 ED, we are concerned that it may be too broad and could be interpreted to cover a wide range of activities, which might not be the intention of the IASB.

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?

If the IASB decides to continue with this interim standard, then we agree that the proposed standard should be optional for entities within its scope, as this permits entities to comply with full IFRS and improve comparability.

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?

If the IASB decides to continue with this interim standard, then we agree that entities that currently do not recognise regulatory deferral account balances should not be permitted to start to do so. If the proposed standard does not impose such a restriction, it would further reduce comparability as there would be an increase in the population for entities which adopt inconsistent accounting policy within IFRS.

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 understand and agree with the intention of the IASB in proposing such requirements so as not to make consequential amendments to other standards, given that the proposed interim standard is expected to be restricted to a limited population of entities.

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 believe the separate presentation of regulatory deferral account balances contributes to increased transparency and would enable users to understand the effects of the application of the ED in the financial statements.

However, the proposed presentation requirements cannot overcome the lack of comparability arising from the introduction of the interim relief to first-time adopters of IFRS.

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.

We believe the proposed disclosure requirements provide decision-useful information, while the cost of obtaining such information is considered as reasonable, because those entities that already recognise regulatory deferral account balances in accordance with US GAAP or comparable practices in other jurisdictions, currently provide most of the information as required in the interim standard.

Consistent with our comment to Question 6, we also believe that the proposed disclosure requirements, regardless how comprehensive they are, cannot overcome the lack of comparability.

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?

IFRS is governed by the concept of materiality as described in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In particular, paragraph 31 of IAS 1 states that 'an entity need not provide a specific disclosure required by an IFRS if the information is not material'.

In this connection, we cannot see the reason for including an explicit reference to materiality in this interim standard, if the IASB decides to continue with this project.

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?

If the IASB decides to continue with this proposed interim standard, then we agree that retrospective application would be appropriate as it improves comparability.

Question 10

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

We do not have any further comments.

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