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International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT ON *REGULATORY DEFERRAL ACCOUNTS*

In response to your request for comments on the IASB's exposure draft on *Regulatory Deferral Accounts*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics. Input was received from various industries in South Africa subject to some degree of rate regulation.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)
: Prof Danie Coetsee (Deputy Chairman of the Accounting Practices Committee)

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SAICA SUBMISSION ON EXPOSURE DRAFT ON REGULATORY DEFERRAL ACCOUNTS

GENERAL COMMENTS

Our constituents felt strongly that no interim Standard should be issued until the International Accounting Standards Board (IASB) working group on regulated activities has considered the information obtained from the Request for Information.

It was felt that the IASB should rather channel all its efforts for this project into developing a new IFRS on regulated activities. Regulated entities which have already implemented IFRS are no longer allowed to raise regulatory deferrals accounts therefore it is our view that the interim Standard will create more inconsistencies across regulated entities globally and should not be pursued.

It is also believed that there is no need for an urgent solution. South Africa has been on IFRS for nearly ten years without the option to raise regulatory deferral accounts.

Should the IASB decide to continue with the proposed exposure draft, then our comments are as follows:

SPECIFIC COMMENTS

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 scope restriction is not appropriate in our view. If an interim Standard was developed, it should be applicable to all entities and not only to those that adopt IFRS or could previously recognise regulatory assets and liabilities. Some entities were previously allowed under local GAAP to raise regulatory assets and or liabilities until the adoption of IFRS for the first time. It would be unfair to these regulated entities not to be able to apply the proposed interim Standard on regulatory deferral accounts, as well as create more inconsistencies across regulated entities globally.

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 agree with criteria 2(a).

We do not agree with criteria 2(b). The paragraphs refer mainly to cost of service type regulated entities. It may be unfair to other types of regulation which also intend to recover their costs over the life of the assets, but for which the rate is based on other criteria.

Regulation normally refers to the right to increase or decrease future revenue as a result of a past event. It is suggested that the emphasis in paragraph 7(b) should therefore rather be on the right to increase or decrease future revenue irrespective of the costs incurred.

It is our view that paragraph 7(b) presupposes what may appear in the final Standard on regulatory deferral accounts and therefore it would be better to leave paragraph 7(b) out of an interim Standard, should the IASB proceed with issuing this.

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. If an entity is regulated, then it must be a requirement not a choice to apply the new interim Standard otherwise comparability in the rate regulated industry will be further diminished.

There is an alternative view that the interim Standard should be optional (i.e. an accounting policy choice) rather than mandatory provided this option is available to all entities and not just new IFRS adopters. In this alternative view, making the requirements of the interim Standard mandatory for all entities pre-empts the outcome of the final Standard on regulatory deferral accounts and may negate the need for a final Standard and it is possible that some entities may resist having to change their accounting policies based on an interim Standard without knowing what the final Standard will require.

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?

No, we do not agree. Every rate regulated entity should comply with the same IFRSs, if applicable to them. If the interim Standard was to be issued then all entities should be allowed to adopt an accounting policy on adoption of the interim Standard irrespective of their prior accounting for regulatory deferral account balances.

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?

Yes, it is appropriate otherwise inconsistencies will occur. The wording of the interim Standard may be confusing as the guidance, exemptions or exceptions for other Standards are not clearly identified as either guidance, exemptions or exceptions. We propose that this section of the interim Standard is clearly split between a separate section for each guidance, exemption and exception.

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?

Our constituents do not agree as regards the profit and loss approach. In the statement of profit or loss and other comprehensive income, the items should be split (and disclosed separately, if material) and not shown on one line. This would better reflect the underlying economics of these items.

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.

Yes, we agree that the proposed disclosure requirements provide decision-useful information.

In line with our response in Question 6 it was felt that there should be a note to the statement of profit or loss and other comprehensive income explaining material items relating to the movement in the regulatory deferral account balances.

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 reference to "*materiality*" in the exposure draft is questionable. Why should it be different to other IFRSs which do not mention materiality? If the IASB wishes to add guidance on the materiality considerations of disclosures this would be better added to IAS 1 – *Presentation of Financial Statements*.

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 mentioned in our General Comments section, should the IASB decide to issue this interim Standard it should not only be applicable with the application of IFRS 1. The normal criteria regarding the implementation of a new Standard should be applicable to all entities. The choice of a retrospective application with a change in accounting policy should also be applicable.

Other comments

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

Refer to the comments under General Comments section.