

September 02, 2013

International Accounting Standards Board

30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft ED/2013/5 “Regulatory Deferral Accounts”

Dear Board Members,

The “Group of Latin American Accounting Standard Setters”¹ – GLASS welcomes the opportunity to comment on the **Exposure Draft ED/2013/5 “Regulatory Deferral Accounts”** (the “ED”).

Due-process

The discussions in regard to the ED were held within a specified Technical Working Group (TWG) created in July 2013. All country-members had the opportunity to appoint at least one member to form this TWG, and the following countries did so: Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico, Uruguay and Venezuela (Coordinator of this TWG). Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g. surveys, internal working groups). All the results of the work stated were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical point of view of its members. Finally, the TWG document was submitted to the GLASS Board for its approval.

Overall Comments

As part of our general comments, we should highlight a significant aspect from the group discussions, which has been commented on several occasions, relating to the benefit from the application of an interim standard before the approval of the final standard. Some of these considerations include:

- We believe convenient not to adopt temporary standards just to accommodate or facilitate IFRS adoption by certain entities or regions. We believe that the IASB should be committed to complete at least the definitions of the financial statement items, so as to only recognize as assets and/or liabilities those items that meet such definition, without exceptions.
- The issuance of an interim standard on regulatory deferral rates as suggested may lead to confusion regarding aspects such as the definition of regulatory deferral assets and liabilities in the local standards and the definition to be included in the final standard.

¹ The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Mexico (Vice Chairman), Brazil (Board) Colombia (Board), Guatemala (Board), Uruguay (Board), Venezuela (Board), Bolivia, Chile, Dominican Republic, Ecuador, El Salvador, Panama, Paraguay and Peru; Honduras is observer.



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- The Draft Project on the final Regulated Activities Standard should be reviewed before issuing the interim standard.

Specific comments

Attached please find our specific responses to the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Jorge José Gil', with a horizontal line underneath.

Jorge José Gil

Chairman

Group of Latin American Accounting Standard Setters (GLASS)

**GLASS' Comment Letter on the IASB
Exposure Draft ED/2013/5 "Regulatory Deferral Accounts"**

Question 1

The Exposure Draft proposes to restrict the scope to those first-time adopters of IFRS that recognized regulatory deferral account balances in their financial statements in accordance with their previous GAAP.

Is the scope restriction appropriate? Why or why not?

We believe that this restriction is not appropriate. The Group believes that subsequent adoption should be allowed for those entities that, upon having met the conditions, derecognized regulatory deferral account balances in their financial statements upon first-time adoption of IFRS. Based on the above, recognition of deferral asset and liability accounts would be allowed for those entities that had not done so until the IASB issues the final standard.

We believe that the application of this restriction will bring about issues as to financial information comparability between those entities that have already adopted IFRS (currently more than 120 countries allow or require the use of IFRS as their financial reporting standards, according to information obtained from the IASB website), all of whom derecognized all balances relating to regulatory deferral accounts at the date of first-time adoption, including those entities that plan to adopt IFRS in the future or are already in the process of adopting them.

Further clarification is required as to whether items arising out of regulatory deferral accounts meet the asset and liability definition of the Conceptual Framework (currently under review.)

Lastly, we should consider that the interim standard should provide a more detailed and accurate explanation of the reasons to apply such restriction, should it persist.

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 authorized 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 criteria established in the draft standard are reasonable, but we believe it is necessary to consider additional criteria to be incorporated or taken into account to define the interim standard applicability, namely:

- Evaluate the interaction of this norm with IAS 20 Government Grants. In certain member countries, it is a practice by wholly-owned State companies to have rates regulated by legislation with the

ensuing government involvement by means of investment funds in CAPEX or common expense contributions.

- Consider that there may be government companies that are not regulatory bodies, but may lead to situations similar to those of a regulator. We believe that this concept should be broadened to include those entities with significant relevance in state economies that may have influence on rate regulation.
- Evaluate entities whose rates have been regulated by local legislations and pricing standards, taking into account that the activity conducted by such entities entails a social purpose, and there is no regulatory framework for establishing such rates as the established fee.
- Include as part of the criteria additional remunerations other than rates (such as grants, quality payments, etc.) supplementally implied in the rate design aimed cost recovery.
- Include alternative situations in which the design of the regulatory system provides for income prior to the date on which an entity makes payments.
- If the disclosures provided in accordance with paragraphs 25 to 33 are insufficient to meet the requirements of paragraph 22, an entity should disclose the additional information necessary to meet such requirements.

Further explanation should be provided as to the two criteria established in the interim standard regarding whether it is necessary to meet the two criteria simultaneously, or whether it is enough to meet just one of them.

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 derecognize any regulatory deferral account balances that would not be permitted to be recognized in accordance with other Standards and the Conceptual Framework (see paragraphs 6, BC11 and BC49).

Do you agree that entities that currently do not recognize regulatory deferral account balances should not be permitted to start to do so? If not, why not?

We disagree with this proposal because it will translate into more differences that will affect the comparability of entities applying IFRS, which is contrary to the IASB intention of implementing IFRS, thus eliminating further options that may affect the comparability and consistency of financial statements. Therefore, if an entity is qualified to apply the interim standard, application thereof should be mandatory.

The possibility of having all entities for which regulatory deferral accounts are applicable (for local requests and allowed under local GAAP), would result in the presentation of these accounts in the financial statements; although there may be differences in the requirements and local conditions of every country, the comparability of financial information would be improved. Additionally, scenarios in which



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entities of the same sectors include entities that do not recognize this type of regulatory deferral accounts and others that do would be avoided.

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, recognize 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 recognize regulatory deferral account balances should not be permitted to start to do so? If not, why not?

Based on our answers to questions 1 and 3 and the comparability and consistency criteria, the TWG's position is that all entities that meet the criteria set out in the draft standard should comply with the recognition procedures required by such standard. Therefore, we object to the restriction established in the paragraphs indicated in the question above.

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 recognized 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?

Group member countries do not consider it appropriate to apply the interim standard approach.

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 recognized 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 recognized in accordance with other Standards (see paragraphs 6, 18–21 and BC55–BC62).

Is this separate presentation approach appropriate? Why or why not?

Group member countries do not consider it appropriate to apply the interim standard approach.

Question 7



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Accounting Standard Setters

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 recognized 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 that the disclosure requirements established in the draft interim standard are reasonable, but we believe the following additional disclosures should be included:

- A qualitative description of the nature and scope of the rate regulation effect on the entity's rate-regulated activities.
- Qualitative information as to other types of obligations related to the activity performed, and regulator-imposed requirements, including minimum investment requirements, meeting of financial and management ratios, minimum capital maintenance, etc.

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 do not consider it necessary or advisable to include or reflect the “Materiality” concept in the interim standard, since it is clearly defined in IFRS 1 and the IFRS Conceptual Framework applicable to the entire body of standards issued by the IASB. Explicit references to materiality in the standard may lead to confusion among financial information preparers regarding the materiality criterion application.

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?

Given that the Group deems it more reasonable to allow for subsequent adoption by such entities that, after having met the draft requirements, derecognized regulatory deferral account balances in their financial statements upon first-time adoption of IFRS, we believe it appropriate to include transitory provisions for such standard since IFRS 1 would no longer be applicable.

Question 10



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

The accounting policies adopted for regulated deferral accounts should be available to those entities not subject to public accountability.

Since the business model of a regulatory rate contract provides for invested funds' recovery by assigning, in most cases, a minimum return rate, the standard should specify that impairment criteria to be applied on the basis of cash-generating units so as to prevent an overstatement of the entity's equity. In such cases, an income approach for measuring the fair value of operating assets would be the right choice.

As for measuring asset impairment at companies with regulated rates, the standard should specify the assessment criteria applied for evidence of impairment as impairment losses may be recognized in companies with a social business purpose, due to the low return percentage permitted for such companies.