

International Accounting Standards Board
30 Cannon Street
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September 5, 2013

Exposure Draft 2013/5: *Regulatory Deferral Accounts*

Mazars welcomes the opportunity to comment on the Exposure Draft (ED) *Regulatory Deferral Accounts*. Our general comments are given below. Our answers to the specific questions included in the ED are given in the Appendix.

Rate-regulated activities are widespread and take various forms. We appreciate the work made by the IASB to address issues in connection with rate-regulated activities and support the need for an IFRS standard.

Nevertheless, Mazars disagrees with the ED as drafted for the following reasons:

- The ED proposes to enable first-time adopters to recognise regulatory deferral accounts provided they recognised such accounts in their previous GAAP. Therefore the ED would reduce the comparability of financial statements between:
 - First-time adopters (that would be allowed to recognise regulatory deferral accounts) and existing IFRS reporting entities (that would not), even if they belong to the same jurisdiction.
 - First-time adopters in a jurisdiction where local GAAP authorise the recognition of regulatory deferral accounts and first-time adopters in a jurisdiction that does not.

The lack of comparability would lead to distortions of competition between companies. This could be particularly damaging for companies involved in very competitive markets. According to the proposed ED, a Canadian first-time adopter with rate-regulated activities in Canada would be allowed to record regulatory assets / liabilities under IFRS, while an existing IFRS European group with a subsidiary involved in the same rate-regulated activities in Canada would not.

- We are not convinced, given the complexity of the issue, that the proposed interim standard, presented as a means to facilitate the adoption of IFRS, will effectively carry forward previous accounting policies for only a short period. Other interim standards, such as IFRS 4 and IFRS 6, have proven they could last much longer than first intended.
- The scope criteria of the proposed interim standard are very similar to those included in the 2009 ED on which Mazars had major concerns. Considering that the results of the RFI launched in March 2013 are not known at this stage, we do not think it is appropriate to propose an interim text while the scope of rate-regulated activities has not been clarified.

We believe that the recognition of regulatory assets / liabilities corresponds to a real need of entities involved in rate-regulated activities. Given the significant variety of regulatory regimes across jurisdictions, the definition of the scope and of the recognition criteria of regulatory assets / liabilities should be developed in the frame of a long-term project.

In the meantime, since the widespread practice is not to recognize any assets or liabilities related to regulatory deferral accounts, we consider that first-time adopters should be encouraged to apply this widespread practice, in order to impede the introduction of a new diversity in accounting treatment.

We also think it would be appropriate to encourage first-time IFRS adopters and other IFRS companies, for which a detailed presentation of regulatory deferral accounts is important to understand their financial performance, to present relevant additional disclosures in the notes.

We would be pleased to discuss our comments with you and remain at your disposal should you need further clarification or additional information.

Yours sincerely,



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Head of Financial Reporting Technical Support

Appendix to our letter to the IASB on the ED Regulatory Deferral Accounts. Answers to the specific questions raised in the invitation to comment.

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?

We disagree with any proposal that would introduce a new diversity in accounting treatment between companies for similar regulatory regimes, depending on whether or not they are allowed by their local GAAP to recognise regulatory deferral accounts, and on whether or not they are first-time adopters.

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 acknowledge that the definition of rate-regulated activities is a complex matter as it involves understanding the various types of regulations that exist around the world in the light of the framework and the existing IFRSs. We suggested in our comment letter to the 2009 ED that the scope of the project should be expanded to look at a wider variety of rate regulation in order to identify common characteristics from which accounting guidance might be developed. Due to a lack of consensus and the complexity of the issue, the IASB decided in September 2010 not to finalise the proposals presented in the 2009 ED.

The IASB issued a Request for Information (RFI) in March 2013 in order to identify the range of rate regulation regimes that stakeholders think should be included in the scope of the project. In view of the complexity of the project, we think that such a preliminary survey is a necessary first step before finalizing any proposal with respect to regulatory deferral accounts.

We note that the scope criteria of the proposed interim standard are very similar to those included in the 2009 ED on which Mazars had major concerns. Moreover, considering that the results of the RFI launched in March 2013 are not known at this stage, we do not believe it is appropriate to propose an interim text while the scope of rate-regulated activities has not been clarified.

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?

Should the Board decide to pursue its existing project to develop an interim standard, we support the IASB's proposal establishing that, if an entity is eligible to adopt the interim standard, it is permitted, but not required, to apply it.

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?

Should the Board decide to pursue its existing project to develop an interim standard, we agree that this interim standard should be applicable only for entities that currently recognise deferral regulatory accounts in application of their local standards.

The ED should however specify whether the reference to local GAAP applies to the consolidated or individual financial statements of the parent entity, the financial statements of the subsidiaries, or all of them.

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 that the approach retained in the ED aims to avoid making substantial amendments – related to the interim standard – to other standards, as the interim standard is viewed as a short-term solution.

Therefore should the Board decide to pursue its existing project to develop an interim standard, we agree with the ED's proposal establishing that, in the absence of any specific exemption or exception contained within the interim standard, other standards shall apply to regulatory deferral accounts in the same way as they apply to assets and liabilities that are recognised in accordance with other standards.

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?

Should the Board decide to pursue its existing project to develop an interim standard, we agree with the presentation proposal to isolate the effects of the application of the ED. The presentation on separate line items in the balance sheet and the income statement improves the comparability of financial statements.

However we believe that the IASB should clarify the impacts of the recognition of regulatory deferral accounts on the presentation of:

- the statement of changes in equity (including the potential impact on non-controlling interest when a partially-owned subsidiary recognises regulatory deferral accounts) ; and
- the statement of cash-flows.

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.

Should the Board decide to pursue its existing project to develop an interim standard, we believe that the proposed disclosure requirements would provide decision-useful information. However, we would favor disclosure-only provisions instead of the recognition of regulatory assets and liabilities in certain jurisdictions for first-time adopters only.

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 believe that there is no need to make specific reference to materiality as these concepts are already described in IAS 1, *Presentation of Financial Statements* and in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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?

Should the Board decide to pursue its existing project to develop an interim standard, Mazars agrees with the transition approach.

Other comments

Question 10

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

In some jurisdictions, entities are involved in service concession arrangements that have characteristics of rate-regulated activities.

The IASB should clarify the interaction between IFRIC 12 and the ED. This clarification should illustrate under which circumstances, if any, regulatory deferral accounts could be recognised in addition to assets already recognised under IFRIC 12.