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Brasília, Distrito Federal – Brazil
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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED 2013/5 – Regulatory Deferral Accounts

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to ED 2013/5 – Regulatory Deferral Accounts.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

In general we agree with the substance of the Exposure Draft technical proposals, but we do not agree with the restrictions of its applicability. Therefore, we propose the following:

- 1) The recognition of regulatory deferral accounts should be applicable to all regulated entities and not just entities that shall adopt IFRS for the first time in the future.
- 2) The recognition of regulatory account balances as established in this ED should be included in the definitive pronouncement on regulatory assets and liabilities;
- 3) The basic conceptual framework under review should be changed in order to allow recognition of these regulatory assets and liabilities.

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Responses to questions in the ED

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?

This restriction is not appropriate given that various jurisdictions have already adopted IFRS. If this restriction remains in place it could become a significant obstacle to comparability between financial statements because the jurisdictions that have already adopted IFRS may present accounting practices distinct from those that will adopt IFRS in the future.

Considering that the majority of jurisdictions have already adopted IFRS, to include this adoption restriction for regulatory accounts solely for future first-time adopters would create a specific and limited rule of application over a restricted number of jurisdictions, which does not seem to be the Board's core principle.

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?

Brazilian accounting standards in force prior to the first-time adoption of IFRS on this issue established similar criteria to these in defining whether an entity had rate-regulated activity. However, we believe that the criteria should be simplified so as to require that recognition is permitted for all entities that have the right or the unconditional obligation to receipt or payment from regulatory accounts. Accordingly, we believe that those standards would allow users of financial statements to have better information for their analysis and understanding of the business.

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?

While we do not agree that the interim standard be restricted to first-time adopters of IFRS, we believe that the Board should decide if recognition of regulatory accounts is, or is not applicable, and establish consistent application for all regulated entities irrespective of whether they are first-time adopters of IFRS or not. In addition, we believe that the proposal contained in the ED contradicts the Board's main goal of eliminating options in pronouncements and promoting consistent application.

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

We believe that all entities that meet the recognition criteria for regulatory accounts should be permitted to recognize such accounts.

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?

While we do not agree with the general proposal of the ED of restricting the adopters of the proposed rules, we believe that the approach is adequate given that the regulatory accounts should be treated like all other accounts in the case that the specific pronouncement is silent on some issue.

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?

While we do not agree that the interim standard be restricted to first-time adopters of IFRS we believe the separate presentation of balance and changes in regulatory accounts are appropriate. This will provide the user of the financial statements more accurate information to make decisions as it would allow analysis of the impact of the rate regulation on the entity. However, we believe that each entity should assess, based on the relevance of the information, if the impacts on income statement should be applied on the face of the income statement given that this information is already disclosed in the accompanying notes.

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.

While we do not agree that the interim standard be restricted to first-time adopters of IFRS, we believe that the disclosure requirements are adequate and concise, given that these require that the nature and associated risks of the rate regulation and the effects of such rates on the financial position, performance and cash flows of a regulated unit be disclosed. This also allows for comparability between entities across a given industry.

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 this approach is appropriate and conducive with the basic disclosure principles of the basic conceptual framework, nevertheless we do not agree with the restriction of adoption proposed in this ED.

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?

This approach is appropriate. However we believe that all entities that meet the regulatory account recognition criteria should be permitted to recognize such accounts.

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

We believe that a more coherent measure from the Board would be to consider the concepts included in this Exposure Draft in a complete project on rate regulation instead of issuing an interim (draft) standard. This would allow all entities to recognize regulatory accounts and not just those that shall adopt IFRS for the first time.

We believe that the permission proposal for recognition of regulatory accounts should be considered in the upcoming review process of the conceptual framework, that could be revised to include in the framework the specific nature of those accounts.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,



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