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August 27, 2013

Mr. Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst:

RE: Exposure Draft ED/2013/5 (Regulatory Deferral Accounts)

We would like to acknowledge the decision by the International Accounting Standards Board (IASB) to re-activate its *Rate-regulated Activities project*. For Canadian rate-regulated entities, the lack of a standard under International Financial Reporting Standards on this topic has proven problematic and has contributed to many Canadian rate regulated entities adopting U.S. GAAP to best reflect the economic substance of their activities and to serve the public interest. On behalf of the Ontario Ministry of Finance, I am pleased to offer comments on the IASB's Exposure Draft on *Regulatory Deferral Accounts*. We also look forward to responding to the Discussion Paper planned for the fourth quarter of 2013.

The Province of Ontario owns two Government Business Enterprises (GBEs) that are subject to rate regulation: Ontario Power Generation Inc. (OPG) and Hydro One Inc (Hydro One). The Province concurs with the comments expressed in both OPG's and Hydro One's submitted responses to the IASB's exposure draft.

As you are aware, the Accounting Standards Board (AcSB) of CPA Canada has allowed organizations that currently apply rate regulated accounting to postpone the implementation of IFRS to January 1, 2015. The extension coincides with the expiration of the existing Canadian Securities Administrators' exemptive relief which allows certain entities that sought such relief but which are not registered with the U.S. Securities and Exchange Commission to temporarily apply U.S. GAAP instead of IFRS for their

periodic public securities filings. For more information on the history and status of rate regulated accounting guidance and IFRS changeover in Canada, please visit the Financial Reporting & Assurance Standards Canada website:
<http://www.frascanada.ca/accounting-standards-board/item64425.aspx>.

The Province of Ontario, like other senior Canadian governments, is subject to balanced budget legislation and has chosen to prepare both its budget and consolidated general purpose financial statements in accordance with the Canadian Public Sector Accounting Board's (PSAB) Public Sector Accounting Handbook. Under PSAB, Government Business Enterprises (GBEs) are required to adhere to the standards applicable to publicly accountable enterprises in the Accounting Standards Board Handbook (i.e. IFRS). Following the modified equity basis of consolidation for GBEs under PSAB, any changes in accounting standards for GBEs can have a direct impact on the Province's consolidated financial results and compliance with balanced budget legislation. Under the modified equity approach, GBEs are reported in accordance with the accounting principles generally accepted for business enterprises and their net income is reflected in the Province's annual surplus/deficit as Income from Investment in GBEs on the Consolidated Statement of Operations.

Since Ontario currently prepares both Budget and actual results based on PSAB, concerns arise when the Province's consolidated annual surplus/deficit results may be impacted by accounting changes that 'appear' to increase (or even lower) costs to taxpayers that in reality will be recovered or refunded through future electricity rates. Unintended consequences can arise when fiscal policy decisions are made to comply with balanced budget legislation, and such decisions can be contrary to the public interest. With the initial decision by PSAB to have GBEs follow IFRS, which lacks guidance on rate regulated accounting, Hydro One and OPG were regulated by the Province to adopt U.S. GAAP. This was necessary to continue to reflect the economic substance of the activities of Ontario's rate regulated GBEs and to avoid undesirable volatility on the Province's books. The entities continue to be consolidated onto the Province's books based on the legacy Canadian GAAP basis (i.e. Part V of the Handbook of the Canadian Institute of Chartered Accountants), consistent with the temporary deferral issued by the Accounting Standards Board of the Canadian Institute of Chartered Accountants.

The IASB's proposed interim standard would allow entities to maintain their existing deferral account balances and may provide temporary relief from the impact associated

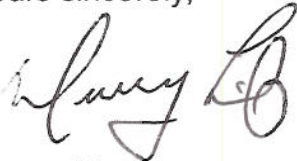
with the absence of rate regulated accounting under IFRS, both to individual reporting entities as well as to the Province's financial results. It is important that such relief be available to preparers while the IASB is considering the wider issue of rate regulated accounting to avoid the adverse impacts described above.

It is important to note that depending on the requirements of specific regulatory frameworks, alternative accounting standards for rate-regulated entities can also significantly impact electricity prices. In this regard, the accounting treatment for pension and Other Post Employment Benefit (OPEB) costs, including the impact of applying the draft interim standard related to pension and OPEB costs, could have implications from both a fiscal policy and a rate-payer perspective. Further details on concerns pertaining to the presentation of regulatory deferral account balances as related to pension and OPEB costs are provided in OPG's response letter.

We will continue to monitor the IASB's activities on its *Rate-regulated Activities project* and look forward to responding to the Discussion Paper planned for late-2013.

Thank you again for the opportunity to comment on this Exposure Draft.

Yours sincerely,



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