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toronto hydro corporation

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

via electronic submission at: www.iasb.org

Dear Madam/Sir,

Re: Exposure Draft of Proposed Amendments to IFRS 1 *Additional Exemptions for First-time Adopters*

Toronto Hydro Corporation (THC) appreciates the opportunity to comment on the Exposure Draft of Proposed Amendments to IFRS 1 *Additional Exemptions for First-time Adopters* (the ED).

IFRS 1 sets out exemptions to the normal requirements of IFRS that can be applied when an entity prepares its first set of financial statements in compliance with IFRS (i.e. when an entity is a 'first-time adopter'). The IASB's objective, when it was developing IFRS 1, was to ensure that an entity's first IFRS financial statements (and its interim financial reports for part of the period covered by those financial statements) contain high quality information that is transparent for users and comparable over all periods presented. In addition the objective was to provide a suitable starting point for accounting under IFRSs for which the first set of financial statements can be generated at a cost that does not exceed the benefits for users. IFRS 1 provides some relief from the requirements in IFRS as the Framework acknowledges that there needs to be a balance between the benefits of information and the cost of providing it and that this may constrain the provision of relevant and reliable information.

The objective of this proposed amendment to IFRS 1 is to include certain additional exemptions in IFRS 1 so that first-time adopters from the jurisdictions that are expected to adopt IFRS over the next few years are also able to prepare financial statements. THC has outlined all five questions posed by the IASB within this ED in the Appendix to this letter. THC has only commented on Question 3 as our operations are subject to rate regulation.

THC is very supportive of the amendments proposed for rate regulated operations, believing that a good case has been made for granting relief in the circumstances described and that the relief that is proposed should be granted as appropriate.

However, we have some concerns about conditions required within the exemption being proposed and have some questions as to the terminology used within the proposed ED.

Our detailed comments are set out in the Appendix to this letter.

We hope that you find our comments helpful. If you wish to discuss them further, please do not hesitate to me.

Yours sincerely,

JS Couillard
CFO

Appendix

THC's detailed comments on the ED of proposed amendments to IFRS 1 *Additional Exemptions for First-time Adopters*

Question 1—Deemed cost for oil and gas assets
Do you agree with the proposed deemed cost option for entities using full cost accounting under previous GAAP? Why or why not? If not, what alternative do you propose and why?

No comment.

Question 2—Oil and gas assets—disclosure
Do you agree with the proposed disclosure requirements relating to the deemed cost option for oil and gas assets? Why or why not?

No comment.

Question 3—Deemed cost for operations subject to rate regulation
The exposure draft proposes an exemption for an entity with operations subject to rate regulation. Such an entity could elect to use the carrying amount of items of property, plant and equipment (PP&E) held, or previously held, for use in such operations as their deemed cost at the date of transition to IFRSs if both retrospective restatement and using fair value as deemed cost are impracticable (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).

Do you agree with the proposed deemed cost option for entities with operations subject to rate regulation? Why or why not? If not, what alternatives do you propose and why?

1. THC agrees that the main issue for property, plant and equipment held for use in operations subject to rate regulation is that:

   (a) under previous GAAP the entities might have capitalised costs as part of the carrying amount that do not qualify for capitalisation under IFRSs; and

   b) once the amounts are added to the cost of PP&E, they are no longer tracked separately.

   THC would also add that various utilities have expanded over the years based on amalgamations with other utilities and as such obtaining the accumulation of past costs and other transaction data to be able to reconstruct cost, would be particularly onerous and likely have limited benefit to the users. As a result, it would be very complicated for a first-time adopter to apply existing IFRS and costs involved in implementation would exceed the benefits achieved.

2. The proposal in the ED is that relief should take the form of allowing first-time adopters to use the previous GAAP carrying amount for PP&E used in rate regulated operations, even though this carrying amount would include capitalised costs that do not qualify for capitalisation under IFRSs. However, the ED also proposes that:

   (a) this relief should be available only when it is impracticable (as defined in IAS 8) to comply with the requirement for retrospective application of IAS 16 <u>and</u> impracticable to use fair value as deemed cost as permitted in paragraph 16 of IFRS 1; and

   (b) a mandatory impairment test should be required.

   THC agrees with the proposal in the ED to grant first-time adopters some relief from these requirements. We also agree that relief should involve permitting such entities to use previous GAAP carrying amounts for assets.

   Further, the requirement to prove impracticability is inconsistent with all other exemptions available under IFRS 1 including the additional exemptions proposed within this ED. Thus, additional cost and effort would be required to elect this exemption over other exemptions, as utility companies would be required to demonstrate that it is impracticable to reconstruct cost and determine fair value which would be used as deemed cost. This is inconsistent with the intent of this proposed exemption as there should be a balance between the benefits of information and the cost of providing it even though it may constrain the provision of relevant and reliable information.

   THC recommends that the criteria to prove impracticability for both alternatives be removed from the proposed ED. IFRS 1 exemptions are generally considered to provide a free pass and thus do not require that impracticability in the application thereof be proved.

3. The proposed ED indicates that an entity is to apply this election on an 'item by item' basis. However, the proposed ED is not clear as to the definition of 'item'.

   Does item refer to;

   (a) a distribution network as a whole (including substations, poles and wires); or

   (b) a level of the distribution network; or

   (c) a component?

   It is unclear as to how granular an item needs to and at what level it should be applied. THC suggests that the term 'item' be further defined within this ED.

4. THC supports the proposal that a mandatory impairment test shall be required when an entity takes advantage of the proposed relief. Such a test will ensure that the transition date deemed cost does not exceed recoverable amount and is thus a suitable starting point for accounting under IFRSs.

   The proposal in the ED is that at the date of transition, an entity shall test each item for which this exemption is used for impairment in accordance with IAS 36. IAS 36 would require that you determine the level at which impairment be calculated (i.e. at the individual asset level or cash-generating unit (CGU) level).

   Given that this proposal requires that each 'item' elected be tested for impairment under IAS 36, impairment testing would only be conducted at the CGU level versus on an item basis as stated in the proposed ED. It is unclear what the 'item' is as it could be assessed at the asset level, CGU level or at the component level. Depending on the utility and the level that it defines a CGU at, there may be situations where the entire rate regulated operations may be defined as a CGU and thus testing for impairment would occur at this CGU level. For example, if THC determines that the entire distribution network is a CGU, is this the 'item' or is the 'item' a component of the distribution network?

   Additional guidance is required as to the definition of an 'item' for the purpose of impairment testing.

Question 4—Leases

Do you agree with the proposal not to require the reassessment of whether an arrangement contains a lease in the circumstances described in this exposure draft? Why or why not?

No comment.

Question 5—Assessments under previous GAAP before the date of transition to IFRSs

Do you agree that the situation referred to in Question 4 is the only one in which additional relief of this type is needed? If not, in what other situations is relief necessary and why?

No comment.