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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
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Organização Internacional das Comissões de Valore

29 January 2015

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

Our Reference: 2015/JE/C1/IASB/5

RE: Discussion Paper DP/2014/2
Reporting the Financial Effects of Rate Regulation

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Discussion Paper: *Reporting the Financial Effects of Rate Regulation* (the Discussion Paper).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

Committee 1 is supportive of the Board's overall objective to determine whether it is appropriate to develop specific guidance for rate regulated activities. We have provided responses to specific questions contained in the Discussion Paper where our views as securities regulators may be incremental to those of other constituents.

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Question 2
Are you familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities, for example, in accordance with US generally accepted accounting principles (GAAP) or other local GAAP or in accordance with IFRS 14? If so, what problems, if any, does the recognition of such balances cause users of financial statements when evaluating investment or lending decisions in rate-regulated entities that recognise such balances compared to:
(a) non-rate-regulated entities; and
(b) rate-regulated entities that do not recognise such balances?

Some members are from jurisdictions where regulatory assets and liabilities are recognized in accordance with US GAAP, other local GAAP or in accordance with IFRS 14. Those members note that problems have not been identified by the users of those financial statements, which is likely due to significant investor experience in using financial statements that recognize regulatory deferral account balances, as well as the investors in rate-regulated entities typically being motivated by income and security considerations, as opposed to growth considerations which may be a more common investment objective for non-rate-regulated entities.

We also note that when IFRS was initially adopted in certain jurisdictions prior to the issuance of IFRS 14, regulatory deferral account balances in those jurisdictions were written off, while entities in jurisdictions that are eligible to adopt IFRS 14 may continue to carry such balances, pending additional standard setting by the IASB. This will result in a lack of comparability among rate regulated entities in different IFRS jurisdictions which is only partially mitigated by the separate presentation requirements of IFRS 14.

Question 3
Do you agree that, to progress this project, the IASB should focus on a defined type of rate regulation (see Section 4) in order to provide a common starting point for a more focused discussion about whether rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might need to be developed (see paragraphs 3.6–3.7)? If not, how do you suggest that the IASB should address the diversity in the types of rate regulation summarised in Section 3?

We agree that the IASB should initially focus on a defined type of rate regulation in the discussion as to whether specific accounting guidance or requirements may need to be developed.

Question 4
Paragraph 2.11 notes that the IASB has not received requests for it to develop special accounting requirements for the form of limited or 'market' rate regulation that is used to supplement the inefficient competitive forces in the market (see paragraphs 3.30–3.33).
(a) Do you agree that this type of rate regulation does not create a significantly different economic environment and, therefore, does not require any specific accounting requirements to be developed? If not, why not?
(b) If you agree that this type of rate regulation does not require any specific accounting requirements, do you think that the IASB should, alternatively, consider developing specific disclosure requirements? If so, what would you propose and why?

We agree that the limited rate regulation described in paragraphs 3.30-3.33 should be excluded from the scope of defined rate regulation. We note that developing specific accounting or disclosure requirements relating to price caps or floors would have potential implications for a broad range of entities, depending on how such requirements were defined. We believe that the existing IFRS standards and framework already require entities to disclose significant effects of limited or market rate regulation as described in paragraphs 3.30-3.33 of the discussion paper.

Question 5
Paragraphs 4.4–4.6 summarise the key features of defined rate regulation. These features have been the focus of the IASB's exploration of whether defined rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements might be developed in order to provide relevant information to users of general purpose financial statements.
(a) Do you think that the description of defined rate regulation captures an appropriate population of rate-regulatory schemes within its scope? If so, why? If not, why not?
(b) Do you think that any of the features described should be modified in order to include or exclude particular types of rate-regulatory schemes or rate-regulated activities included within the scope of defined rate regulation? Please specify and give reasons to support any modifications to the features that you suggest, with particular reference to why the features may or may not give rise to circumstances that result in particular information needs for users of the financial statements.
(c) Are there any additional features that you think should be included to establish the scope of defined rate regulation or would you omit any of the features described? Please specify and give reasons to support any features that you would add or omit.

We generally agree with the key features of defined rate regulation described in paragraphs 4.4-4.6, and believe that an appropriate population of rate-regulatory schemes would be addressed within its scope. However, some members question whether it is necessary to refer to "essential goods and services" in the definition. These members believe that the emphasis should be on the regulatory framework that creates enforceable rights and obligations upon the regulator and the regulated entity, as opposed to whether the goods or services are deemed essential in a particular jurisdiction.

We also note that if the reference to essential goods and services is retained, and specific guidance for rate-regulated activities is ultimately developed by the IASB, then the scope of rate-regulated activities will likely vary between jurisdictions depending on which services are deemed essential in each jurisdiction, and such determination may change over time in a specific jurisdiction. Accordingly, we encourage the IASB to consider what disclosures would be required for those activities which are within the scope of rate-regulated activities in each jurisdiction, and consider how a change from essential to non-essential would be treated under any accounting model that may be prescribed. On this point, we note that when guidance for rate regulated activities was initially developed under US GAAP, there was no contemplation that an activity that was within the scope of that guidance could subsequently fall outside of the scope, which led to diversity in practice in dealing with such changes until additional guidance was developed.

Question 6
Paragraphs 4.62–4.72 contain an analysis of the rights and obligations that arise from the features of defined rate regulation.
(a) Are there any additional rights or obligations that you think the IASB should consider? Please specify and give reasons.
(b) Do you think that the IASB should develop specific accounting guidance or requirements to account for the combination of rights and obligations described? Why or why not?

We generally agree with the rights and obligations summarized in paragraphs 4.62-4.72. As noted in our response to the previous question, some members question whether it is necessary that the rights and obligations arising from defined rate regulation be defined by whether the goods or services are deemed essential. These members recommend that the discussion paper be revised so that the notion of an essential good or service may be an example of a situation that would result in defined rate regulation, but that the focus should be on whether there are enforceable rights and obligations.

Question 7
Section 5 outlines a number of possible approaches that the IASB could consider developing further, depending on the feedback received from this Discussion Paper. It highlights some advantages and disadvantages of each approach.
(a) Which approach, if any, do you think would best portray the financial effects of defined rate regulation in IFRS financial statements and is most likely to provide the information that investors and lenders consider is most relevant to help them make their investing and lending decisions? Please give reasons for your answer?
(b) Is there any other approach that the IASB should consider? If so, please specify and explain how such an approach could provide investors and lenders with relevant information about the financial effects of rate regulation.
(c) Are there any additional advantages or disadvantages that the IASB should consider before it decides whether to develop any of these approaches further? If so, please describe them.
If commenting on the asset/liability approach, please specify, if it is relevant, whether your comments reflect the existing definitions of an asset and a liability in the *Conceptual Framework* or the proposed definitions suggested in the *Conceptual Framework* Discussion Paper, published in July 2013.

Some members believe that an approach that would allow continued recognition of regulatory deferral account assets and liabilities would be appropriate due to the unique characteristics of these entities and the potential views of their investors and lenders. Other members do not believe that specific guidance for rate regulated activities should be developed, unless it is consistent within the framework and principles for asset and liability recognition under IFRS, and would not support a new approach for defined rate regulation that would conflict with existing standards.

We believe that any new approach should consider the interaction with existing standards including IFRS 15, IFRIC 12, IAS 37 and the Conceptual Framework and, if applicable, sufficiently explain the basis for differentiation from existing standards, particularly given the potential differences between jurisdictions and even within the same jurisdiction as discussed in our response to Question 5.

Some members believe that if guidance is developed, the intangible asset view should not be pursued. In addition to the reasons provided in the discussion paper, these members do not believe the package of rights and obligations meets the definition of an intangible asset. These members are also troubled by the potential recognition of a negative intangible balance as discussed in paragraph 5.40 of the discussion paper.

Question 10
Sections 2 and 6 discuss some of the information needs of users of general purpose financial statements. The IASB will seek to balance the needs of users of financial statements for information about the financial effects of rate regulation on an entity's operations with concerns about obscuring the understandability of financial statements and the high preparation costs that can result from lengthy disclosures (see paragraph 2.27).
(a) If the IASB decides to develop specific accounting requirements for all entities that are subject to defined rate regulation, to what extent do you think the requirements of IFRS 14 meet the information needs of investors and lenders? Is there any additional information that you think

should be required? If so, please specify and explain how investors or lenders are likely to use that information.
(b) Do you think that any of the disclosure requirements of IFRS 14 could be omitted or modified in order to reduce the cost of compliance with the requirements, without omitting information that helps users of financial statements to make informed investing or lending decisions? If so, please specify and explain the reasons for your answer.

We believe that transparent disclosures regarding the effects of defined rate regulation should be provided under any standard that the IASB may develop. IFRS 14 may serve as a starting point in considering the appropriate level of disclosures; once IFRS 14 has been adopted and applied in practice our views regarding disclosures may evolve.

Question 11
IFRS 14 requires any regulatory deferral account balances that have been recognised to be presented separately from the assets and liabilities recognised in the statement of financial position in accordance with other Standards. Similarly, the net movements in regulatory deferral account balances are required to be presented separately from the items of income and expense recognised in the statement(s) of profit or loss and other comprehensive income.
If the IASB develops specific accounting requirements that would apply to both existing IFRS preparers and first-time adopters of IFRS, and those requirements resulted in the recognition of regulatory balances in the statement of financial position, what advantages or disadvantages do you envisage if the separate presentation required by IFRS 14 was to be applied?

We believe that while the optimal presentation may depend somewhat on the specific accounting requirements that are developed by the IASB, at this time we do not foresee significant disadvantages to the separate presentation that will be required under IFRS 14.

Question 12
Section 4 describes the distinguishing features of defined rate regulation. This description is intended to provide a common starting point for a more focused discussion about whether this type of rate regulation creates a combination of rights and obligations for which specific accounting guidance or requirements should be developed.
Paragraph 4.73 suggests that the existence of a rate regulator whose role and authority is established in legislation or other formal regulations is an important feature of defined rate regulation. Do you think that this is a necessary condition in order to create enforceable rights or obligations, or do you think that co-operatives or similar entities, which operate under self-imposed rate regulation with the same features as defined rate regulation (see paragraphs 7.6–7.9), should also be included within defined rate regulation? If not, why not? If so, do you think that such co-operatives should be included within the scope of defined rate regulation only if they are subject to formal oversight from a government department or other authorised body?

We generally believe that the existence of a rate regulator whose role and authority is established through legislation or other formal regulations would be an important feature of defined rate regulation, and would have concerns that the perceived ability to apply specialized accounting that may be developed for defined rate regulation through self-imposed rate regulation may provide structuring opportunities. To the extent that co-operatives or other self-imposed rate regulation is included in defined rate regulation, we believe it would be critical to demonstrate how the self-imposed rate regulation would create enforceable rights and obligations consistent with the defined rate regulation described in Section 4 of the discussion paper.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chair
IOSCO Committee 1