



1906/34044

September 9, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

Dear Sir/Madam,

Re: **Exposure Draft – Regulatory Deferral Accounts**

We appreciate the opportunity to respond to the Exposure Draft "Regulatory Deferral Accounts" issued by the International Accounting Standards Board (IASB). This response represents the views of the Institute of Certified Public Accountants in Israel.

The lack of an accounting standard for rate-regulated activities has long been a major issue in IFRSs. Therefore, we believe that the IASB should endeavor, in a timely manner, to provide a full and comprehensive standard that will specifically address the accounting for rate-regulated activities. However, as a temporary solution, we agree that an interim standard should be issued, that will allow first-time adopters to keep their current accounting practices. Although such interim standard might impair the comparability of financial statements between different rate-regulated entities whose financial statements comply with IFRSs, we believe that such impairment is expected to be mitigated by the following:

- (1) The divergence in practice between first-time adopters is expected to be rather minor since many of them apply the current requirements in US GAAP.
- (2) The presentation and disclosure requirements set out in the ED will help users of financial statements to isolate the effects of regulatory deferral accounts, and therefore will allow them to compare those financial statements with entities that do not recognize those accounts (please refer also to our comments in this matter).

Please find attached our response to some questions that were included in the ED.

Sincerely yours,



Arnon Ratzkovsky
Chair of the Financial Reporting Standards
Committee

Appendix – response to some questions that were included in the ED

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?

Answer

We agree that only first-time adopters should be able to continue to apply their current accounting practices with regard to regulatory deferral accounts. We believe that as a temporary solution, it strikes a balance between the impairment of comparability between entities that comply with IFRS, and the will to encourage further entities to apply IFRSs (which in turn enhances comparability in other areas). As mentioned in our preface, the impairment of comparability is mitigated by several factors, amongst others the scope limitation to first-time adopters, that, in our view, justify the issuance of an interim standard.

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?

Answer

The purpose of the interim standard is to accommodate the transition to IFRS of rate-regulated entities that currently recognize those accounts. However, with regard to entities that currently do not recognize those accounts, we believe that there should be no differentiation between first-time adopters and entities which already apply IFRSs. Therefore, we agree that entities that currently do not recognize regulatory deferral accounts should not be permitted to start to do so.

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?

Answer

We only partially agree with the proposed presentation requirements. We believe that it is important that regulatory deferral accounts (and movement therein) are distinguished from other assets, liabilities, income and expenses, that are allowed, or required, to be recognized in accordance with IFRSs, in order to help compare such financial statements with other entities that apply IFRS but do not recognize those accounts.

However, we believe that the requirement to present those accounts balances (and movement therein) net, in one line item, does not necessarily give a fair presentation of an entity's financial position and results. For example, some regulatory deferral accounts are expected to be realized in the short term, and thus, presenting all of them in the long term might be misleading. Further, an entity might wish to classify deferred expenses in profit or loss according to their function (e.g., an entity might present deferred interest with other interest expenses once it is recognized in profit or loss). Therefore, we believe that entities should not be precluded from using their previous GAAP presentation requirements, as long as disclosure enables users to distinguish regulatory deferral accounts balances and movement therein.

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.

Answer

In our view, most of the disclosure requirements are appropriate and will help users of financial statements to properly assess an entity's rate-regulated activities. However, we believe that some requirement, such as in paragraph 25(c), should not be part of the financial statements but rather part of management commentary or other parts of the annual report. The fact that the disclosures required in paragraph 25 can be given either in the financial statements or incorporated by cross-reference to other statements, such as management commentary, as mentioned in paragraph 26, is not necessarily a practical solution, since in certain jurisdictions cross referencing is not done in order to limit the responsibility of the auditors for other information.

We also believe that our proposal is in line with the IASB's recent efforts to tackle the disclosure overload in financial statements.