Warsaw, 15 January 2015

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

Dear Mr. Hoogervorst,

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

The Komitet Standardów Rachunkowości (Polish Accounting Standards Committee) is pleased to respond to the invitation by the IASB to comment on the Discussion Paper: *Reporting the Financial Effects of Rate Regulation* ('DP').

We do not support the IASB going forward with a project on reporting the financial effects of rate regulation, other than extending disclosure and presentation requirements. We believe that the guidance with respect to recognition of assets, liabilities, revenues and expenses shall be the same for both regulated and non-regulated industries.

The mere fact that the ability of an entity to charge prices to customers is limited (and that such a limitation may vary between periods), does not itself create a need for the recognition of additional assets or liabilities or for a deferral or acceleration of revenue.

We note that investors are primarily interested in the future prospects of an entity. In that respect, entities operating in a rate regulated regime have certain advantages over non-regulated entities, namely the existence of the "revenue requirement" and a relative lack of market forces in the regulated environment creates more certainty over the amount of revenue that entity will be able to recognise in future periods. Hence, the presentation of information regarding the rate determination and the future revenue that the entity will collect based on the agreed (or to be agreed) rates provides more relevant information than an adjustment to amounts included in the historic financial statements.

We also note that IFRS 8 requires entities to present information based on the measurement principles that management uses for day to day decision making purposes. These measurement principles do not have to be compliant with IFRS. In the case of regulated industries, the management decision making process must reflect the requirements of the rate regulation and the measures used by the regulator to determine the rate and revenue requirement. Therefore management may present within its segmental information amounts based on the measurement principles adopted by the regulator and then reconciled to the IFRS financial statements.

Our answers to the specific questions in the DP provide more detail on the views expressed above and are included in the Appendix.

Yours sincerely,

Joanna Dadacz

Chairman
Polish Accounting Standards Committee
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c/c EFRAG

APPENDIX

Question 1

(a) What information about the entity's rate-regulated activities and the rate-regulatory environment do you think preparers of financial statements need to include in their financial statements or accompanying documents such as management commentary?
Please specify what information should be provided in:
(i) the statement of financial position;
(ii) the statement(s) of profit or loss and other comprehensive income;
(iii) the statement of cash flows;
(iv) the note disclosures; or
(v) the management commentary.

(b) How do you think that information would be used by investors and lenders in making investment and lending decisions?

The objective of financial reporting is 'to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors'. Financial reports should provide information that complements the users' understanding of the business, the risks associated with its activities and future cash flows in order to achieve this objective.

We believe that, in many instances, rate regulation significantly affects the amount, timing and uncertainty of future cash flows. As such, management should provide sufficient information either in narrative or numerical form that permits a user of the financial statements to understand :

- How the revenue requirement is determined under the rate regulation mechanism;
- The impact of the rate regulation on the revenue recognised in the current period and expected to be recognised in future periods, and the amount of revenue that is subject to rate regulation separately from amounts that are not subject to rate regulation;
- An entity's assumptions regarding future rates with corroborative facts arising either from existing regulations or discussions/negotiations with the regulator.

We believe that the above information would be best included in the notes/disclosures. Also, the segment disclosures may include additional information including but not limited to measure of profit or value of assets that is used by the regulator in determining the rate.

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?

The concept of deferral accounting is generally not used in Poland. The issue is not causing a major debate in Poland.

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 suggest that IASB focuses on the development of a set of disclosure principles for rate regulated entities. The disclosure principles do not have to be limited to entities that are subject to "defined type of rate regulation" as described in Section 4. Such a disclosure-only standard may provide requirements for various types of rate regulation.

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 do not support the IASB developing special accounting requirements for any form of rate regulation, including "market" rate regulation. Rather, we believe the IASB should develop a disclosure standard that may also include in its scope entities that are subject to market rate regulation. In case of market regulation, the disclosure should provide users of the financial statements with information about limits on revenue that the entity is able to charge to its customers.

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.

See response to Question 3.

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?

See response to Question 3.

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.

We fully support the approach described in the section "Prohibiting the recognition of regulatory deferral account balances" (points 5.91-5.109). The rationale has been adequately described therein.

Question 8

Does your organisation carry out activities that are subject to defined rate regulation? If so, what operational issues should the IASB consider if it decides to develop any specific accounting guidance or requirements?

Our organisation does not carry out activities that are subject to defined rate regulation as described in the DP.

Question 9

If, after considering the feedback from this Discussion Paper and the Conceptual Framework project, the IASB decides to prohibit the recognition of regulatory deferral account balances in IFRS financial statements, do you think that the IASB should consider developing specific disclosure-only requirements? If not, why not? If so, please specify what type of information you think would be relevant to investors and lenders in making their investing or lending decisions and why.

We support moving forward with a disclosure-only standard. Please refer to the response to question 1 and the introduction where we had specified the type of information that may be useful.

We also note that IFRS 8 requires entities to present information based on the measurement principles that management uses for day to day decision making purposes. These measurement principles do not have to be compliant with IFRS. In the case of regulated industries, the management

decision making process must reflect the requirements of the rate regulation and the measures used by the regulator to determine the rate and revenue requirement. Therefore management may present within its segmental information amounts based on the measurement principles adopted by the regulator and then reconciled to the IFRS financial statements.

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.

As already stated we do not support specific accounting requirements for rate regulated businesses. In case such accounting requirements were to be developed, the retention of the existing IFRS 14 presentation and disclosure requirements would permit users of financial statements to understand financial information prior to rate regulation adjustments.

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?

See response to Question 10.

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 do not believe that special accounting requirements (other than disclosure) should be developed for rate regulated entities. The scope of a disclosure standard may also include entities which operate under self-imposed rate regulation.

Question 13

Paragraphs 7.11–7.22 highlight some of the issues that the IASB may consider if it continues to progress this project.

Do you have any comments or suggestions on these or any other issues that may or may not have been raised in this Discussion Paper that you think the IASB should consider if it decides to develop proposals for any specific accounting requirements for rate-regulated activities?

The IASB should consider the interaction of any new guidance with other standards as part of developing accounting requirements for rate regulation. It is premature to develop a comprehensive list of implications before an accounting model is developed.