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Date : Amsterdam, December 22. 2014

Re : Comment on 'Discussion Paper 2014/2 Reporting the Financial Effect of Rate Regulation'

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your draft comment letter, dated October 27 2014 on 'Discussion Paper 2014/2 Reporting the Financial Effect of Rate Regulation'. Your draft comment letter provides an excellent summary, with which we generally concur.

We support most comments in your letter and therefore have decided to refer to your draft comment letter in our comment letter to the IASB. We refer to appendix 1, for the comments on the questions in the DP where our view differs from the answer included in your draft comment letter or where we believe there are additional elements to consider.

The DASB organized a roundtable on December 10, 2014 for constituents where we discussed the main items in the Discussion Paper. Based on the input received during this roundtable we have summarized our main comments.

Information about the rate regulated environment and the rate regulated assets and liabilities provides useful information to the users of financial statements in assessing the performance, the financial positions and the future cash flows of the entity, as well as the volatility of these elements. Additionally, such information is also specifically relevant from a stewardship perspective. We therefore believe it is necessary for the IASB to improve how to report and disclose the effects of rate regulation.

We support the IASB's decision to initially focus the debate on accounting for rate-regulated activities on a particular type of rate regulation referred to as 'defined rate regulation'. We believe that enforceable rights and obligations that stem from the rate-regulation mechanism, which includes a "tariff adjusting mechanism", are the most important elements for distinguishing the types of rate regulation that require recognition in the financial statements. There are concerns that in the future the definition would be changed to include a larger group, especially in situations where the enforceable rights and obligations that stem from the rate-regulation mechanism are less strict or the relationship with past events is less clear. We therefore believe that the scope should remain within well-defined boundaries, as included in the Discussion Paper.

The users are mixed in the way information about rate regulated activities should be provided. Some users are in favor of recognizing the effects of rate regulated activities in the primary statements,

with appropriate disclosures. Other users are in favor of a disclosure-only approach. Preparers and auditors are generally in favor of recognizing such assets and liabilities in the primary statements. When the effect of rate regulated activities would be recognized in the primary statements, we generally support the approach that considers deferring or accelerating the recognition of a combination of costs and revenue. Further research would be necessary to determine under what circumstances there would be a revenue or cost adjustments.

With respect to presentation, we believe that separate presentation in the statements of financial position is appropriate. However, most of our constituents do not support the net movement presentation below net income before regulatory activities in the profit or loss as required by IFRS 14. We believe that inclusion of the respective revenue and cost adjustments should be included either as part of the line items they relate to or directly below such line item. We expect that entities that apply segment reporting under IFRS 8 and have both regulated and non-regulated activities to present these different activities in separate segments.

The discussion about rate regulated activities and the recently issued IFRIC 21, makes it clear that the IFRS framework and IFRS standards are difficult to apply in contractual or legal relationships with government or government-related entities, such as rate-regulators. We believe that besides proceeding on the rate regulated projects the IASB will need to consider the appropriate accounting and disclosure of transactions with and regulations by government in the financial statements of entities in a broader context as well.

Our answers to the specific questions in your draft comment letter, are described in the Appendix.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans de Munnik', with a long horizontal stroke extending to the right.

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix:

1. 'DASB's answers to the questions in DP with different view of additional elements to consider'
2. 'DASB's answers to the questions to constituents in your draft comment letter, dated October 27 2014 on 'Discussion Paper 2014/2 Reporting the Financial Effect of Rate Regulation'.

Appendix 1: ‘DASB’s answers to the questions in DP with different view of additional elements to consider’

Introduction:

We have included comments on those questions in the DP, where our view differs from the answer included in your draft comment letter or where we believe there are additional elements to consider.

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?

EFRAG’s response

EFRAG welcomes the IASB’s project. We have heard that IFRS financial statements do not provide relevant and useful information on rate-regulated activities that meets users’ needs.

Additional view DASB

One of the factors to consider in this discussion is also the stewardship function of the financial statements. Especially, from such perspective it is considered relevant to recognize rate regulated assets and liabilities to provide the relevant information on the performance realized during the year and the responsibilities of management in this respect to its shareholders and other stakeholders.

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?

EFRAG’s response

In EFRAG’s view, separate presentation of regulatory balances will permit users to understand better how the effects of rate regulation modify both the revenue and expenses that an entity has reported and associated impacts on cash flows and financial position, and therefore enhance the relevance of the information provided.

Alternative view DASB:

Appendix 1: ‘DASB’s answers to the questions in DP with different view of additional elements to consider’

We believe that separate presentation in the statements of financial position is appropriate. However, most of our constituents do not support the net movement presentation below net income before regulatory activities in the profit or loss as required by IFRS 14. We believe that inclusion of the respective revenue and cost adjustments should be included either as part of the line items they relate to or directly below such line item. We believe that a primary reason to include the regulatory assets and liabilities is that they represent the performance of the entity and adjust for example for the difference between “earned revenue” and “billed revenue”. When such adjustments are only presented in a “net movement line” at the bottom of the income statement the relevant performance of the entity is still not appropriately reported.

We expect that entities that apply segment reporting under IFRS 8 and have both regulated and non-regulated activities to present these different activities in separate segments.

Introduction:

We have specifically answered the questions to constituents as included in your draft comment letter.

Question to Constituents

17 If the IASB were to introduce specific accounting and/or disclosures requirements to account for the effects of defined rate-regulation, do you believe that users would still use the Regulatory Asset Base as a valuation/analysis tool? Please explain.

Answer DASB:

With regard to the accounting approaches proposed in the DP, we generally support the approach that considers deferring or accelerating the recognition of a combination of costs and revenue. Under the assumption that a final standard would include an accounting approach that considers deferring or accelerating the recognition of a combination of costs and revenue, we have heard from the users that the Regulatory Asset Base is an important valuation/analysis tool and would still provide useful information. The regulatory assets and liabilities recognized primarily represent the difference between the "earned revenue" and the "billed revenue", while the RAB provides more insight in the future cash flow generating capacity of the entity.

Questions to Constituents

30 Are you aware of other information regarding the entity's rate-regulated activities and the rate-regulatory environment that you think preparers of financial statements need to include in their financial statements or accompanying documents such as management commentary? Please explain how users would use this information.

31 Where would you prefer to find the information about the entity's rate-regulated activities, the rate-regulatory environment, and related financial effects on an entity's financial position, performance and cash flows? Which information would you rather find (1) in the primary financial statements and (2) disclosed in the notes or in the management commentary? Please explain your answer.

Answer DASB:

It is important for users of the financial statements to be able to judge both the performance, financial position and cash flows of the company and the volatility thereof.

Users expect qualitative information about the regulatory framework(s) that apply to the entity.

The users are mixed in the way the information should be provided. Some users are in favour of recognizing the effects of rate regulated activities in the primary statements, with appropriate disclosures. Other users are in favor of a disclosure-only approach. With regard to recognizing the effect of rate regulated activities, we generally support the approach that considers deferring or accelerating the recognition of a combination of costs and revenue.

The preparers and auditors have a clear preference to include regulatory assets/ liabilities in the primary financial statements.

Questions to Constituents:

36 Are you familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities in accordance with your local GAAP? 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?

Answer DASB:

In general we are not familiar with using financial statements that recognise regulatory deferral account balances as regulatory assets or regulatory liabilities in accordance with our local GAAP.

One of the participants in the roundtable includes in their segment reporting the rate regulated assets and liabilities in accordance with their management accounting policies. One of the users indicated that they find this information very helpful for their analysis.

Questions to Constituents:

92 Do you think that the regulation that you are aware of is scoped out of the description of defined rate regulation when it should be included? If so, why? How should the current description in the DP be improved to address this case?

93 Are there any additional features that you think are needed to establish the scope of defined rate regulation? Please specify and give reasons to support any features that you would add.

94 Are there any features in defined rate regulation that are unnecessary or should be modified? Please explain.

Answer DASB:

No, we are not aware of regulation that is currently scoped out based on the description of defined rate regulation when it should be included. However, we also note that there are some regulations where there is not a requirement to "repay" a certain amount of revenue through future tariffs, but through future capital expenditures. We believe that the IASB would need to consider further whether such mechanisms would fall within the scope and how it would need to be accounted for.

With EFRAG we broadly support the description of 'defined rate regulation' and believe that enforceable rights and obligations that stem from the rate-regulation mechanism, which includes a "tariff adjusting mechanism" are the most important elements for distinguishing the types of rate regulation that require recognition in the financial statements. The features listed in paragraph 4.4(a) – (c) of should be used as indicators to assess whether an entity operates within 'defined rate regulation', together with the elements mentioned in paragraph 4.5 and 4.6. We have had extensive discussions whether all of these elements are "necessary conditions" on a cumulative basis. We believe that certain of these elements are more of a characteristic of a defined rate regulation. It may be useful in the further development of a Standard to differentiate between the critical

Appendix 2: 'DASB's answers to the questions to constituents in your draft comment letter, dated October 27 2014 on 'Discussion Paper 2014/2 Reporting the Financial Effect of Rate Regulation'

elements that define the enforceable rights and obligations and the general characteristics of the defined rate regulation.

There are concerns that in the future the definition would be changed to include a larger group, especially in situation where the enforceable rights and obligations that stem from the rate-regulation mechanism is less strict or the relationship with past events is less clear. We therefore believe that the scope should remain within well-defined boundaries, as included in the Discussion Paper.

Question to Constituents

104 Are there any additional rights or obligations that you think the IASB should consider? Please explain.

Answer DASB:

We are not aware of any additional rights or obligations that we think the IASB should consider

Questions to Constituents:

119 Are you aware of any operational difficulties in applying an accounting method based on deferring/accelerating the recognition of a combination of costs and revenue in your regulation?

120 Are there any other approaches that the IASB should consider? Please explain.

Answer DASB:

No, we are not aware of any operational difficulties in applying an accounting method based on deferring/accelerating the recognition of a combination of costs and revenue in our regulation, as we are not familiar with using financial statements that recognize regulatory deferral account balances as regulatory assets or regulatory liabilities in accordance with our local GAAP.

One of the participants in the Roundtable that presents rate regulated assets and liabilities in their segment reporting indicated that there were no specific operational difficulties in measuring such assets and liabilities.

We have had further discussions on this topic and concluded that although regulatory assets and liabilities may have some higher level of uncertainty and subjectivity than other assets and liabilities (like trade receivables and trade payables). However, compared to certain other elements in the financial statements like goodwill, this level of uncertainty and subjectivity would not be a reason alone not to record such assets and liabilities. We believe that there is quite some similarity in this respect with the accounting for uncertain tax positions and deferred tax assets and liabilities. Although these assets and liabilities include a certain level of uncertainty and subjectivity as well, there is a long practice both in the respective standard and the practical application thereof by users and preparers.

Questions to Constituents:

Appendix 2: 'DASB's answers to the questions to constituents in your draft comment letter, dated October 27 2014 on 'Discussion Paper 2014/2 Reporting the Financial Effect of Rate Regulation'

122 Are you aware of any other advantages and disadvantages on the accounting approaches that the IASB should consider? Please explain.

Answer DASB:

We are not aware of any other advantages and disadvantages on the accounting approaches that the IASB should consider.

Question to Constituents

131 Does your organisation carry out activities that are subject to defined rate regulation? If so, what operational issues would you like EFRAG to consider in its response to the IASB? We would be particularly interested if you focus on a hybrid method that consists of a combination of deferring/accelerating the recognition of costs and revenue.

132 If there are other approaches identified as per Question 7(b) of the DP, what operational issues should the IASB consider if it decides to develop those approaches?

Answer DASB:

As DASB we don't carry out such activities and are therefore unable to answer this question.

Question to Constituents

192 Are there additional issues that you believe are important for the IASB to consider with respect to the interaction with other IFRS standards? Please explain.

Answer DASB:

We are not aware of additional issues that we believe are important for the IASB to consider with respect to the specific interaction with other IFRS standards, other than included in your draft comment letter.

However, the discussion about rate regulated activities and the recently issued IFRIC 21, makes it clear that the IFRS framework and IFRS standards are difficult to apply in contractual or legal relationships with government or government-related entities, such as rate-regulators. We believe that besides proceeding on the rate regulated projects the IASB will need to consider the appropriate accounting and disclosure of transactions with and regulations by government in the financial statements of entities in a broader context as well.