



Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

20 November 2009

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

Dear Sirs,

[IASB Exposure Draft on Rate-regulated Activities](#)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Exposure Draft.

We believe that the accounting for rate-regulation is of fundamental importance to entities operating in such a regulatory regime. However, we are not convinced that a narrowly-defined standard is required for regulatory assets and liabilities given the existing standards in IFRS covering intangible assets, financial instruments and provisions. We believe that these existing standards, and the Framework, are sufficient to allow the recognition of assets and liabilities where it is appropriate to do so. These standards also ensure that recognised asset and liabilities are measured and presented consistently with others of a similar nature.

We are also concerned that the proposed standard would allow the recognition of assets and liabilities that, some believe, are inconsistent with the requirements of the Framework. We note, however, that some of our constituents operating in regulated industries would welcome the issuance of guidance in order to prevent divergence in practice developing. This is particularly important as other territories with guidance on regulatory assets and liabilities in local GAAP adopt IFRS. These constituents also note that the disclosure requirements of the proposals would be relevant to users of financial statements. Accordingly, while we do not support the continuation of this project as a standalone IFRS (and hence have not responded to the specific questions asked – other than regarding the issue of scope, which is addressed below), we would support the addition of application guidance to existing standards that covers some of the key considerations in determining whether the recognition criteria in that standard have been met, as well as required disclosures.

If the IASB decides to continue with this project, we believe that the scope of the proposed standard needs to be narrowed to contain only cost-of-service regulation that contains a direct and observable cause-and-effect relationship between costs and revenues. We believe that the existing scope is too broad to be applied in jurisdictions where government control of prices is pervasive, such as in China. The proposed scope of the standard requires only that the prices established by regulation are **designed** to allow recovery of costs.



In many industries, the price-setting body is established to determine prices in a way that is intended to allow recovery of 'excess' costs. By way of example, annual prices may be established to allow recovery of expected costs and a reasonable return; where 'excess' costs are incurred in a particular year (for example where coal costs increase substantially in the year), the following year's rate will typically be increased to compensate the entity for those 'excess' costs. However, what is 'excess' is not defined, as there is no explicit formula established by the regulation. Rather, the annual price setting process may be closer to a negotiation between regulator and regulated entity, with the result that the entity cannot determine when a cost is incurred whether it is 'excess' and/or whether it will be factored into the determination of the following year's rate-setting process. We do not believe that regulatory assets should be recognised for such arrangements, despite the government's overall intention being to allow entities to recover costs, as there is no observable cause-and-effect relationship.

If you have any questions on our comments, please do not hesitate to contact me at ong@hki CPA.org.hk.

Yours faithfully,

A handwritten signature in black ink that reads "Steve Ong". The signature is written in a cursive, flowing style.

Steve Ong, FCPA, FCA
Director, Standard Setting