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Exposure Draft: Regulatory Deferral Accounts

The Interstate Natural Gas Association of America (INGAA) provides the following supportive comments to the International Accounting Standards Board's (IASB) Exposure Draft, Regulatory Deferral Accounts. INGAA is a not for profit trade association comprised of 25 member companies, representing the vast majority of the interstate natural gas transmission pipeline companies in the U.S. and comparable companies in Canada. INGAA's U.S. members, which operate approximately 200,000 miles of pipelines, provide natural gas transportation and storage services to gas producers/marketers, local gas utilities, industrial customers and gas-fired electric generators under tariffs approved by the Federal Energy Regulatory Commission (FERC or Commission). INGAA's member pipelines follow Generally Accepted Accounting Principles (GAAP) accounting and, where appropriate, recognize regulatory assets and liabilities.

INGAA provided extensive comments on IASB's March 2013 Request for Information – Rate Regulation, and supports IASB's first step, as proposed in the Exposure Draft, in recognizing rate-regulated assets. We are encouraged that the [draft] interim Standard, if adopted, will enable cost-of-service regulated entities, such as INGAA's members, to recognize the economic effects of rate regulation under International Financial Reporting Standards (IFRS). INGAA strongly believes that recording assets and liabilities that reflect the economic impacts of rate regulation best represents companies' financial positions. FERC, in its comment letter of August 30, 2013, also acknowledges that recognizing the economic effects of rate regulation is an "essential matter to the Commission and the rate-regulated entities it regulates." INGAA supports FERC's comments on the Exposure Draft.

INGAA's responses to issues raised by IASB are enumerated below:

1. We agree with the proposal to restrict the scope of the [draft] interim Standard to first-time adopters of IFRS that recognized regulatory deferral account balances in their financial statements in accordance with their previous GAAP. (Question 1)

2. The proposed two-prong criteria that must be met for regulatory deferral accounts to be included in the [draft] interim Standard are appropriate. (Question 2)

3. In order to create financial comparability among IFRS-adopters, adoption of the [draft] interim Standard should not be optional. To allow some IFRS adopters to recognize regulatory deferral account balances on their financial statements and not others would defeat the goal of financial statement comparability among companies. (Question 3)

4. The [draft] interim Standard should 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.

   Yet, even if a rate-regulated entity did not have regulatory deferral account balances at the time of adopting IFRS, it *should* be allowed to recognize regulatory deferral account balances in its financial statements if and when it later has a changed circumstance (such as acquiring a new asset or entering into a settlement with its customers) where it can meet the criteria for regulatory deferral account balances established by IFRS. Recognition of regulatory deferral account balances should be based upon whether a regulated entity can meet the appropriate IFRS criteria rather than when the entity adopted or adopts IFRS. (Question 4)

5. An entity that adopts IFRS should separate out incremental amounts that are recognized by regulatory deferral account balances, and movements in those balances, by presenting them separately from the assets, liabilities, income and expenses that are recognized in accordance with other Standards. (Question 6)

6. The disclosure requirements provide useful information and enable users of financial statements to understand the nature and financial effects of rate regulation on the entity's activities. Such disclosure requirements facilitate consistency and transparency among entities' financial statements. (Question 7) It is appropriate for an entity to consider materiality and other factors when deciding how to meet the proposed disclosure requirements. (Question 8)

7. Finally, it is appropriate for IASB to provide for a transitional period for rate-regulated entities to move to IFRS and that its transition approach is appropriate. (Question 9)

INGAA supports the relief proposed in the Exposure Draft as IASB continues discussing these issues as part of its Rate-regulated Activities project. Thank you for considering these comments on an issue that is extremely important to interstate natural gas pipelines.

Sincerely,

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