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[www.cpc.org.br](http://www.cpc.org.br)

March 19, 2014

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

**RE: IFRS 14 – Regulatory Deferral Accounts**

Dear Mr. Chairman of the BOARD,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)<sup>1</sup> believes that it is relevant to formally inform you its concerns about IFRS 14 – Regulatory Deferral Accounts issued by the International Accounting Standards Board – IASB.

In our comment letter dated August 26, 2013, in general we agreed with the substance of the Exposure Draft 2013/5 - Regulatory Deferral Accounts, which became IFRS 14, but we did not agree with the restrictions of its applicability. Therefore, at that time we proposed the following:

- 1) The recognition of regulatory deferral accounts should be applicable to all regulated entities and not just entities that shall adopt IFRS for the first time in the future.
- 2) The recognition of regulatory account balances as established in the ED should be included in the definitive pronouncement on regulatory assets and liabilities;
- 3) The basic conceptual framework under review should be changed in order to allow recognition of these regulatory assets and liabilities.

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<sup>1</sup> The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

The temporary condition of IFRS 14 is by no means a substantive reason for denying the right to recognize regulatory deferral accounts in the financial statements of early-adopter jurisdictions. We strongly believe that all entities that meet the recognition criteria for regulatory accounts, and when previous GAAP allowed such recognition, must be permitted to recognize such accounts, and not just those that shall adopt IFRS for the first time from now on. This permission, besides ensuring fair treatment among jurisdictions, would also favour comparability between entities across a given industry and among countries.

Brazilian accounting standards in force prior to the first-time adoption of IFRS on this issue did permit recognition of Regulatory Deferral Accounts. Besides being based on sound economic and legal bases, in Brazil, Regulatory Deferral Accounts are sensitive issues mainly for power distribution (electricity) companies. All such companies had Regulatory Deferral Accounts recorded in their financial statements as a standard practice at the time of IFRS first time adoption in Brazil until 31<sup>st</sup> December 2009; once Brazil decided to fully converge towards IFRS as from 31<sup>st</sup> December 2010, all those companies were required to fully write-off in the 2010 closing the existing balances at that date – which, incidentally, provoked considerable stress among those preparers, their auditors and the Capital Markets regulator. Considering that now IFRS 14 allows to record Regulatory Deferral Accounts for newly adopters of IFRS without any sound economic reason, we see that all those companies in Brazil may (and eventually will) challenge this untimely and regrettable IASB position.

Based on IFRS 14, we strongly believe and are aligned with power distribution companies in Brazil that recording Regulatory Deferral Accounts reflects the economic impacts of the actions of the rate regulators and faithfully represents regulated companies' financial position and results of operation – it is definitely, in their and our view, a much more appropriate portrait of the underlying economics of their business under the prevailing Brazilian conditions – which including is supported by Federal Government assurance that the Deferrals shall have positive economic and financial consequences.

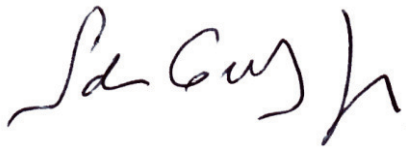
We at CPC are asked to start a dialogue with many market participants to discuss which may be the alternatives on this matter to ultimately allow Brazilian companies to record Regulatory Deferral Accounts (Regulatory receivable or payables) on their balance sheets on an accrual basis as permitted in the IFRS 14 for new IFRS adopters.

We all feel that IFRS 14, as it is, is not fair; we regret the decision we took to have completely converged towards full IFRSs since 2010; if we had postponed that decision until today, we would be benefited with this new IASB position which, being repetitive, is closer to the economics of the businesses than the write-offs called for and booked in 2010 in Brazil!

This letter intends to express the common view of all members of CPC to the Board.

If you have any questions about our comments, please contact us at [operacoes@cpc.org.br](mailto:operacoes@cpc.org.br).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Idésio da Silva Coelho Júnior'.

Idésio da Silva Coelho Júnior  
Chair of International Affairs  
Comitê de Pronunciamentos Contábeis (CPC)