BUSINESSEUROPE

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

15 January 2015

Dear Board Member,

Re: Reporting the Financial Effects of Rate Regulation

BUSINESSEUROPE appreciates the opportunity to comment on the Discussion Paper dealing with the Reporting of the Financial Effects of Rate Regulation. As a federation we feel we are not well placed to answer detailed questions but we would rather raise preparers' general concerns.

First, we would like to remind BUSINESSEUROPE's position regarding the role of the business model in financial statements. As you may know, in May 2014 BUSINESSEUROPE sent a comment letter to EFRAG on the Research Paper dealing with this subject. A number of key elements of BUSINESSEUROPE's position on the role of the business model in the financial statements are pertinent for rate-regulated activities. We provide a summary of these key elements below:

1) *The primary objective of the choice of an accounting approach is to represent the substance of transactions. The purpose of the use of the business model is to support this objective by facilitating identification of the accounting which best reflects the substance of the transaction.*

2) *We think that an understanding of the entity's business strategy for the creation of value is essential to enable the user to assess the future prospects and the past performance of the entity. We are convinced that the most relevant and useful financial reporting approach is one that faithfully depicts the value-creation process and the resulting cash flows in a way consistent with the business strategy. The term "business model" is a useful label for this link between transactions and business strategy.*

3) *The purpose of the use of the business model is to identify the accounting model which, within the context of the entity's business strategy, best reflects the substance of transactions and the most predictable outcome in terms of cash flows/value creation, and presents these in the most appropriate way.*

4) *The management should use its judgement to identify the accounting model permitted by the relevant standard that best reflects the way that the transaction will actually add value/result in cash flows, i.e. its business model.*

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We understand from our members involved in Rate Regulated Activities that the current accounting under IFRS does not reflect the substance of the business and that IFRS financial statements rather poorly reflect the performance of the entity.

In light of our position regarding the role of the business model (see infra) and taking into account that IFRS are and should remain based on principles and not on rules, we support the following comments made by our members who have rate regulated activities:

- Guidance should be principle based, and consistent with other IFRS's;
- Guidance should lead to financial reporting that reflects the underlying economics and the performance of the rate-regulated activity;
- Considering the previous comments, a separate (activity-specific) standard may not be the right answer. A need to clarify the application of current IFRSs, and in particular IFRS 15, should be further investigated together with the question of the compliance with the assets and liabilities criteria.

Please do not hesitate to contact us should you wish to discuss these issues any further.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General