

27 April 2005

Professor David Boymal FPNA  
Chairman, Urgent Issues Group  
Australian Accounting Standards Board  
Level 4  
530 Collins Street  
Melbourne VIC 3000

Dear David

**Re: Service Concessions**

The National Institute of Accountants (NIA) supports the general propositions advocated in the exposure drafts on service concessions with some qualifications. We believe the overall result will be greater transparency in financial reporting, but that further thought may need to be given to some aspects of the exposure drafts.

Our rationale for our support is outlined below. We also provide comments on the implications of this exposure draft on the standard setting structure.

**A standard setting opportunity**

We would like to note that the topic of services concessions, which encompasses the area of infrastructure accounting, presents one of the most important opportunities for the Australian financial reporting community to make a contribution to the international accounting literature.

An absence of guidance related to the accounting requirements for grantors involved in service concession arrangements opens the door for the Australian Accounting Standards Board (AASB) or the Urgent Issues Group (UIG) to develop guidance on appropriate accounting on behalf of the grantor.

This is one of the core issues emerging from the three-part exposure process that the International Financial Reporting Interpretations Committee (IFRIC) is engaging in at the current time. The IFRIC is bound by the International Accounting Standards Board's (IASB) general restriction on dealing with the for-profit sector and as a result the Australian authorities can demonstrate a capacity for thought leadership to fill a gap in the accounting literature.

We note that this restriction in dealing only with the for-profit sector creates problems at the international level, which is unfortunate because it requires other bodies such as the International Public Sector Accounting Standards Board (IPSASB) to specify the accounting for the grantor. Our submission on changes to the constitution of the International Accounting Standards Committee Foundation (IASCF) strongly recommended that the IASB deal with accounting issues with the principles of sector neutrality in mind.

An additional matter of concern is the fact groups within the market place sometimes fail to monitor the developments at international level. Significant exposure drafts such as service concessions may pass some individuals by unnoticed. This may result in some of the AASB's constituents being caught unawares by aspects of the changes. It is an example of where communication may need to be improved so constituents are made more aware of the accounting developments that might affect them.

### **Technical issues**

The overall objective of the interpretations is supported and the resulting transparency will improve the quality of reporting. Amongst our primary concerns, however, is the manner in which the assets and liabilities will be recognised in the public sector. While the hierarchy in AASB 108 may lead you to a conclusion that the public sector entity, which is the relevant government, should account for an asset or liability a particular way there is no clear guidance at present in relation to the other part of the transaction.

In consulting with constituents it has also become clear that the new model will pose some challenges where there is an entire business such as an airport transferred to a private sector entity under an arrangement for a long period of time. People in practice are grappling with the various issues that arise when there are price regulated environments and whether certain types of arrangements fit within the intended guidelines set down in the three exposure drafts. We will be making further inquiries in relation to this aspect of the draft and we will forward any subsequent observations on this matter to you.

Our responses to the questions asked in the exposure draft are as follows:

- We agree with the notion that the 'risks and rewards' approach in accounting for these transactions should be off-loaded with an approach that relies on the concept of controlling an asset;
- The financial asset as a receivable because it is not revenue until the service owing under the concession agreement is delivered,
- Using the substance of the contract as the basis for accounting for service concessions is appropriate; and,
- The suggested application date is appropriate. Early adoption should be encouraged.

**Editorial concerns**

We question whether it is appropriate to have all of these documents as separate interpretations given they are all related to the similar subject matter. It would be useful if the three interpretations were combined into one document.

We will be reviewing the exposure drafts in more detail in case there are any further matters we feel need to be brought to the attention of the international body. A copy of any further submission sent to the IASB in relation to this topic will be forwarded to the AASB for its consideration.

Kind Regards

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