



AUSTRALASIAN  
COUNCIL OF  
AUDITORS-GENERAL

---

24 May 2010

Mr. Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
P O Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Mr Stevenson

**IPSASB ED 43 / AASB ED 194 – Service Concession Arrangements: Grantor**

Attached for your information is a copy of the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

In addition, ACAG provides the following comments which are specific to the proposed Australian Accounting Standards.

**Consolidated Pronouncement**

ACAG believes that it would be appropriate for the accounting treatment for a service concession arrangement for a grantor and operator to be stipulated in the same pronouncement.

**Scope of the ED**

As noted in the letter to the IPSASB, service concession arrangements in Australia currently operate for both for-profit and not-for-profit government bodies. As such, ACAG believes it would be appropriate for any service concession arrangement pronouncements to be applicable to both types of government entities.

**Definitions**

To assist in clarity, ACAG recommends that public sector be defined.

**Drafting conventions**

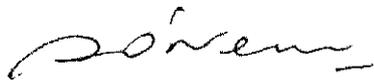
ACAG believes that application of the AASB's drafting conventions would aid in consistent interpretation of the requirements.

## **Concordance with AASB pronouncements**

Adoption of the requirements proposed in ED 194 would require a detailed review of their fit with existing requirements. In particular, pronouncements related to leasing would need to be examined.

In addition, we note that ED 194 refers to application of IPSAS 19 'Provisions, Contingent Liabilities and Contingent Assets' to determine the value of a performance obligation after initial recognition. The Australian counterpart to this standard, AASB 137, defines liabilities differently to IPSAS 19. Without the reference to 'service obligations' as found in the definition of a liability in IPSAS 19, the performance obligation would not be able to be recognised under AASB 137.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon O'Neill', with a horizontal line underneath.

Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**



24 May 2010

Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

**IPSASB ED 43 – Service Concession Arrangements: Grantor**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

ACAG members are pleased that the IPSASB is addressing, through this Exposure Draft, the accounting treatment for Service Concession Arrangements for Grantors.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

**cc: Mr Kevin Stevenson, Chairman, Australian Accounting Standards Board**

## **IPSASB ED 43 – Service Concession Arrangements: Grantor**

ACAG has reviewed the exposure draft *Service Concession Arrangements: Grantor* issued by the International Public Sector Accounting Standards Board (IPSASB) and provides the following comments.

### **Overall comment**

ACAG members are pleased that the IPSASB is addressing, through this Exposure Draft, accounting treatment for Service Concession Arrangements for Grantors. We consider such information to be of significant public interest.

### **Accounting by the grantor and operator**

ACAG considers that it would make for a more efficient process if both the grantor and operator accounting treatments were considered simultaneously.

Application of IFRIC 12 and the Exposure Draft could potentially see there being no asset recorded to reflect relevant property (real or otherwise) by either party or, potentially, assets being recorded by both the operator and grantor.

### **Scope of the Exposure Draft**

ACAG encourages the IPSASB to adopt a more conceptual approach in identifying the types of arrangements to be captured by the Exposure Draft.

Many forms of service concession arrangements exist. The Exposure Draft captures a narrow form of these. In Australia, service concession arrangements can relate to both government business enterprises and non-government business enterprises. As such, ACAG would prefer any service concession arrangement standards to extend to cover all types of government entities.

In addition, the rules-based nature of the Exposure Draft poses a risk that the wording in contracts determines the applicability of the standard, rather than the substance of the agreement. For example, if a contractual arrangement were silent on pricing or customers, it may not meet the criteria of paragraph 10. Alternatively, an identical arrangement with a more explicit contract may be captured by the Exposure Draft.

### **Recording of a Service Concession Asset**

The Exposure Draft requires recognition of a service concession asset depending on control criteria related to the service provision rather than being tied to the physical or intangible asset. This is not consistent with the control criteria discussed in IPSAS 23. ACAG considers that the concepts used in the Exposure Draft should fit with the concepts applied across the suite of standards.

ACAG considers that control is the most appropriate and objective basis for determining whether the service concession asset should be recorded.

## **Measurement of Service Concession Assets**

An existing asset of the grantor is only reclassified for reporting purposes as a service concession asset. However, any upgrade to that asset is recognized as a service concession asset and measured at fair value. This means that the same asset is separated into components with potentially different accounting treatments. The existing component may be measured at historical cost, while the upgrade is initially measured at fair value. Further, upgrading an asset may change its function or nature and extend its useful life. It is suggested that, following upgrade, the whole asset be revalued and treated as a service concession asset.

## **Definition and measurement of a Performance Obligation**

The Exposure Draft requires a liability to be initially recognised at equal value to the fair value of the asset recognised. This liability comprises any financial liability stipulated, with the remainder made up by a performance obligation.

No definition of performance obligation has been provided, although it is discussed in paragraphs 22-23. In ACAG's view, the Exposure Draft's proposal to use performance obligation as a 'balancing item' is not conceptually sound. In substance, any performance obligation to the operator should not change depending on the value of related financial liabilities. Without a definition and explicit expression as to why this is a liability, it is difficult to link with IPSAS 19 'Provisions, Contingent Liabilities and Contingent Assets'.

In addition, it would provide more clarity as to the intention of paragraph 23 if such a definition were provided. Currently, the intention of paragraph 23 is somewhat ambiguous as to whether the asset which would be recognised as being of equal value to the performance obligation would be the tangible or intangible service concession asset (e.g. Property, Plant and Equipment) or an asset related to future payments from the operator.

The Application Guidance could be clearer as to the nature of the performance obligation. For example, paragraph AG3(b) could read 'The grantor recognises a performance obligation when, as compensation to the operator for providing the service concession asset, it grants the operator access...'

## **Definitions**

As discussed above, ACAG believes the performance obligation should be defined. The extent to which the scope paragraphs limit the application of the Exposure Draft is also unclear. For example, does the reference to the service concession asset providing services "to the public on behalf of the grantor" in paragraph 7 narrow the scope of the Exposure Draft to exclude service concession arrangements where the services are provided directly to the government?

We believe the term service concession arrangement should be defined.

A service concession asset is defined in paragraph 3(c) as one recognised in accordance with paragraphs 10 or 11. However, paragraph 10 also includes an existing asset of the grantor which is *reclassified* as a service concession asset. Paragraph 3(c) should therefore read "...conditions for recognition or reclassification set out in...".

We consider that paragraph 14 does not fit under the heading 'Recognition and Measurement of a Service Concession Asset' and would be better suited as part of the 'Scope' section.

### **Terminology**

Paragraphs 23 and AG43 refer to the operator's 'right to use' the service concession asset. However, both this term, and the term 'access', are used interchangeably. It is suggested that it is more accurate to describe the operator's 'access' to the service concession asset, as in paragraphs AG38 and AG42. 'Right to use' might suggest that the grantor passes control to the operator, whereas 'access' is more akin to making available for use but not giving control. Consequently, paragraph 8(b) would require amending. It reads "...operator gives the grantor access for the purpose of the service concession arrangement." 'Access' in that case should read 'control'.

### **Other issues**

ACAG considers that paragraph 28 should be clearer as to whether or not there is a choice to disclose arrangements individually or in the aggregate.