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Dear Kevin,

AASB Exposure Draft 194 Request for Comment on IPSASB Exposure Draft *Service Concession Arrangements: Grantor*

We write in response to the request for comments contained in the April 2010 Australian Accounting Standards Board (AASB) Request for Comment on IPSASB Exposure Draft *Service Concession Arrangements: Grantor* (ED 194).

Guidance on the accounting for service concession arrangements (SCAs) by grantors is needed, as there are a large number of these projects in Australia and divergence in the accounting adopted by the grantors exists.

We are generally supportive of the approach taken in the exposure draft which mirrors the accounting for SCAs in IFRIC 12 for operators. However, we are still not convinced that the recognition of a liability for a performance obligation is always consistent with the *Framework for the Preparation and Presentation of Financial Statements* (Framework). There are also some points that need clarification. These issues are explained in the Appendix to this letter, together with our responses to the specific matters for comment.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on 03 8603 4320 if you would like to discuss this further.

Yours sincerely



Paul Shepherd
Partner

Specific Matters for Comment

1. there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;

Subject to the issues raised below, we do not believe that there are any specific issues arising in the Australian environment that may affect the implementation of the proposals at present. However, we understand that some governments may have concerns about having the assets and liabilities on their balance sheets.

2. overall, the proposals would result in financial statements that would be useful to users; and

Currently there is divergence in how SCAs are accounted for by public sector entities. The proposals in ED 194 will remove this divergence and provide consistency, resulting in more useful information for users.

3. the proposals are in the best interests of the Australian and New Zealand economies.

Subject to our detailed comments below, we believe the current proposals are in the best interest of the Australian and New Zealand economies, as they remove existing divergence.

Comments on the proposals in the IPSASB Exposure Draft

Recognition of a performance obligation

We are still concerned that the recognition of a non-financial liability for performance obligations may not be consistent with the principles set out in the *Framework*. For example, where the grantor provides an operator the right to collect fees from users of the service concession asset or provides access to another revenue generating asset for its use, the grantor would have to recognise a performance obligation under the proposals.

However, in our view the obligation of the grantor is extinguished once the license has been granted. As there will also be no future outflows of economic benefits, there would appear to be no basis for the recognition of a liability under the framework, unless the grantor has any ancillary or additional obligations, eg to ensure that users utilised the asset to generate fees.

Scope of the proposed standard

There have been questions whether IFRIC 12 also applies where an operator only provides the asset and maintains it, but does not provide the public service associated with the infrastructure. It would be helpful if the scope of the proposed standard could be clarified to illustrate whether such arrangements are expected to be covered by the standard. This would ensure consistent application and interpretation of the standard.

Recognition of an intangible asset

It is noted that ED 194 is intended to mirror the accounting for operators in a SCA, and as such, according to paragraph 18, a service concession asset is recognised by the grantor in accordance with the requirements of either the property plant & equipment standard or intangibles standard. We cannot think of situations where an SCA would give rise to an intangible from the perspective of the grantor.

Recognition and measurement of assets constructed by the operator

Grantors are required to recognise a service concession asset in respect of assets constructed by the operator for which compensation is received by the operator in the form of the right to collect fees from users or the provision of another revenue generating asset, however there is little guidance under the proposals as to the initial recognition and measurement of the assets in this scenario.

In our view, further clarification is required to illustrate at what point the service concession asset is recognised, for example, is the asset recognised as the asset is constructed, when the asset is available for public use, or when another revenue generating asset is provided (where applicable)? Similarly clarification is required as to the measurement basis of the service concession asset.

Transitional requirements

Paragraph 30 notes that where a service concession asset was not previously recognised that the standard would apply prospectively. However, it is not clear whether the standard would apply only to those SCAs where the relevant agreements are entered into after the initial application date of the standard, or if this would also apply to existing SCAs.