

Deloitte

Deloitte Touche Tohmatsu
ABN 74 490 121 060

180 Lonsdale Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9208 7000
Fax: +61 (0) 3 9208 7001
www.deloitte.com.au

Mr David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

30 June 2008

Our Ref: dr

Dear David

***Invitation to Comment ITC 16 Request for Comment on IPSASB Consultation Paper
Accounting for Service Concession Arrangements***

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) Invitation to Comment ITC 16 *Request for Comment on IPSASB Consultation Paper Accounting for Service Concession Arrangements* (ITC 16).

We strongly believe that the AASB should develop an Australian Accounting Standard or Interpretation that provides specific guidance on the accounting by public sector grantors for public to private service concession arrangements. In this regard, we support the AASB's use of the work of the International Public Sector Accounting Standards Board (IPSASB) on accounting for service concession arrangements.

Whilst we are supportive of many of the IPSASB proposals, we question the appropriateness of others. There are also a number of key areas where we believe more robust analysis is required.

Our comments on the IPSASB proposals are contained in Appendix A and our responses to the specific matters for comment raised by the AASB are contained in Appendix B.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely



Darryn Rundell
Partner
Deloitte Touche Tohmatsu

APPENDIX A – COMMENTS ON THE IPSASB PROPOSALS

1. *Adoption of the 'control approach' and the proposed 'control' criteria*

We support the IPSASB proposal that the public sector grantor should report the property underlying the service concession arrangement as property, plant and equipment in its financial statements in circumstances where the public sector grantor controls the underlying property.

We note that the control criteria proposed by the IPSASB is similar to, but nonetheless different from, the control criteria adopted by IFRIC Interpretation 12 *Service Concession Arrangements* and by the Australian equivalent Interpretation of the same name.

We do not believe it would be useful to users of financial statements (of both public sector grantors and private sector operators) to have an Australian Accounting Standard or Interpretation that adopts a control criteria for determining whether or not the public sector grantor should recognise the 'underlying property' as property, plant and equipment that is similar to, but nonetheless different from, the control criteria adopted by IFRIC Interpretation 12 *Service Concession Arrangements* and by the Australian equivalent Interpretation of the same name. That is, we do not believe it would be useful to users of financial statements to have an accounting outcome where neither the public sector grantor nor the private sector operator recognises the 'underlying property' as property, plant and equipment.

Therefore, in the Australian context, we would favour the adoption of a control criteria for accounting by public sector grantors that is consistent with that adopted by private sector operators.

2. *Accounting treatment where the proposed 'control' criteria is satisfied*

We support the IPSASB proposal that any constructed property (i.e., constructed by the operator) underlying the service concession arrangement should be initially measured at:

- the lesser of the fair value of the property and the present value of the construction payments, where construction payments are made to the operator and such payments are separable from other payments made to the operator
- the fair value of the property, where construction payments are not made to the operator, where construction payments are reduced by way of the operator being granted the right to charge users or where construction payments are made but are not separable from other payments made to the operator.

However, we question the appropriateness of the IPSASB's basis for conclusions supporting the proposal that '*a related liability reflecting the receipt of consideration in advance of performance (the provision of access to the underlying property) should be recognised by the grantor, and recognised as revenue generally over the period of the arrangement*'. In our opinion, it is doubtful that allowing the operator to access the property for the period of the service concession arrangement would of itself be sufficient to support the recognition of a liability. We believe that more robust analysis is required with respect to this aspect of grantor accounting.

3. *Accounting treatment where neither of the proposed 'control' criterion are satisfied*

We support the IPSASB proposal that the public sector grantor should not report constructed property (i.e., constructed by the operator) as property, plant and equipment in its financial statements in circumstances where neither of the proposed control criterion are satisfied.

However, in accordance with International Financial Reporting Standards (IFRS) and Australian equivalents to IFRS, as to whether any existing property of the public sector grantor should be derecognised is a matter to be determined by application of the derecognition rules of IAS 16 *Property, Plant and Equipment* and of the Australian equivalent Standard of the same name. In this regard, failing to satisfy either of the proposed control criterion, in isolation, may not be sufficient to satisfy the derecognition rules of IAS 16 *Property, Plant and Equipment* and of the Australian equivalent Standard of the same name.

4. *Accounting treatment where only the 'control of use' criterion is satisfied*

We support the IPSASB proposal that the public sector grantor should apply the requirements of the leasing Standard where only the 'control of use' criterion is satisfied and the arrangement satisfies the definition of a lease. In the context of IFRS (and Australian equivalents to IFRS) this would be determined by reference to IFRIC 4 *Determining whether an Arrangement contains a Lease* and by reference to the Australian equivalent Interpretation of the same name.

However, we question the appropriateness of the IPSASB proposal that the public sector grantor should report the property underlying the service concession arrangement as property, plant and equipment in its financial statements in circumstances where the arrangement does not give rise to a lease (and more particularly, does not give rise to a finance lease). We acknowledge that the public sector grantor may very well recognise an asset arising from the arrangement when only the 'control of use' criterion is satisfied and where the arrangement does not give rise to a lease. However, we question the appropriateness of the public sector grantor reporting property, plant and equipment when the proposed control criteria (in full) has not been satisfied. We believe that more robust analysis is required with respect to this aspect of grantor accounting.

5. *Accounting treatment where only the 'control over residual' criterion is satisfied*

In our opinion, the IPSASB analysis of the appropriate accounting treatment where only the 'control over residual' criterion is satisfied lacks substance. In our opinion, there is a divergence of views as to the appropriateness of the public sector grantor progressively recognising an asset over the period of the arrangement and of the appropriate valuation methodology to be adopted.

We believe that more robust analysis is required with respect to this aspect of grantor accounting.

APPENDIX B – SPECIFIC MATTERS FOR COMMENT

- (a) *whether it should use the IPSASB's work on service concession arrangements, such as issuing in Australia an Exposure Draft based on a subsequent IPSASB Exposure Draft or Standard*

In our opinion, it is appropriate for the AASB to use the IPSASB's work on service concession arrangements as part of the development of an Australian Accounting Standard or Interpretation that provides specific guidance on the accounting by public sector grantors for public to private service concession arrangements.

However, in the absence of the AASB formally adopting a policy of convergence with IPSAS, it may not be appropriate to simply issue an Australian Exposure Draft as a 'wrap around' of the IPSASB Exposure Draft or Accounting Standard. The AASB should give consideration to the appropriateness of the IPSASB proposals or requirements in the Australian context and, where appropriate, make modifications to such proposals or requirements for the purposes of an Australian Exposure Draft.

- (b) *any regulatory issues or other issues in the Australian environment that may affect the implementation of the IPSASB proposal*

We are not aware of any regulatory issues in the Australian environment that may affect the implementation of the IPSASB proposal.

However, we note that the analysis and discussion supporting the IPSASB proposals make reference to a number of IPSASs, some of which may not be fully compliant with IFRS and Australian equivalents to IFRS. We recommend that the Board be cautious in its appraisal of the IPSASB proposals.

- (c) *whether, overall, the IPSASB proposals would result in financial statements that would be useful to users*

In our opinion, when considered in isolation, the IPSASB proposals, if adopted in Australia, would result in financial statements of public sector grantors that would be useful to users.

However, we do not believe it would be useful to users of financial statements (of both public sector grantors and private sector operators) to have an Australian Accounting Standard or Interpretation that adopts a control criteria for determining whether or not the public sector grantor should recognise the 'underlying property' as property, plant and equipment that is similar to, but nonetheless different from, the control criteria adopted by IFRIC Interpretation 12 *Service Concession Arrangements* and by the Australian equivalent Interpretation of the same name. In our opinion, it would not be useful to users of financial statements to adopt a control criteria for public sector grantors that differs from the criteria adopted by private sector operators, even although there may be a specific public sector reason for doing so. That is, we do not believe it would be useful to users of financial statements to have an accounting outcome where neither the public sector grantor nor the private sector operator recognises the 'underlying property' as property, plant and equipment.

(d) *whether the IPSASB proposals are in the best interests of the Australian economy*

We strongly believe it would be in the best interests of the Australian economy for the AASB to issue an Australian Accounting Standard or Interpretation that provides specific guidance on the accounting by public sector grantors for public to private service concession arrangements.

However, we have reservations as to whether the IPSASB proposals, if adopted in Australia, would be in the best interests of the Australian economy.

In the absence of the AASB formally adopting a policy of convergence with IPSAS, IFRS remains the platform for accounting by Australian public sector entities (although subject to modification by the AASB where there is a specific not-for-profit reason for doing so). Therefore, the appropriateness of the IPSASB proposals should be assessed by the AASB in the context of IFRS (including the *Framework*).

In this regard, we note that the IPSASB's proposed control criteria for determining whether or not the public sector grantor should recognise the 'underlying property' as property, plant and equipment is similar to, but nonetheless different from, the control criteria adopted by IFRIC Interpretation 12 *Service Concession Arrangements* and by the Australian equivalent Interpretation of the same name. In our opinion, it would not be in the best interests of the Australian economy to adopt a control criteria for public sector grantors that differs from the criteria adopted by private sector operators, even although there may be a specific public sector reason for doing so. That is, an accounting outcome where neither the public sector grantor nor the private sector operator recognises the 'underlying property' as property, plant and equipment would, in our opinion, be undesirable in the Australian context.