

4 July 2008

The Chairman  
Australian Accounting Standards Board

E Mail: [standard@asb.com.au](mailto:standard@asb.com.au)

Dear David

**Comments on IPSASB Consultation Paper *Accounting and Financial Reporting for Service Concession Arrangements***

Thank you for the opportunity to comment on IPSASB Consultation Paper *Accounting and Financial Reporting for Service Concession Arrangements*. The Institute of Chartered Accountants, CPA Australia Ltd and the National Institute of Accountants (the Joint Accounting Bodies) have jointly considered the above exposure draft (ED) and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally. The Joint Accounting Bodies have jointly considered the material in ITC 16 and our comments are set out below and in the attached Appendix.

***General Comments on the Proposals***

The Joint Accounting Bodies commend the Board for undertaking this project, given the lack of guidance for the grantors of such arrangements. We believe that the development of a standard regarding the grantor accounting of service concession arrangements (SCAs) to be in the public interest.

Our response to matters on which specific comment is requested is included in the attached Appendix.

The Joint Accounting Bodies are committed to assisting where possible in the development and implementation of the highest quality Australian accounting standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Kerry Hicks (Institute) at 02 9290 5703, Chee Ng (CPA Australia) at 03 9606 9933, or Tom Ravlic (NIA) at 03 8665 3143.

Yours sincerely



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## Appendix - Matters on Which Specific Comment Requested

### *AASB questions*

- 1. Should the AASB 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?**

We agree that using the IPSASB's work on service concession arrangements is appropriate.

- 2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the IPSASB proposals?**

The only issue that would arise in the Australian environment is the absence of the accountability concept in the AASB Framework, given that the Framework was developed for for-profit entities. In the public sector, accountability is the main concern for users, however the main concern for users in the for-profit sector is decision making. Although ITC 16 does make reference to the accountability of the grantor, we do not believe that this is sufficient.

We believe that the Framework should be reviewed to address the needs of users in the public sector. The AASB should consider requesting that the IPSASB and International Accounting Standards Board place greater priority on incorporating accountability into their respective frameworks. Encouraging the IASB to bring consideration of the not-for-profit issues forward may also be a way of helping resolve this conceptual impasse.

- 3. Would the IPSASB proposals result in financial statements that would be useful to users overall?**

Overall, we agree that the IPSASB proposals would result in useful financial statements, as it will provide consistency and allow users to compare financial statements with greater ease. We do however have some concerns about the control criteria proposed, as discussed below.

- 4. Are the IPSASB proposals in the best interests of the Australian economy?**

Generally, we agree that the IPSASB proposals are in the best interests of the Australian economy, subject to the Framework issue described above being addressed adequately and the control criteria concerns discussed below.

### *IPSASB questions*

- 1. It is proposed that a grantor report the property underlying an SCA as an asset in its financial statements if it is considered to control the property. Criteria for determining control are proposed in the Consultation Paper. Do you agree with this approach and the control criteria identified?**

We agree with this approach however we have some concerns about the control criteria identified, as it may result in instances when neither the grantor nor the operator recognises the asset.

The first criterion of the proposals refers to the grantor regulating the services of the asset, except for generally legislated regulation as this does not establish control of the asset for financial reporting purposes (per IPSASs 6 and 23). The first control criterion in IFRIC 12 *Service Concession Arrangements* also refers to the grantor regulating the asset, however if the regulator is not related to the public sector, then the operator does not control the asset. This difference in the meaning of the grantor regulating the asset may result in neither party recognising the asset when an external regulator is involved.

The second criterion of the proposals refers to the grantor controlling the residual interest of the asset at the end of the arrangement, compared to controlling any significant residual interest as per IFRIC 12. The difference in the reference to residual interest is that under the IPSASB proposals, whole-of-life SCAs would not satisfy the control criteria.

We believe that the control criteria proposed should be reconsidered to address these issues, as there should not be any situation whereby neither party recognises the asset.

- 2. It is proposed that the underlying property reported by the grantor as an asset and the related liability (reflecting any obligation to provide compensation to the operator) is initially measured based on the fair value of the property other than in cases where scheduled payments made by the grantor can be separated into a construction element and a service element. In such cases, the present value of the scheduled construction payments should be used if lower than the fair value of the property. Do you agree?**

We agree with this proposed treatment.

- 3. It is proposed that contractually determined inflows of resources to be received by a grantor from an operator as part of an SCA should be recognized as revenue by the grantor as they are earned over the life of the SCA beginning at the commencement of the concession term, that is, when the underlying property is fully operational. These inflows generally should be considered earned as the grantor provides the operator access to the underlying property, and amounts received in advance of providing a commensurate level of access to the property should be reported as a liability. Do you agree?**

We agree with this proposed treatment.