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Ms Kris Peach
Chair
Australian Accounting Standards Board
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Invitation to comment - Fatal-Flaw Review Draft - AASB 10XY *Service Concession Arrangements: Grantors*

Dear Ms Peach

Ernst & Young Australia ('EY', 'we', 'us') is pleased to provide comments on the Australian Accounting Standards Board's ('AASB's') Fatal-Flaw Review Draft AASB 10XY *Service Concession Arrangements: Grantors* ('AASB 10XY').

In line with our previous comments on the exposure draft, we support the AASB's approach to developing an accounting standard for grantors of service concession arrangements based on the control model in IPSAS 32: *Service Concession Arrangements: Grantor* and welcome the additional guidance provided.

Our comments on the fatal flaw draft are provided in the Appendix below.

Should you wish to discuss the contents of this letter further with us, please contact Georgina Dellaportas (georgina.dellaportas@au.ey.com or (03) 9288 8621).

Yours sincerely

Ernst & Young

Appendix

- Para 27(c)(ii) refers to the disclosure of the carrying amount of the service concession assets at the end of the reporting period including existing assets of the grantor reclassified as service concession assets. This may be considered to require the separate disclosure of all existing assets of the grantor which have been reclassified in the previous and current periods. For the avoidance of doubt we recommend that:
 - The words “during the reporting period” are added at the end of the sentence or otherwise:
 - The requirement to disclose reclassified assets is provided as a separate line item under (c). For example, we recommend drafting as follows:

(c)(ii) the carrying amount of the service concession assets at the end of the reporting period

(c)(iii) existing assets of the grantor reclassified as service concession assets during the period

- B3(d) - reference to “for little or no incremental consideration” should be removed as the amount paid by the grantor for the residual is irrelevant. If this wording was retained, it may be considered by users that where consideration is paid, the arrangement would not have features of a service concession arrangement which is not the case. The amount paid for the residual is irrelevant to the existence of such a service concession arrangement. Rather it is the grantor’s control over the residual that is relevant.
- B57 - requires the grantor to:

“...use the contractually specified interest rate in the arrangement to initially measure the financial liability component of a hybrid arrangement in accordance with AASB 9. If it is not practicable to determine the contractually specified interest rate, the grantor shall determine an appropriate rate using the prevailing market rate(s) of interest for a similar instrument with a similar credit rating. Examples of rates for a similar instrument include the operator’s cost of capital specific to the service concession asset, the grantor’s incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement.

In our view the grantor’s incremental borrowing rate is not an appropriate example as this would then need to be adjusted for the features needed for a similar instrument (eg considering the security offered as part of the borrowing, risks, duration, etc).

We therefore recommend that the examples be removed to avoid the standard being misleading. Users would then be directed to determine the appropriate rate by referring to “**an appropriate rate using the prevailing market rate(s) of interest for a similar instrument with a similar credit rating**” and the guidance in AASB 9.