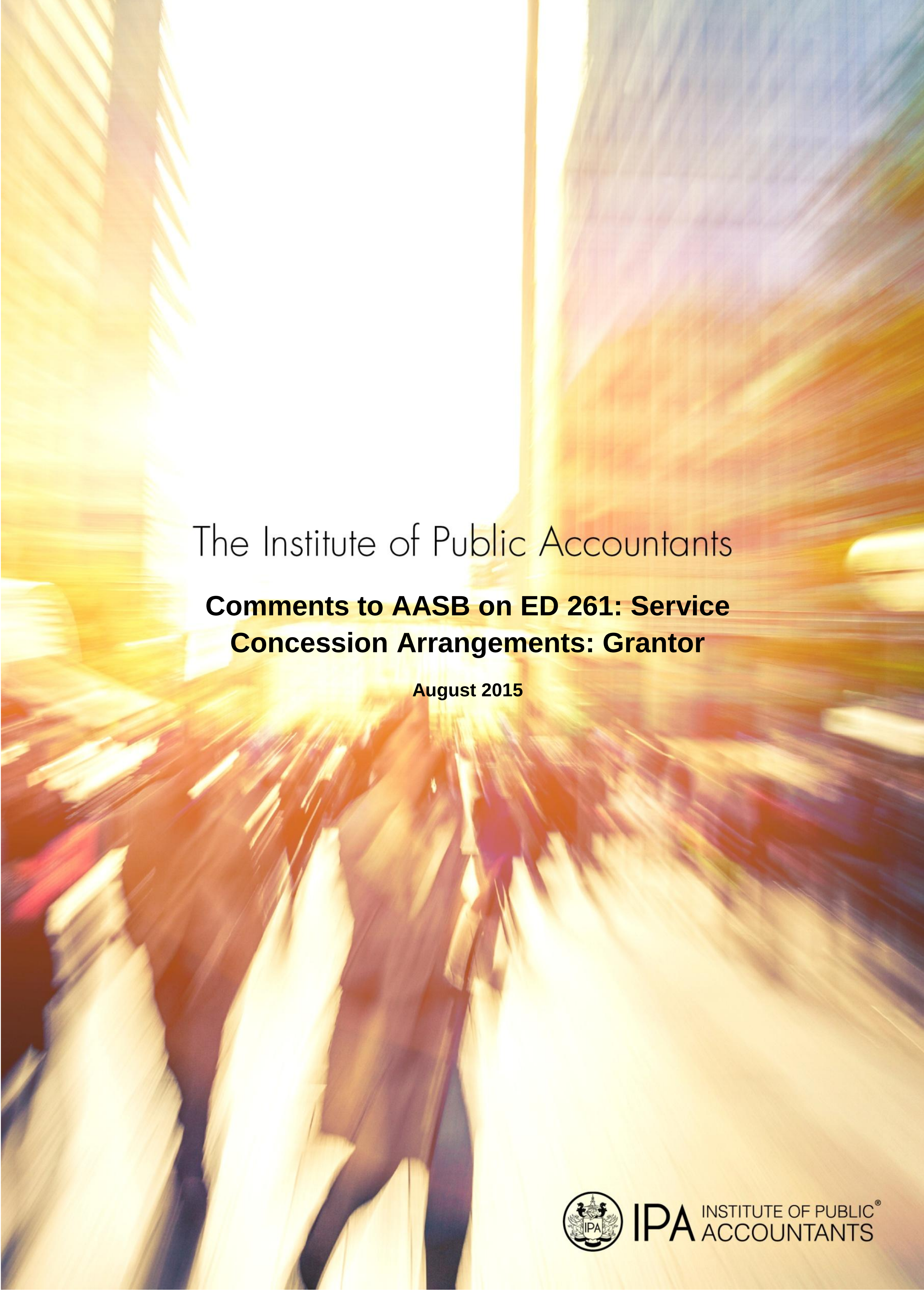

The Institute of Public Accountants

Comments to AASB on ED 261: Service Concession Arrangements: Grantor

August 2015

INSTITUTE OF PUBLIC ACCOUNTANTS

11 August 2015

The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Kris

ED 261 "Service Concession Arrangements: Grantor"

Thank you for the opportunity to comment on the ED 261 "Service Concession Arrangements: Grantor". The Institute of Public Accountants (IPA) supports the issue of an accounting standard on service concession arrangements from the grantor perspective. The IPA is of the view that the absence of a standard in this area results in, at best, an incomplete representation of the multifaceted nature of service concession arrangements and, at worst, results in a misleading presentation of such arrangements.

The IPA is a professional body for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice.

Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Current accounting is predicated on using AASB 117 "Leases" and the associated interpretations to account for service concessions. The IPA believes the use of AASB 117 results in not all aspects of service concession arrangements being adequately reflected in the financial statements. In addition, AASB 17 is based on a risks and rewards model which does not provide the same accounting outcomes as the control model which is the basis of the current standards. As such, the IPA believes that even though the proposed standard has a limited control model it is still an improvement over the existing framework.

The IPA understands there are concerns in relation to the ability for entities to claim IFRS compliance if the proposed standard is applied. The IPA is of the view that national standard setters have the ability to issue local standards and maintain IFRS compliance. The IPA believes AASB 101 "Presentation of Financial Statements" (AASB 101.12) implicitly recognises the status of other standards with a consistent framework as IFRS, as compliant with IFRS in the absence of specific IFRS guidance.

Our comments on the detailed questions asked in the Exposure Draft are in the attached appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) GAAP Consulting.

Yours sincerely

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Appendix A

Question 1

The proposed application to all public sector entities is wider than IPSAS 32 Service Concession Arrangements: Grantor, upon which the [draft] Standard is based. IPSAS 32 applies to all public sector entities other than Government Business Enterprises (GBE). A GBE is akin to a for-profit public sector entity. The proposed approach is consistent with the AASB's policy of making accounting Standards that require like transactions and events to be accounted for in a like manner for all types of entities, which is referred to as transaction neutrality. Do you agree with the proposed application to all public sector entities? Why or why not?

IPA Response

The IPA supports the application of the proposed standard to all public sector entities including Government Business Enterprises (GBEs). The IPA supports the concept of transaction neutrality. Furthermore, the IPA is of the opinion the proposed standard should not be limited to public sector entities but extended to not-for-profit private sector arrangements which display the characteristics of granting of service concession arrangements. Such a treatment would also be in accordance with the concept of transaction neutrality. The IPA is aware of transactions where not-for-profit charitable entities have transferred assets to third party entities to discharge various "public service" obligations while maintaining control of the nature and pricing of the services through contractual restrictions. The IPA believes transactions displaying the characteristics of the granting of a service concession should be treated on a similar basis regardless of the nature of the entity.

Question 2

The proposed scope in paragraph 5 applies to arrangements involving a 'service concession asset', which would include intangible assets and land. This is consistent with the scope of IPSAS 32 but broader than the scope of AASB Interpretation 2 Service Concession Arrangements. AASB Interpretation 12 applies to 'infrastructure' of a service concession arrangement, which would exclude intangible assets and land. AASB interpretation 12 is applicable to infrastructure assets that the private sector operator constructed or acquired from a third-party, or to which it was given access by the grantor, for the purpose of the arrangement. Consequently, the intangible asset or land that has been granted by the grantor is outside the scope of AASB Interpretation 12. Do you agree with the proposed scope or the [draft] Standard? Why or why not?

IPA Response

The IPA agrees with the "service concession asset" including intangible assets and land. The IPA considers limiting the scope of the proposed standard to infrastructure assets would not reflect the totality of many concession arrangements and would allow the opportunity for structuring the arrangement to avoid the requirements of the proposed standard.

Questions 3

The [draft] Standard proposes the specific control concept in paragraph 8(a) that a grantor controls the asset if the "grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them and at what price". This mirrors the control concept in AASB Interpretation 12. The AASB notes that a broader concept of control currently applies in other Australian Accounting Standards. An asset that does not meet the control and regulation definition of this [draft] Standard may still need to be recognised under other accounting Standards. Do you agree with the proposed specific control concept in paragraph 8(a) of the [draft] Standard? That is, applying a narrower concept of control in the [draft] Standard than other accounting Standards. Why or why not?

IPA Response

The IPA supports the specific control concepts in paragraph 8(a) of the proposed standard as is consistent with the nature of granting a service concession. However, the IPA has some concern that a specific scope control concept may allow structuring opportunities.

The IPA also has reservations as to the effectiveness of the broader control concepts in other standards in properly reflecting the substance of structured transactions such as used in service concession arrangements. The IPA is aware of structured entities being organised in such a manner as for the period of the arrangement to fail the AASB "Consolidated Financial Statements" (AASB 10.7) concept of control by contriving a mechanism for failure of AASB 10.7(a) by allowing a third party temporary control.

Question 4

The [draft] Standard proposes that the grantor initially measures the service concession asset at its fair value unless the service concession asset is an existing asset of the grantor. Do you agree that the proposed requirements and guidance appropriately explain the application of fair value to a service concession asset? Why or why not?

IPA Response

The IPA supports the measurement of a service concession asset at fair value unless it is an existing asset of the grantor assuming the asset is carried at fair value. An existing asset of the grantor should not be revalued just because the asset has been reclassified.

Question 5

The [draft] Standard proposes that:

(a) where the grantor recognises a service concession asset, the grantor also recognises a liability measure at the same amount as the service concession asset adjusted for other consideration between the grantor and the operator. Do you agree that the proposed requirements and guidance appropriately measure the consideration between the grantor and the operator of the service concession arrangement? Why or why not?

(b) the measurement of a service concession liability using the 'financial liability model' and/or the 'grant or a right to the operator model'. Do you agree with the proposed models? Why or why not? If you do not agree with the proposed models, what alternative model(s) would you recommend?

IPA Response

The IPA supports the proposal to record the service concession liability depending on whether the nature of the arrangement gives rise to an obligation to deliver cash or another financial asset. The IPA supports the proposed models as both recognise any gain from the concession arrangements over the term of the arrangement and the outflows of financial assets including cash.

Question 6

The [draft] Standard proposes that the grantor account separately for each part of the total liability recognised for the service concession arrangement where the arrangement involves the grantor both incurring a financial liability and granting a right to the operator. Do you agree that the [draft] Standard provides appropriate guidance for the separate recognition of the liability? Why or why not?

IPA Response

The IPA supports the requirement for each part of the liability in relation to the service concession arrangement to be individually recognised as separate identification better represents the nature and timing of the potential outflows of the financial assets and the recognition of any gain arising over the term of the service concession arrangement.

Question 7

IPSAS32 includes guidance in relation of other revenues in paragraphs AG55 – AG64. Other revenues relate to compensation by the operator to the grantor for access to the service concession asset by providing the grantor with a series of pre-determined inflows of resources. The [draft] Standard does not include this guidance, for the reasons outlined in paragraphs BC27 and BC28. Do you agree that guidance on the accounting treatment of other revenues from a service concession arrangement is not required? Why or why not?

IPA Response

The IPA believes the additional guidance provided in IPSAS 32.AG55-AG64 would provide useful transaction specific guidance and suggest it be included in the proposed standard.

Question 8

The [draft] Standard includes defined terms in Appendix A. Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not?

In particular, do you agree with the proposed definition of a 'public service' as a 'service that is provided by government or one of its controlled entities, as part of the usual government function, to the community, either directly (through the public sector) or by financing the provision of services"? Why or why not?

Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?

IPA Response

The IPA believes the definition of "public service" in the proposed standard may be too narrow to capture all such arrangements where the service concession is not directly provided to the community, for example, the provision of infrastructure for government departments rather than the "public". As such, the definition should be broader and include the provision of administrative services and cover arrangements used by governments in both the provision of government services to the public and the provision of support "infrastructure".

Question 9

The [draft] Standard includes examples on the accounting treatment of lifecycle costs of a service concession asset that might be a benefit to the grantor. Lifecycle costs are costs incurred by the operator to maintain the asset during the service concession period. An example of a lifecycle cost is the cost to periodically resurface a road during the operating and maintenance phase of the service concession arrangement. Do you agree that the examples in the [draft] Standard provide sufficient guidance on the accounting treatment of lifecycle costs of a service concession asset that might be a benefit to the grantor? Why or why not?

IPA Response

The IPA agrees with the treatment of lifecycle cost relating to a service concession asset as presented in the illustrative examples as they reflect condition of the service conception at the relevant reporting dates.

Question 10

Do you agree with the proposed disclosures for a service concession arrangement set out in paragraphs 30 to 32? Why or why not?

In particular, do you agree with the proposed disclosure of paragraph 31 applying individually for each material service concession arrangement or in aggregate for each class of service concession arrangements?

IPA Response

The IPA supports the proposed disclosure requirements set in paragraphs 30-32 of the proposed standard. While the IPA would support aggregation of the proposed disclosures by class of service concessions, the IPA has concerns that certain aspects of the disclosure are not readily grouped and any attempts to do so may obscure information pertinent to users.

Question 11

In relation to the proposed application date and transitional requirements:

(a) Do you agree the proposed application date is appropriate, and if not, what further considerations should be taken into account to determine the application date of the [draft] Standard?
(b) Do you agree with the proposed transitional provisions set out in paragraph 33? Why or why not? The transitional provisions permit the grantor to apply the [draft] Standard retrospectively or elect to recognise and measure the service concession asset and liabilities at the beginning of earliest period for which comparative information is presented using deemed cost.

IPA Response

The IPA supports an application date of the reporting period commencing on or after 1 January 2017 as this should be sufficient time to apply the new requirements.

The IPA supports the retrospective application of the requirements of the proposed standard. The IPA is concerned that the deemed cost method proposed may result in a mismatch of the liabilities relating to the service concession and the service concession asset balance.

General Matters for Comment

Question 12

Whether:

(a) there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any GAAP/GFS implications?

(b) overall, the proposals would result in financial statements that would be useful to users?

(c) the proposals are in the best interests of the Australian economy?

IPA Response

The IPA is unaware of any regulatory reasons that may affect the proposals.

The IPA is of the opinion the proposals represent a more representative presentation of service concession arrangements as they reflect the multifaceted transactions not adequately dealt with under the current framework. As such, the IPA is of the opinion the proposals would be useful to users and, therefore, in the best interests of the Australian economy.

Question 13

Unless already provided in response to the matters for comment 1 -12 above, the costs and benefit of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

IPA Response

The IPA is not in a position to estimate the quantitative cost of the proposed standard.