



**INTERNATIONAL FEDERATION
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Agenda Item

9

DATE: 14 October, 2008
MEMO TO: Members of the International Public Sector Accounting Standards Board
FROM: Barry Naik
SUBJECT: Service Concession Arrangements

SESSION OBJECTIVE

To review responses to Consultation Paper (CP) “Accounting and Financial Reporting for Service Concession Arrangements” and to provide directions to Staff on key issues to enable the development of an ED.

ACTION REQUIRED

The Committee is asked to:

- **Note** the submissions on CP “Accounting and Financial Reporting for Service Concession Arrangements” and the Staff summary and analysis of those submissions;
- **Review and agree** the Staff recommendations in response to issues raised by respondents; and
- **Provide directions** on certain other issues raised in submissions;

AGENDA MATERIAL

- 9.1 Summary Analysis of Submissions: Requests for Comment (RFC)
- 9.2 Summary of Submissions: Other Comments

BACKGROUND

CP “Accounting and Financial Reporting for Service Concession Arrangements” was issued for comment in March 2008 with a comment date of 1 August 2008. The CP was initially developed by the SCA Consultative Group with technical staff support provided by GASB. In total, 33 responses have been received.

Summaries of submissions are included at Agenda Items 9.1 and 9.2. 9.1 summarizes the response to the RFC – three RFCs were raised in the CP (for the purposes of analysis, RFC 1 is divided into two pieces RFC 1- Part A - Control & RFC 1- Part B - Criteria), whilst item 9.2 summarizes Other Comments raised by respondents. This memorandum analyzes respondents’ comments on the RFCs (and some selected ‘other comments’ from item 9.2) and gives the Staff view of the action, if any, that should be taken in response to those comments in determining next stages for the project. On the assumption that the

Board continues to support the key under-pinnings of the CP, staff do consider that the nature of the comments preclude moving the project to the next planned significant step for the project - development of an Exposure Draft – though staff consider the timing of that step should be extended – discussed further in the analysis below.

As with all summaries and analyses, judgment has been necessary in clarifying and interpreting responses and drawing out major points made by respondents. The summary should therefore be read in conjunction with the submissions themselves. A list of respondents is given at Appendix A, at the end of this memorandum.

A key under-pinning of the CP was the proposal that a grantor report the property (and related liability) underlying a SCA as an asset in its financial statements if it is considered to control the property. Control focused criteria were then provided – control over use and residual interest.

Only limited consideration was given to operators in CP. This was primarily because operators generally would be expected consider IFRIC 12, and the IASB's Standing Interpretations Committee (SIC) Interpretation 29, *Service Concession Arrangements: Disclosures*, to determine their financial reporting.

Staff gratefully acknowledges the support of Greg Driscoll in the preparation of these agenda papers.

General Observations and Themes

Geographic distribution of responses was as follows:

- Europe 15
- Canada 6
- USA 3
- Australia 3
- New Zealand 1
- Asia 1
- Africa 1
- International 3

Functional nature of responses was as follows:

- 7 finance ministries and related bodies (#4, 5, 6, 8, 15, 31, 33)
- 7 audit / auditor general (#11, 16, 20, 27, 28, 29, 30)
- 3 standard-setters (#3, 25, 26)
- 2 international accountancy associations (#13, 22)
- 5 other (eg: bank, academics, non-finance ministry, IMF) (#7, 9, 19, 22, 24)
- 9 supra-national organization / regional accountancy body (# 1, 2, 10, 12, 17, 18, 21, 23, 32)

As noted, the CP posed three RFCs. Overall the comments from respondents were generally favorable towards the key provisions of the CP highlighted in the RFCs. Areas of mild disagreement/concern with the key provisions (notably control, though more so, the related control criteria) were noted more from some European respondents (4, 9, 11) with stronger disagreement from Australia (5) and North America (21, 33) – analyzed further below. A large number of ‘other comments’ were received from respondents covering a wide spectrum of issues – the more notable of which are considered further below.

Based on responses 1-33, the following key issues were noted by staff. Some were related to the RFC while others were stand-alone comments. They are analyzed below in order of staff’s view as to their significance as opposed to the order of the RFCs or otherwise:

- 1) Control and risks & rewards – approaches to property recognition
- 2) Control-focused criteria – approaches to determining control
 - Conceptual justification for control criteria
 - Control over residual interest
 - Control over use - sufficiency of measures
 - Control over use - ‘regulates’
- 3) Grantor financial reporting when control criteria not met
- 4) Scope broader than grantor reporting
- 5) Fair value measurement of property and liability
- 6) Revenue recognition

1) CONTROL AND RISKS & REWARDS – APPROACHES TO PROPERTY RECOGNITION

Request for Comment 1 – Part A – Control as a Basis for Property Recognition

*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?** (See Paragraphs 28-104).*

The CP under-pins its proposals for the recognition of property based on the definition of an asset in IPSAS 1 (resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity) noting that the notion of control over resources is clearly laid out in the definition. The paper further notes that risks and rewards are connected to the expected flow of future economic benefits or service potential because generally it is sufficiently certain that future economic benefits or service potential will flow to an entity when it (a) will be assured of receiving the rewards attaching to the asset, and (b) will undertake the associated risks.

The IPSASB came to the proposed view that the adoption of control to determine the financial reporting for the property underlying an SCA by the grantor was appropriate.

However, this focus on control does not mean that the flow of future economic benefits or service potential through the assumption of risks and rewards is not accounted for in the overall approach. The paper argues that the grantor's control over the property underlying the SCA, as indicated by the proposed criteria, evidences that it remains accountable for the services provided either directly or indirectly to the public through the property. The paper goes on to argue that this accountability subjects the grantor to risks and rewards related to service delivery that are associated with the property.

Retaining those risks and rewards indicates that the grantor can expect future service potential to flow from the underlying property. This expectation, combined with the grantor's control over the property, indicates that the property should be considered an asset of the grantor based on the definition of an asset in IPSAS 1.

Analysis

Of the 33 respondents, staff interpreted 25 responses as being in agreement with the use of control as a basis for property recognition. Staff interpreted only 2 responses as having disagreement or notable enough concern to be classified as disagreement (21, 33). 6 respondents were grouped by staff as not providing a clear firm view on just control (1, 4, 7, 11, 14 18), though in fairness, in considering respondent comments on the control criteria (below), it is reasonable to say that some of those 6 views are cautious about control.

33 does not support the use of a control approach based on the conceptual framework in their jurisdiction. Where concern/comment is expressed about control, there tends to be a desire for further consideration of risks and rewards (21, 33) ie, wanting to see a stronger and clearer reconciliation of risks and rewards to the proposed control approach.

The CP acknowledges that the two concepts are not mutually exclusive and as indicated above, in advocating a control focus, that control encompasses the assumption that despite the terms, conditions and legal requirements written within individual SCAs, ultimate accountability for the provision of services from the SCA resides with the grantor, and that therefore, the grantor will be the party who in the very end bears the risks and rewards. The CP argues, for example, that even if the grantor has nominally allocated construction risk or demand risk of the project to the operator through the SCA, the grantor still may be subject to such risks to the extent that they may impact the operator's ability to deliver the required services. As such, if the grantor controls the property, it should be recognized (along with a related liability) in their financial statements.

However, those respondents wanting to see improved reconciliation of risk and rewards to control, are advocating that the reconciliation be at a more individual component risk level – for examples, how does control by one party align with who has demand risk? Staff agree that while it would be ideal to be able to provide such a firm nexus of control to individual risks and rewards, the proposed approach is not predicated on the ability to perform such a detailed reconciliation (staff question whether such a meaningful reconciliation could actually be performed because of the need to analyze both economic

and service potential risks and rewards given the definition of an asset in IPSAS 1). The CP control approach and relationship to risks and rewards is very global and holistic by in essence advocating that by the grantor ultimately being accountable for service delivery under the SCA, they are in substance, subjecting themselves in some part to essentially all material risks and rewards associated with the arrangement.

The more detailed approach in staff's view requires a significant reconsideration of the proposed control approach in the CP. Reconciliation of the two approaches to a more individual risk and reward level is not what the proposed control is designed to accomplish – though arguably, as explained above, has been achieved at a more holistic level. In making its recommendation, staff do consider that it raises a key question for further Board consideration - whether the Board is still supportive of the accountability notion that links control to risks and rewards as detailed above. If there is Board concern on this issue, then staff consider it necessary for reconsideration of related aspects of the proposed approach to also be reviewed.

Staff Recommendation: The accountability notion that links control to risks and rewards remain unchanged.

2) CONTROL-FOCUSED CRITERIA – APPROACHES TO DETERMINING CONTROL

Request for Comment 1 – Part B – Control Criteria

*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?** (See Paragraphs 28-104).*

The CP establishes a control-focused criteria as the basis for the recognition of property underlying a SCA by the grantor. The proposed criteria are as follows:

- 1) The grantor controls or regulates¹ what services the operator must provide with the underlying property, to whom it must provide them, and the price ranges or rates that can be charged for services; and
- 2) The grantor controls—through ownership, beneficial entitlement or otherwise—the residual interest in the property at the end of the arrangement.

Analysis

While respondents were overall very much in favor of using control as a basis for the recognition of property underlying a SCA, there is milder enthusiasm for the actual proposed criteria items which must be satisfied in order to demonstrate grantor control.

¹ The concept of regulation in this criterion is restricted to arrangements agreed upon by the grantor and the operator, and to which both parties are bound. It excludes generally legislated regulation that does not establish control for the purposes of financial reporting as concluded in IPSAS 6 and IPSAS 23.

Of the 33 responses, staff interpreted 23 as expressing varying degrees of agreement with the criteria overall – in being classified as in agreement, staff note that such agreement often came with much commentary.

Staff interpreted 7 respondents (4, 5, 7, 11, 21, 26, 33) as expressing significant enough concern to be grouped as disagreeing. Some of the concerns are broad, relating to the conceptual under-pinnings of the criteria, while others are more specific related to individual criteria items themselves. Analysis relating to individual criteria items are performed below, before which, it is worth providing some comments on the broader conceptual issues.

Of those expressing a broad concern, respondents 4, 5, 20, 21 and potentially also 9, 11 raise to varying extents issues related to the need for improved justification (notably response 5) or alignment of the proposed control criteria with other possible approaches for determining recognition of the under-lying property (notably risks and rewards). Staff note the stronger views notably in respondent 5 who while not necessarily firmly disagreeing with the proposed approach to determining control, does strongly believe that the CP does not provide sufficient conceptual justification for that approach and then provides references to other possible bases.

The under-pinning of other subsequent comments from some of these respondents flow from these concerns.

With respect to alignment of the proposed control-focused criteria with risk and rewards, staff refer to earlier discussions above related to use of control as a basis for property recognition – and how control in the CP applies a more holistic accountability view of the grantor ultimately assuming the risks and rewards related to service delivery of the related property. To provide the detail of alignment of risks and rewards seemingly being desired by some respondents is in staff's view almost contrary to the manner in which risks and rewards has, by design, been factored into the proposed control approach. To enable an alignment of a risk and rewards basis, particularly by individual risk to a control approach, would in staff's view require a reconsideration of the proposed approach. What is most important to note is that risks and rewards are part of the key justification for the proposed control approach and related criteria.

The proposed criteria was based on criteria in IFRIC 12 *Service Concession Arrangements*. In developing the criteria, an assessment was made of other existing and proposed potential approaches to accounting for SCAs with the view that out of these more SCA specific types of guidance, the selected approach was effective in establishing that necessary link to accountability. The CP approach was arguably unique from other approaches in that it attempted to craft an approach that specifically addressed the IPSASB Handbook definition of an asset.

What was “borrowed” from IFRIC 12 was how they arrived at determining control in these arrangements, which arguably is based on IFRIC 4 on determining whether an arrangement contains a lease. IFRIC 12 was considered a reasonable basis for control determination given that it focused on control specifically in relation to service concession arrangements. The IFRIC 12 approach subsequently became the focus of the CP approach because, again, it was considered to provide sufficient support for the

“accountability” link argument. A reconsideration of this approach would seemingly bring into question the validity of the related proposed control criteria below. This may be a matter the Board wishes to consider further.

Staff Recommendation: No change.

Control over residual interest

Issue: What role should residual interest play in determining control over the property.

Analysis

While control over residual interest is the second of the two control-focused criteria, staff present it first for discussion given its significance in comments received.

Staff have received a range of comments on the residual interest portion of the control criteria. The proposed residual interest criteria item is generally based on existing wording in IFRIC 12, with a notable exception. The residual interest criteria item in IFRIC 12 requires that the grantor control any *significant* residual interest in the underlying property, unless the property is used for its entire economic life through the SCA (whole-of-life asset), in which case the residual interest criteria item need not be met. The residual interest criteria item proposed in the CP requires that the residual interest in the underlying property be controlled by the grantor without qualification for significance or exception for whole-of-life assets.

The paper explains that control over residual interest in the property is key to the control criteria in two primary aspects. First, control over the residual interest in the property gives the grantor a continuing right to use the property during and subsequent to the SCA by limiting the operator’s practical ability to (a) sell or pledge the property during the SCA, or (b) terminate the agreement before its scheduled completion and use the property for another purpose. In this way, control over the residual interest in the property helps to preserve the use of the property for the public sector objective intended by the SCA. Second, control over residual interest in the property strengthens the link of grantor accountability for the property and related service.

Without control over residual interest, it can be argued that the SCA is in substance a privatization of the property and related service, and therefore, the control over use exercised by the grantor as part of the arrangement bears little substantive difference from control they may exert through its general regulatory authority, which should not impact financial reporting of the property subject to that authority. However, grantor control over residual interest minimizes the argument of SCA as a privatization because the grantor will ultimately resume control over the property and related service in the future, thereby strengthening the grantor’s continued accountability for the property and service.

The CP proposed that these “benefits” of controlling residual interest are established and are necessary to the overall approach to reporting SCAs regardless of the significance of

the residual interest at the end of the arrangement. Therefore, the proposed residual interest criteria item did not require that the residual interest be significant, nor provide for a whole-of-life asset exception.

Overall there is a general view of support for a requirement to be a returning of residual interest. Where there is support in retaining a residual interest test, those comments essentially revolve around the issue of more of a symmetry between IFRIC 12 (or an approach more toward 'significant' residual interest) and the CP (1, 5, 10,12,16, 18, 24, 26, 32) – respondents generally favoring increased symmetry.

In supporting increased symmetry or significant residual interest, respondents raise possible implications from a lack symmetry - property not reported on either balance sheet of the SCA parties. Respondent 26 notes that the importance of the control over the residual interest in the property at the end of the arrangement is the preservation of the public use objective of the property and therefore the service potential of the property subsequent to the arrangement - therefore residual interest in the property should be required to be controlled by the grantor and be expected to be significant.

Further, in considering symmetry, some comments raise issues related to the position of the CP with respect to whole-of-life arrangements not meeting the criteria and as such not being recorded on the grantors financial statements (eg 30). Another comment points out that to have control over residual interest that is anything other than significant is inconsequential – as such, control should be only over any significant interest (10). Respondent 5 does not support the need for a residual interest test as evidence of control believing it is in conflict with guidance in existing standards. Similarly, respondents 21 and 33 consider excessive emphasis is placed on residual interest with a preferred approach for risks and rewards as the basis for recognizing assets and liabilities. Similarly again, 29 questions the need, within a principles-based approach, for a residual interest criteria.

Based on these and other comments, staff consider there are four possible options to consider in reviewing the role of residual interest in determining control:

- Eliminating that the grantor control residual interest;
- Requiring that the grantor control any significant residual interest with an exception for whole-of-life situations (symmetrical with IFRIC 12 requirement);
- Requiring that the grantor control any significant residual interest; and
- Requiring that the grantor control the residual interest regardless of significance, with no exception for whole-of-life situations (CP).

The main argument of those calling for the elimination of the residual interest criteria item is that in certain cases where the residual interest at the end of the arrangement is nominal, a contractual term that would otherwise be inconsequential will determine the reporting of the property. This would appear to enable a grantor to achieve a desired accounting result through the manipulation of this inconsequential item.

Staff acknowledges this possibility, however, it also believes, as stated in the CP, that for most SCAs, a significant residual interest will exist at the end of the SCA because of the maintenance requirements of the contract. Staff further believes that in these cases, control over residual interest in the property is necessary for determining the financial reporting of the property for the reasons stated above. If the Board believes that the concern described above should be addressed through a revision to the criteria item, staff would suggest adding parameters related to the significance of the residual interest criteria as opposed to the elimination of the criteria item.

The main argument of those calling for requiring that the grantor control any significant residual interest with an exception for meeting this item in whole-of-life situations is that it would result in symmetry between IFRIC 12 and the IPSASB guidance. A number of respondents expressed concern about the differences in the residual interest criteria item as present in IFRIC 12 and as proposed in the CP creates the potential for property assets to be omitted from both the financial reports of the grantor and the operator. This could be the case in a whole-of-life arrangement in which by terms of the contract, the operator retains whatever residual interest is left in the property. This arrangement would seem to meet the control criteria of IFRIC 12, resulting in the operator not reporting the property, but would not meet the residual interest criteria proposed in the CP (although the grantor still may report the property based on the guidance in the CP for when the control criteria is not met).

The basic argument of the IFRIC 12 whole-of-life exception is that in such a circumstance, there is no benefit to be gained from the property by the party who retains residual interest. Therefore, since the grantor has controlled the use of the property for its entire useful life (presuming the control over use criteria item is met), and therefore, received the benefits of the property for its entire useful life, then there will be nothing of consequence left for the operator to control at the end of the arrangement even if it nominally controls the residual interest.

While consistent reporting of property by the grantor and operator might be advantageous, staff believes the public sector environment needs to be considered in the creation of the IPSASB guidance, which may justify a difference between IPSASB guidance and IFRIC 12.

For the reasons described above related to preserving control over use and strengthening the idea of accountability for the property, the Board tentatively concluded that even in a whole-of-life situation, the grantor should control the residual interest in the property to meet the criteria.

A primary argument for requiring that the residual interest be significant is that controlling an insignificant residual interest does not create the same level of accountability for the property or related service that is one of the basic tenets of the approach in the CP.

In such a case, the SCA can be viewed in substance as more of a privatization of the property and related service, with any control over use retained by the grantor being akin to regulatory control, similar to the grantor not controlling residual interest at all.

Controlling an inconsequential residual interest should not impact the accountability of the grantor for the property and related service. Additionally, as raised by those who argued for the elimination of the residual interest criteria, control over an insignificant residual interest can be manipulated with little operational impact to achieve a desired accounting result.

Based on the above, staff are of the view that given the key role residual interest undertakes in particularly strengthening the link of grantor accountability for the property and related service, that there is a continuing need for a residual interest component to the control criteria.

Staff also particularly note the argument supporting that the residual interest be significant in that controlling an insignificant residual interest arguably does not create the same level of accountability for the property or related service. An insignificant residual interest (coupled with control over use) can arguably be viewed in substance as more of a privatization of the property and related service with regulatory control.

Staff Recommendation: Revise residual interest criteria for there to be a need for a significant residual interest.

Control over use – sufficiency of measures

Issue: Are the measures in the control over use criteria sufficient for determining the necessary control over the related property.

Analysis

Responses to RFC 1 have raised issues over the sufficiency of the proposed measures or conditions that must be met to satisfy the control over use criteria.

Some respondents consider the conditions associated particularly with the control over use criteria to be overly restrictive, resulting in some property not being reported which seemingly should be reported (4, 15). Respondent 15 specifically identifies price ranges or rates that can be charged for the service as being potentially being unnecessarily restrictive with the view that the same accountability can be articulated by noting that when the grantor has the ability to significantly influence the operating conditions (which would naturally include not only user charges, but standards of service and maintenance of the property to ensure the ultimate residual value that will revert back to the grantor), control would exist and an asset recognized.

Alternatively, respondent 21 finds the proposed definition of control of use to be too broad and encompassing all likely SCA arrangements other than outright privatization. Respondent 21 is a stronger advocate of a more risk based approach. Similarly, respondent 26 believes that solely controlling these aspects of the property is not sufficient to establish accountability for the services provided through the property believing that the aspects proposed are broad parameters that are commonly controlled by a government as part of its regulatory authority over enterprises in certain industries.

They believe the criterion also should require that the grantor control some aspect of how the service related to the property is provided or the level of service that is provided through the property.

In developing its proposals for the CP, the IPSASB considered the suitability of control criteria in IFRIC 12. With respect to control over use, IFRIC 12 focuses on control over the operational aspects of the property—the services that must be provided with it, those receiving the services, and the rate to be charged for them.

The IPSASB noted that despite the operator's control over delivery of certain aspects of services generated by the property, the overall use of the property was viewed as still limited to the objective of the grantor set forth in the arrangement. Moreover, the grantor controlled key operational aspects of the property, such as the rates to be charged for its use. As such, the Board concurred that the operator is operating the property on behalf of the grantor, and that the grantor has ultimate control over the property.

While arguably the operator still has freedom to determine how the service related to the property is provided, staff continue to support the Board's conclusion that such a degree of control is anticipated and that ultimately contractual control over use remains with the grantor.

Given the need to exercise ultimate control or exercise control over key operational aspects of the arrangement, staff continues to support the need for at least the existing degree of specificity in the proposed control-over-use criteria – notably control over 'what', 'to whom' and 'for how much'. Staff are concerned that a lesser degree of specificity, or fewer criteria for determining control over use, could introduce an element of further interpretation/subjectivity which weakens the relationship or evidence that the grantor continues to exercise ultimate control.

Staff do see the need to clearly differentiate the control over use criteria from a government's regulatory authority. The addition of a 'how' is a possible way of further highlighting the difference. Staff raise a few points.

One point would be interpretation of the "how" - its interpretation could impact the assessment of the criteria. For example, with a roadway example, is "how the service is provided" achieved through a slate of broad benchmarks for road condition and available access agreed to in the contract, or is it to a granular level of controlling shifts for snow removal and approaches to routine maintenance, etc. If an additional 'how' criteria is added there will need to seemingly be significant interpretive guidance on its application – which arguably adds to the debate about the existing subjectivity of the proposed 'what', 'to whom' and 'for how much'. Going even further, staff believe that it is possible to interpret 'how' as potentially being taken into consideration within the existing three proposed conditions. Staff also consider that addition of a further measure to the control over use criteria runs a risk of adding a further potential mechanism for structuring SCAs that can work around reporting requirements.

Staff consider that in attempting to better differentiate from government regulation, that the existence of control over use that is a contractual arrangement is a notable difference.

Staff consider that the contractual nature of the arrangement, coupled with the existence of a return of residual interest, differentiates the substance of the arrangement sufficiently from a government's regulatory authority and therefore would not seem to warrant an additional measure for control over use to further differentiate the arrangement.

Staff Recommendation: No change. Maintain the existing control over use measures - 'what', 'to whom' and 'for how much'.

Control over use - 'regulates'

Issue: Is the term 'regulates' in the control over use criteria necessary.

Analysis

The proposed control criteria uses the phrase "The grantor controls or regulates..." with a footnote of "The concept of regulation in this criterion is restricted to arrangements agreed upon by the grantor and the operator, and to which both parties are bound. It excludes generally legislated regulation that does not establish control for the purposes of financial reporting as concluded in IPSAS 6 and IPSAS 23."

A number of respondents (2, 5, 10, 14, 28, 30) have raised issues related to the use of regulate in the proposed criteria. Concerns include that the current application of regulate in the CP in comparison with its use in IFRIC 12 could result in neither the party to the SCA arrangement recognizing the related property (2). There is also concern that the use of 'regulates' adds confusion to the intended application of 'control of use' criteria and should be removed – with the view that the focus should be on solely 'control' (which would automatically take into consideration arrangements agreed upon by the grantor and the operator) rather than clouding the criteria by stating 'control or regulates' (5, 30). A number of respondents consider that if the term regulate is to be used, its intended meaning must be made more clearer/prominent such as by more visible explanation or use of an alternative term (10, 28).

Suggestion is also made that further consideration be given to the manner in which regulation is currently being considered in the criteria for determining control. Notably that consideration be given to allowing generally legislated regulation to be taken into account to provide corroborating evidence of the existence of control or the lack thereof, particularly when the SCA is unclear on the issue of control (14).

Staff are of the view that it is important to make the criteria as unambiguous as possible. The inclusion of the term 'regulate' flows from IFRIC 12 wording though appears to be causing more confusion than clarity. Its omission would appear to improve the intended meaning of the criteria by focusing solely on control that is established through the provisions of the SCA, as opposed to the grantor's ability to control the actions of the operator through its general regulatory authority. As such staff believes reference to 'regulates' should be omitted in the 'control over use' criteria. Consistent with its application in IPSAS 6, staff do not support the consideration of regulatory control being used as corroborating evidence of the existence of control in SCA guidance.

Staff Recommendation: Remove reference to ‘regulates’ from ‘control over use’ criteria.

3) GRANTOR FINANCIAL REPORTING WHEN CONTROL CRITERIA NOT MET

Issue: Guidance in the CP when the proposed control criteria are not satisfied could ideally be more principles-based. Does the Board support staff performing further research with a reconsidered approach being for planned presentation within an ED in May 2009.

Analysis

This issue does not stem directly from the RFCs. However, staff consider it significant enough of an ‘other issue’ to raise before issues associated with RFC 2 and 3. The summary of responses to this issue can be located in item 9.2.

The CP offers a broad range of guidance in that it provides direction in those circumstances where not only the proposed criteria for control have been met, but also in those circumstances where only one or neither of the criteria are met. Notably, in those instances where only the control over use criterion is satisfied, the CP proposals make reference to IPSAS 13 *Leases* as part of its methodology for determining the accounting of the underlying property subject to the SCA. IPSAS 13 is also referred to when only control over residual interest is met except in that instance the grantor is viewed as the lessor.

While there has not been an extremely high volume of comments received in relation to the proposals in those instances when the control-focused criteria have not been met, a number of comments have been noted (for example, respondents 3, 5, 21, 25). Some of those responses (21, 25) have questioned the proposed application of leasing guidance. Comment has been received in relation to the CP not providing adequate discussion conceptually distinguishing SCAs from lease type arrangements (5). Respondent 21 explains that when only control over use is satisfied, they consider it inappropriate to revert to leasing guidance. Respondent 25 supports applying leasing guidance however provides suggestions as to how that guidance should be interwoven into the CP proposals when only the control in use criteria is satisfied. 25 further suggests that IPSAS 13 should be referenced in those instances where neither of the two control criteria are met.

Staff have considered all the views and overall feel that they may each have potential merit. Of more significant concern is that staff consider that when the control criteria are not met, there is currently overall an absence of core guiding principles under-pinning the guidance currently being proposed. In particular, staff believe there are many intricacies in the application of the leasing guidance in SCAs as well as the conceptual differentiation between SCAs and leases which could well benefit, time permitting, from further analysis. While comprehensive, staff believe the current proposals for grantor

financial reporting, when control criteria not met, are somewhat multi-directional and arguably excessively prescriptive.

Staff are also aware that the GASB currently has a PPP project which is broad in scope, taking into consideration accounting in those instances where their tentatively proposed criteria for property recognition by the grantor has not been satisfied. At the time of writing it is understood that issuance of an ED is planned around approximately mid 2008 – such a document could provide a good opportunity to benefit from the research of a credible public sector standard setter on accounting for SCAs in those instances where property recognition criteria have not been met. Doing so will assist in developing what staff hope can be, not necessarily a more comprehensive, but more principled approach to grantor financial reporting when the control criteria are not met.

As such, staff are proposing that they take the respondent comments received on this matter, consult with GASB staff and present to the Board's May 09 meeting a further researched approach to reporting in those instances when the proposed control-focused criteria are not met. For the Board's February 09 meeting, staff will update the Board on progress and seek direction as appropriate.

Staff Recommendation: Staff further research the approach to grantor financial reporting when control criteria not met. Seek direction from the Board in February 09 and incorporate into an ED for the Board May 09 meeting.

4) SCOPE BROADER THAN GRANTOR REPORTING

Issue: Should the SCA project provide guidance on reporting beyond the grantor.

Analysis

This issue does not stem directly from the RFCs. However, staff consider it significant enough of an 'other issue' to raise before issues associated with RFC 2 and 3. The summary of responses to this issue can be located in item 9.2.

Staff have received comments from 5, 25, and 26 recommending the SCA project give consideration to how operators in SCAs should report their side of the transaction. A possible benefit of doing so would be that it may highlight additional financial reporting issues for grantors, or issues with the current proposals in the CP, that might otherwise go unidentified.

Similarly, consideration being given to the contra entries of the operator will ensure that any property, liability and/or rights granted to the parties in terms of the SCA are treated symmetrically, i.e. that both parties come to the same conclusion when the applicable principles are applied. Further, 26 notes, in support of operator guidance, that they are not convinced that SCAs for which a governmental entity that is not a government business enterprise serves as the operator occur as seldom as asserted in the CP.

As the Board may remember, the project was commenced and tasked with developing guidance with more of a focus on grantor reporting, though not necessarily exclusively.

While focusing on the identification of issues and their resolution in financial reporting by the grantor, the Board did consider that the project could draw out the implications of any recommended approaches for financial reporting by the operator.

Staff do agree that considering accounting by the operator may highlight additional financial reporting issues for grantors, or issues with the current proposals in the CP, that might otherwise go unidentified. However, staff is concerned about implications on the timing of the project in particular given the strong demand for a finished product as there is no international grantor standard. As such, staff consider that in the interests of timeliness, the current project continue with its current scope with consideration given to a subsequent project to consider operator accounting at a future date. A further thought is that any such broadening of scope would ideally involve the IASB and their IFRIC 12 with any issues noted in operator accounting seemingly being brought to the IASB's attention – as indicated in the response of 25.

It was noted that in developing the grantor proposals in the CP, that staff received little (if any) feedback on the topic of existence of public sector operators and the need to develop reporting requirements for them. The CP noted that only limited consideration was given to operators in CP given the existence of IFRIC 12 and SIC Interpretation 29.

Staff Recommendation: No change in project scope – grantors.

5) FAIR VALUE MEASUREMENT OF PROPERTY AND LIABILITY

Request for Comment 2 - Measurement of Asset and Related Liability

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? (See Paragraphs 105-140)

Analysis

While numerous comments were made in relation to this RFC, of those who expressed a view (28 of the 33 respondents), there was overall complete support for the basic measurement principles proposed. Comments were noted which were not against the proposed concept, but highlighted jurisdictional reporting requirements which impact reporting the amount as fair value (15) or how the structure of the service concession contract can influence the calculation of fair value and as such, which is the most appropriate fair value figure to be reported (21).

Overall, the majority of comments focused on the practical application of the proposal and need for possible additional guidance either within a final standard or direction to existing guidance in the IPSASB Handbook - notably:

- appropriate discount rate to be used/ guidance in PV calculations (3, 16, 27, 28, 31, 33)
- difficulty ascertaining fair value for some public sector type assets (4, 11, 21); and
- clarifying separation into service/construction elements (19, 21).

Most significant of these related to the PV discount rate with mixed views as to the most appropriate rate to be applied (based on the grantor or operator's cost of borrowing). While staff do make suggestions in the CP, their general view is that the appropriate rate to use should be dependent upon the circumstances of each SCA. The entity should apply judgment in determining the appropriate discount rate to use, taking into account the relevant facts and circumstances of the specific SCA. For example, in some cases when the grantor has guaranteed the debt of the operator for the SCA, the operators and the operator's discount rate could be the same. Staff will consider this matter further with the intention of developing guidance as to what may be the more appropriate discount to use in numerous circumstances. Respondents have provided much for staff to consider in this respect. Staff do not consider the provision of further application guidance with respect to other issues raised above by respondents to be problematic.

Staff Recommendation: No change ie: asset and the related liability initially measured at fair value of the property except when scheduled payments made by the grantor can be separated into a construction element and a service element – then, the present value of the scheduled construction payments should be used if lower than the fair value.

6) REVENUE RECOGNITION

Request for Comment 3 – Recognition of Inflows of Resources

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? (See Paragraphs 191-196)

Analysis

Related to the above RFC, after the property becomes fully operational, the CP further proposed that the grantor should recognize the contractually determined inflows as revenue, using the straight-line method, or a method that better reflects the operator's economic consumption of its access to the underlying property and/or the time value of money, given the facts and circumstances of the SCA. Any consideration received from the operator in advance of performance would be reported by the grantor as a liability until it is earned.

Overall, there is strong support for the principles put forward in RFC 3. Where comments have been made they have tended to focus on more practical application aspects of the proposal – for example, more explanation/guidance or exemplification surrounding ‘commencement of the concession term’ (1, 3, 20, 28) as well as discussion over approaches to revenue recognition over time - such as the appropriateness of straight-line and discounting (3, 28). Respondent 28 notes that the discounting of revenue received in advance of it being earned is not common in practice. They believe that further guidance is needed if the Board proposes to apply the notion of the time value of money to payments received in advance. Staff consider that further guidance can be provided in these areas as needed in the development of future guidance.

One particular service concession arrangement which has raised several comments related to this RFC is the issue of recognizing a liability in those circumstances where the operator collects usage fees directly from third parties rather than the grantor (see item 9.2 for the summary of comments).

The CP notes that in some SCAs cash payments made by the grantor to the operator for construction of the property are reduced or eliminated because the operator is directly collecting third-party usage fees or receiving other non-cash compensation from the grantor (typically through granting the operator use of additional grantor-owned land for a nominal amount). In that case, it was proposed that the underlying property should be reported by the grantor at its fair value. A related liability reflecting the receipt of consideration in advance of performance (which in this case is the provision of access to the property) also should be initially reported at the same amount, adjusted for cash received or paid (or to be paid) by the grantor. This liability would then be amortized and revenue should be recognized generally over the life of the SCA.

Comments on this (4, 5, 8, 11, 16, 18, 21, 25) overall showed reasonable support for this proposal though a number of respondents (eg: 11, 16, 21) question the conceptual underpinning for the liability noting that in these circumstances there is no obligation from the grantor to the operator and as such difficult to justify the existence of a liability. Staff consider that further guidance or explanation supporting the recognition of the liability will assist in addressing this concern. In particular further guidance highlighting that the property to the grantor is an exchange for receiving the service concession - effectively an up-front service concession fee akin to a royalty – guidance in IPSAS 9 would appear to support this. Further that the definition of revenue in IPSAS 1 is broad and is based on the gross inflow of economic benefits or service potential resulting in an increase in net assets - it is not specific to cash.

Staff Recommendation: No change to principles on recognition of inflows of resources.
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Other Comments – Item 9.2

Item 9.2 contains a wide variety of other comments received with staff responses to each (a complete inventory of 9.2 is provided in Appendix B). Of the ‘other comments’ received, staff have brought forward into 9.0 what they consider to be the more significant for specific Board consideration.

In bringing only three ‘other comments’ to the Board’s attention, staff have made an assessment that the remainder of the comments within 9.2 while not necessarily unimportant, do not warrant particular specific Board consideration and can be addressed by staff in the manner proposed within 9.2 – often through further consideration and possible:

- further consultation with the respondent;
- development of further guidance/clarification specific to that issue;
- interpreting existing guidance within the IPSASB Handbook to address that issue; or
- development of examples/ illustrations etc.

If there are issues in 9.2 that the Board feels need to be brought for discussion which have not been highlighted here in 9.0, then staff will leave to individual Board members to raise.

APPENDIX A

Respondents to CP “Accounting and Financial Reporting for Service Concession Arrangements”

#	Respondent
1	The Institute of Certified Public Accountants of Cyprus – Public Sector Committee
2	CPA Australia, Australian Institute of Chartered Accountants, Australian National Institute of Accounts
3	Canadian Public Sector Accounting Standards Board
4	France - Ministry for the Budget, Public Accounts and Civil Service
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee
6	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance
7	USA - Dr. Joseph S Maresca
8	France - Direction Generale des Finances Publiques
9	France - Ministère de la Sante, de la Jeunesse, des Sports et de al Vie Associative
10	The Institute of Chartered Accountants of Scotland
11	France - Cour des Comptes
12	Fédération des Experts Comptables Européens
13	The Association of International Accountants
14	International Monetary Fund
15	City of Calgary, Alberta, Canada
16	UK National Audit Office
17	The Japanese Institute of Certified Public Accountants
18	UK - The Chartered Institute of Public Finance and Accountancy
19	Dexia Bank Belgium
20	The Netherlands Court of Audit
21	Canadian Council for Public-Private Partnership
22	Association of Chartered Certified Accountants
23	Florida Institute of Certified Public Accountants
24	Professor David Heald - University of Aberdeen Business School
25	South Africa Accounting Standards Board
26	US Governmental Accounting Standards Board
27	Wales Audit Office
28	New Zealand Office of the Controller and Auditor-General
29	Canada - Auditor General of British Columbia
30	Australasian Council of Auditors-General
31	Canada - Provincial Comptroller of Saskatchewan
32	United Kingdom – Financial Reporting Advisory Board
33	Canada – Québec Ministère des Finance

APPENDIX B

Inventory of Other Comments – Agenda Paper 9.2

Item
TERMINOLOGY
SCOPE Types of Arrangements Addressed
CONTROL / RISKS AND REWARDS Coverage of Relationship Mutual Agreement and Control Relevance of Economic Risks and Rewards Distinction - Economic and Ownership R&Rs Unbundling Approach
CONTROL CRITERIA Rules vs Principles / Guidance
ASSETS IN SCAs Assets Identified Measurement Recognition
LIABILITIES IN SCAS Guidance on Recognition & Measurement
GUARANTEES AND OTHER COMMITMENTS
INFLOW OF RESOURCES FROM A SCA
CONSOLIDATION
DISCLOSURES
OTHER ISSUES Re-Financing / Re-Negotiating / Pre-Mature Ending Performance Reporting / Fiscal Sustainability Borrowing Costs Clarity Improvements / Recommendations Rights and Obligations Impact of Proposals on Entities/Jurisdictions Complex PPPs For Which IPSASB Might Wish to Address in the Future Working / Liaison with other Bodies Political Sensitivities to SCA Reporting Legal Principles Not Set Forth Supporting Illustrations of CP Concepts

**ANALYSIS OF RESPONSES TO CONSULTATION PAPER *ACCOUNTING AND
FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS***

REQUESTS FOR COMMENT

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ANALYSIS OF RESPONSES TO CONSULTATION PAPER *ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS*

REQUEST FOR COMMENT 1 – PART A – ‘CONTROL’ AS A BASIS FOR PROPERTY RECOGNITION

Grantor report the property underlying an SCA as an asset if it is considered to control the property.

Agree	A	24
Agree with comment	B	1
Disagree	C	2
No clear view expressed	D	6
Total		33

Of those expressing a view - % supporting view:	A	89 %
	B	4 %
	C	7 %

	NAME	VIEW	COMMENT
1	The Institute of Certified Public Accountants of Cyprus – Public Sector Committee	D	The recognition criteria for reporting the property underlying an SCA as an asset in the grantor’s financial statements are in symmetry, generally, with the corresponding recognition criteria in IFRIC 12, from the perspective of the operator.
2	CPA Australia Ltd, The Institute of Chartered Accountants in Australia, National Institute of Accountants	A	We agree with this approach.
3	Canadian Public Sector Accounting Standards Board	A	We support the proposed approach to reporting of property by the grantor applying the two part control test.
4	France - Ministry for the Budget, Public Accounts and Civil Service	D	Staff note: See also discussion under ‘request for comment 1- part b – control criteria’ The approach adopted by the IPSASB and announced, was to explore the topic of SCA independently of one chosen in IFRIC 12. The latter, while putting the interpretation from the viewpoint of the private operator, would have had to develop that within the existing framework of IAS - IFRS given that it is an interpretation. However, IFRIC 12 innovates significantly in the definition of control. Indeed, the criteria for determining the control differ

	NAME	VIEW	COMMENT
			<p>from those set out in IAS 16, 17 or 27. A new scope is thus implicitly drawn up, especially that while applying to private operators, retained control criteria actually relate to the role of the public entity.</p> <p>It is clear from reading the consultation document that the approach favours the approach control as described and defined in IFRIC 12 virtually identically (see Section 5 on the scope in IFRIC 12 and the proposals of the consultation paper (§ 102). The control is now a major criterion of reporting an element in the balance sheet. As a kind of property (tangible or intangible), underlying the contract, the criterion of control is appropriate to determine its recognition in the financial statements of one of two entities parties to the contract. However, is this solely criterion relevant under SCA?</p>
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	A	<p>HOTARAC supports the concept of control being used to determine which party recognises SCA property as its asset.</p> <p>B. DETERMINING WHICH PARTY CONTROLS THE SCA PROPERTY</p> <p><i>Control concept supported</i></p> <p>HoTARAC agrees with paragraph 65 that, for a property to be reported as an asset it would need to satisfy the definition of an asset in IPSAS 1 <i>Presentation of Financial Statements</i>. The reporting entity would therefore need to both (a) control the SCA property and (b) expect an inflow of either future economic benefits or service potential from it.</p> <p>HoTARAC also agrees that:</p> <ul style="list-style-type: none"> • future economic benefits or service potential will flow to the entity having the risks and rewards attaching to the asset (paragraph 64); • control and risks and rewards are not mutually exclusive concepts (paragraph 64); and • control of an asset gives an entity the associated risks and rewards and indicates the entity's expectation of an inflow of some form of benefit (paragraph 103). <p>Therefore, control effectively becomes the sole determinant of which party to an SCA should report the underlying property as its asset, (paragraph 102).</p> <p>HoTARAC considers the reconciliation of the, sometimes competing, concepts of control and risks and rewards is a useful contribution to the literature. Also,</p>

	NAME	VIEW	COMMENT
			that control determines which party should report SCA property. HoTARAC's additional comments on the tests of control are below.
6	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance	A	Yes, we fully agree with the control approach.
7	Dr. Joseph S Maresca	D	
8	France - Direction Generale des Finances Publiques	D	
9	France - Ministere de la Sante, de la Jeunesse, des Sports et de al Vie Associative	B	The IPSAS Board proposed rules, given the current absence of French standards in the PCG for the registration of partnerships for the public partner, are interesting as they specify the criterion of control. They may result, if they were then validated by an appropriate national procedure, in changes for all controlled properties. The concept of control of the property could be accepted if it is clearly defined and confronted with Eurostat rules (regarding risks).
10	The Institute of Chartered Accountants of Scotland	A	We agree with the proposal that the grantor reports the property underlying the SCA as an asset in its financial statements if it is considered to control the property.
11	France - Cour des Comptes	D	Staff note: See discussion under 'request for comment 1- part b – control criteria'
12	Fédération des Experts Comptables Européens	A	5. As noted above, many European commentators have expressed concern the over IFRIC 12's use of a control based approach rather than consideration of risk and reward. Having said this, given that IFRIC 12 has been published after full consultation and after completion of due process, FEE agrees generally with the approach proposed by IPSASB which substantially complements the Interpretation.
13	The Association of International Accountants	A	Unambiguous control-criterion is fundamental in removing the divergence of instances when the property is neither reported by the grantor or the operator as an asset in their financial statements. AIA therefore agrees with the approach in paragraphs 28 – 104 if the proposed control-criterion can be clearly interpreted that the grantor is a public sector entity which, through regulating the services of the asset,

	NAME	VIEW	COMMENT
			establishes control over the use of the property as its asset in SCAs and therefore the grantor not the operator will report the property underlying an SCA as an asset in its financial statements.
14	International Monetary Fund	D	The paper proposes that the grantor (i.e., the government) should report the SCA property as an asset if it is considered to control the property for financial reporting purposes. It then proposes criteria for determining whether the grantor controls the property.
15	City of Calgary, Alberta, Canada	A	We understand that this proposal is largely based on the current definition of an asset in IPSAS1. It should be noted that the Canadian Public Sector Accounting Board Standards (PSAB) define an asset on a basis consistent with IPSAS1 in that for an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others, and the transaction or event giving rise to the government's control of the benefit has already occurred. We agree with this approach....
16	UK National Audit Office	A	Question 1 – the criteria for determining control – we agree with the suggested approach....
17	The Japanese Institute of Certified Public Accountants	A	We agree with this approach and the control criteria identified....
18	UK - The Chartered Institute of Public Finance and Accountancy	A	The Consultation Paper discusses the various approaches which might be used. CIPFA expressed initial concern to IFRIC over their proposals to adopt a control based approach rather than consideration of risks and rewards. However, given that IFRIC 12 has been implemented on that basis, we agree with the IPSASB proposal to use a control based approach.
19	Dexia Bank Belgium	A	DBB agrees with the control criteria proposed. DBB agrees that, in case that the grantor controls the use of the property, it also can be expected that the grantor will benefit from the property future service potential In that way, the property underlying an SCA, will meet the definition of an asset in IPSAS I
20	The Netherlands Court of Audit	A	We consider the control criterion a suitable candidate....
21	Canadian Council for Public-Private Partnership	C	CCPPP's <i>Position Paper</i> espouses a risk rather than a control approach to the recognition of assets and liabilities. This is important because it focuses more

	NAME	VIEW	COMMENT
			<p>attention on the <i>financial</i> risks and rewards associated with ownership rather than the broader <i>economic</i> risks and rewards.</p> <p>The philosophy espoused in the <i>Consultation Paper</i> seems to imply that an asset (and associated liabilities) which costs \$1 but delivers economic benefits to the community of \$7 should be reflected in the government's financial statements at \$7. CCPPP would argue that the associated liabilities should be recorded at a dollar. In the event that a private-sector operator will take the risk on delivering the improved services or receive only \$0.80 cents, then this lower amount should be recorded.</p> <p>Staff note: See also discussion under 'request for comment 1- part b – control criteria'</p>
22	Association of Chartered Certified Accountants	A	ACCA is broadly in agreement with the three Specific Matters for Comment while not forgetting the complex practical issues raised above. Staff note: See discussion under '9.2 Other Comments Received'
23	Florida Institute of Certified Public Accountants	A	Yes. We agree with the approach and criteria for determining control as proposed in the Consultation Paper.
24	Professor David Heald - University of Aberdeen Business School	A	Given where public sector client accounting now is - as opposed to where it might have been - I support IPSASB's decision to adopt what might be described as 'the mirror image of IFRIC 12 treatment'. Given that IFRS provides no direct guidance on service concession accounting for public sector clients, this approach has also been adopted by the UK Treasury and the Financial Reporting Advisory Board so that the United Kingdom can move the anchor of its government accounting from UK GAAP to IFRS in 2009-10. This involves a change from 'risks and rewards' to 'control' as the criterion as to whether a service concession asset will be on the balance sheet of the public sector client.
25	South Africa Accounting Standards Board	A	We support the proposed criteria for determining whether the grantor controls the underlying property in the SCA as set out in paragraph .102.
26	US Governmental Accounting Standards Board	A	<p>We agree with the concept of applying control-focused criteria to determine whether a grantor should report the property underlying an SCA as an asset in its financial statements.</p> <p>We also agree with the underlying association of grantor control over the use of the property with grantor</p>

	NAME	VIEW	COMMENT
			accountability for the services provided through the property and, therefore, the expectation of future service potential as described in paragraph 103 of the Consultation Paper.
27	Wales Audit Office	A	1. We agree that where a grantor is considered to control the property underlying an SCA, the grantor should report the property as an asset in its financial statements.
28	New Zealand Office of the Controller and Auditor-General	A	We agree with the proposed control approach for determining whether a grantor report property associated with a SCA. That approach is consistent with the current definition of an asset in IPSAS 1 Presentation of Financial Statements... ...The control approach provides an objective framework for determining whether a grantor should recognise property underlying a SCA when compared to other approaches, such as the risks and rewards approach. The subjectivity of the risks and rewards approach for public finance initiatives has been evidenced, in some jurisdictions, by the non-recognition of property by both the grantor and operator.
29	Canada - Auditor General of British Columbia	A	In general we agree with the proposal for determining whether a SCA should be reported as an asset. In defining control from a public sector perspective, it makes sense to focus on service potential (and accountability for services) to the grantor, rather than purely economic risks and rewards.
30	Australasian Council of Auditors-General	A	Overall, ACAG agrees with the control approach proposed for the recognition of property associated with a service concession arrangement, and the consistency with IFRIC 12 in the overall approach is welcomed.
31	Canada - Provincial Comptroller of Saskatchewan	A	We agree that property underlying a SCA should be reported by a grantor if it is determined that the grantor controls the property. The concept of control is well-established in public sector standards and has proven to be an appropriate gauge for government reporting. We do believe that risks and rewards incidental to ownership are important criteria in determining whether a government reports property in its financial statements and that these risks and rewards would normally be passed to the party that controls the property and the related service potential.

	NAME	VIEW	COMMENT
32	United Kingdom – Financial Reporting Advisory Board	A	<p>5. The Board agrees the proposal to use a ‘control’ focus for reporting the underlying property in a SCA, which is also generally but not wholly consistent with IFRIC 12, in that the latter requires that the grantor controls a ‘significant residual interest’ in the property, rather than in the IPSASB proposal ‘a residual interest’ that may be insignificant.</p> <p>6. The Board views that the control approach is not too fundamentally different from the existing UK risks and rewards approach, and importantly from the Board’s perspective, is considered likely to result in a more consistent application by public sector parties in accounting for PPP/PFI projects than prevailing guidance.</p>
33	Canada – Québec Ministère des Finance	C	<p>We disagree with the approach based solely on “control” as described in the consultation paper.</p> <p>Referring to the Canadian conceptual framework of the Public Sector Accounting Board (PSAB), we are of the view that an asset has three essential features:</p> <ul style="list-style-type: none"> • it represents a future benefit in that it may contribute to future cash flows or the supply of goods or services; • the government is in a position to control access to this benefit; • the transaction or fact at the source of the government’s control over such benefit has already occurred. <p>Therefore, to recognize an asset, the government must also assume the risks and receive the benefits inherent in ownership of the good.</p>

REQUEST FOR COMMENT 1 – PART B - CONTROL CRITERIA

Proposed criteria for determining control are:

1. The grantor controls or regulates what services the operator must provide with the underlying property, to whom it must provide them, and the price ranges or rates that can be charged for services; and
2. The grantor controls—through ownership, beneficial entitlement

Agree	A	8
Agree with comment	B	15
Disagree	C	7
No clear view expressed	D	3
Total		33

Of those expressing a view - % supporting view:	A	27%
	B	50%
	C	23%

	NAME	VIEW	COMMENT
1	The Institute of Certified Public Accountants of Cyprus – Public Sector Committee	B	We agree that the extra requirement in the Consultation Paper that the grantor must control the residual interest in the property at the end of the arrangement for whole-of-life arrangements serves to preserve the grantor's continuous use of the property during the arrangement. However, the above asymmetry compared to IFRIC 12 will result in exclusion of underlying property, in certain cases, from both the Balance Sheets of the grantor and the operator.
2	CPA Australia Ltd, The Institute of Chartered Accountants in Australia, National Institute of Accountants	B	... 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 <i>Service Concession Arrangements</i> 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.

	NAME	VIEW	COMMENT
			<p>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.</p> <p>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.</p>
3	Canadian Public Sector Accounting Standards Board	A	<p>We believe the criteria are appropriate. In supporting this approach, we believe these proposals offer a straightforward principle based approach to resolve the reporting of property. Further, we recognize there is a benefit in establishing an approach that will offer symmetry in accounting by the grantor (applying IPSASB) and an operator (applying IFRS). PSAB is actively monitoring this project. Staff is extremely interested in the comments and perspectives arising from these proposals.</p>
4	French Public Accounting Standards Setter / French Ministry for the Budget, Public Accounts and Civil Service	C	<p>These criteria can not respond to all cases where the issue is to recognise the underlying asset in the accounts of the public entity. Indeed, if the public entity "delegates" or gives the private operator control elements identified in the 2 criteria even more often the 1st criterion alone, the proposed approach may be difficult to implement. In many such cases, the obligation to put together the two criteria (rejection of the concept of shared control) could lead not to recognise a tangible asset in the public entity's accounts. See also paragraph 2 of the general commentary.</p> <p>The consultation paper has the virtue of presenting various approaches which include mainly Eurostat and the British standard setter (UK ASB). If the major issue which aims to meet the consultation paper is: which entity must recognise in its financial statements the underlying property to the contract, the criterion of control is indeed crucial. This question is not, however simplistic? The issue of SCA is far beyond the simple recognition of assets? The accounting for these contracts is to meet with the aim of better understanding the fiscal sustainability of an investment project and its impact on the level of debt.</p>

	NAME	VIEW	COMMENT
			<p>The issues that emerge both focus on the "consolidating (public debt) or not consolidating (expenses)" nature of operations generated by the SCA.</p> <p>An analysis of risk-sharing comes to the forefront of concerns (Eurostat and UK ASB) that put forward the issue of what should be recorded in liabilities. The question then arises of whether it is possible to articulate an inclusive approach "control" and the "risks and benefits." Indeed, the essential characteristic that distinguishes PPP contracts is that the public entity bears the risk of demand, which does not seem to be the case in any of the contracts outlined in the consultation paper that emphasizes the provision of services to the user, where the risk of demand is assumed by the private sector.</p> <p>But the concept of control must be understood in the SCA as being associated with the degree of risk transfer involved in the infrastructure. The complementarity of the two components of an asset (control and transfer of risks and benefits) are not sufficiently taken into account in the consultation paper, particularly in cases where the work underway on the convergence of conceptual frameworks leads to review the concept of control in preferring the criterion of access, limited or favoured, to the resource, already contained in IAS 38 and a watermark in IFRIC 12.</p> <p>However, taking into account the residual value of assets at the end of the contract as the second criterion of control is appropriate because it reflects the ultimate goal of SCA (back to the public entity of property maintained in good condition). It is also very close to the criteria for considering that the lessee must recognize the property under finance lease contract.</p>
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	C	<p>HOTARAC does not support the proposed model for testing which party has that control as the model is not conceptually justified or rigorous.</p> <p><i>How to determine which party has control</i></p> <p><u>Analysis is unclear</u></p> <p>Paragraphs 62 to 104 analyse how to determine which party controls SCA property. This is arguably the most important part of the Paper.</p> <p>As a general comment, HoTARAC finds the analysis unclear and often difficult to follow. It is sometimes difficult to ascertain the line of argument, the conceptual basis being used and whether any</p>

	NAME	VIEW	COMMENT
			<p>conclusions are being drawn.</p> <p>The analysis would be better presented if it set out the concepts and propositions more clearly and then explicitly drew conclusions from them.</p> <p><u>Possible models</u></p> <p>HoTARAC agrees with paragraph 67, that a fundamental issue in accounting for SCAs is how to identify the party that controls the underlying property.</p> <p>Having agreed, on the principle, that control is the primary determinant of which party reports SCA property, HoTARAC agrees that it is necessary to give guidance on how such control is to be ascertained. However, HoTARAC questions the approach taken in the Consultation Paper.</p> <p>Authoritative accounting pronouncements give at least three models for determining which party controls an asset. Put simply, these models may be described as:</p> <ul style="list-style-type: none"> (a) benefit and access, as used in IPSAS 23, IAS 38 and AASB 138; (b) risks and rewards, as used in IPSAS 13, IAS 17 and AASB 117; and (c) use and residual interest, as used in IFRIC 12, and the Consultation Paper. <p>These models and their sources are briefly described in Appendix 1.</p> <p>HoTARAC assumes that the three models are intended to give similar accounting outcomes.</p> <p>The Consultation Paper does not discuss the theoretical basis for the three models for determining control. It does, however, cite the United Kingdom's experience that the use and residual interest model used by operators, applying IFRIC 12, and the risks and rewards model used by grantors, applying FRS 5-F, can produce inconsistent outcomes. Sometimes neither party recognises the SCA property. This outcome may arise from the application of the model rather than the model itself. As shown below, the proposed grantor-control tests are also open to manipulation.</p> <p>Although the Consultation Paper reviews various jurisdictions' present approaches to accounting for SCAs and notes the use of the risks and rewards model and the use and residual interest model, it does not appear to have considered the possible applicability of the benefit and access model. If the IPSASB did</p>

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			<p>consider the benefit and access model, no reasons are given for its rejection.</p> <p>Paragraph 102 proposes a modified form of the use and residual interest model used in IFRIC 12. However, it gives no clear theoretical argument for favouring that model over the alternatives. In fact, the reasons given in paragraph 70 to illustrate why a grantor controls SCA property under this model might equally be used to demonstrate that a grantor still controls a fully privatised asset or industry.</p> <p>HoTARAC is concerned that the Consultation Paper may have adopted the use and residual interest model without due consideration of the alternatives.</p> <p>HoTARAC notes that the benefit and access model, and the risks and rewards model, are both established approaches embodied in accounting standards including IPSAS. The use and residual interest model arises from an, arguably less authoritative and less well-established, IFRIC Interpretation for which there is no equivalent IPSAS guidance.</p> <p>HoTARAC notes also that the Exposure Drafts leading to IFRIC 12 were controversial and did not consider the grantor's perspective. A majority of commentators, representing both grantors and operators, criticised the proposed control tests and the absence of a grantor perspective, ultimately unsuccessfully.</p> <p>HoTARAC also notes that paragraph 101 considers, and dismisses, another possible approach, the rights and obligations model. Unlike the other models, which allocate control to a single party, this one recognises a sharing of control and allocates the unbundled rights and obligations associated with a property accordingly.</p> <p>SCA grantors and operators arguably have a degree of joint control over the SCA property. The proposals in paragraphs 161-163 envisage situations where a grantor controls either the use of, or the residual interest in, SCA property, but not both. This implies some sharing of the control over the SCA property. Therefore, a rights and obligations model may be relevant.</p> <p>A rights and obligations model is used in IFRIC 12, which "sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements" (paragraph 10). IFRIC 12 separates the right of SCA property use and access, and allocates them to different parties (BC28). IAS 39 and</p>

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			<p>AASB 139 <i>Financial Instruments - Recognition and Measurement</i>, also uses rights and obligations model for derecognising of certain financial assets (paragraph 16). The IASB's projects on leases and joint arrangements are also considering a rights and obligations model. HoTARAC urges the IPSASB not to be too quick to dismiss this model, as it seems to be gaining support.</p> <p><i>Proposed modified Interpretation 12 model</i></p> <p>To determine whether an SCA grantor (as opposed to operator) controls the SCA property, the Consultation Paper proposes a use and residual interest model based on the approach taken in IFRIC 12. This entails four specific tests, three relating to whether the grantor controls or regulates the use of the SCA property and one relating to whether the grantor controls the residual interest in the property.</p> <p>However, paragraph 102 modifies the application of those tests by proposing that:</p> <ul style="list-style-type: none"> • “regulates” means contractually agreed rather than generally legislated; • the grantor must have a residual interest in the SCA property; and • the grantor's residual interest need not be significant. <p>HoTARAC has several concerns with the proposed modified IFRIC 12 model for determining grantor control and with the associated analysis:</p> <ul style="list-style-type: none"> • analysis of IFRIC 12 is superficial and unsatisfactory; • appropriateness of the proposed tests is not demonstrated; • political risk does not necessarily indicate control; • the model fails to consider risks and rewards; • grantor's regulatory capacity does not necessarily indicate control; • the residual interest test is unnecessary; • the grantor may have an intangible asset; • mutual agreement does not necessarily indicate control; • economic benefits are also relevant; and • purported distinction between economic and

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			<p>ownership risks and rewards.</p> <p>These are discussed below.</p> <p><u>Analysis of Interpretation 12 is superficial and unsatisfactory</u></p> <p>Paragraph 70 endorses the criteria incorporated into the scope of IFRIC 12 as generally being appropriate for determining grantor control of SCA property. This endorsement seems to be based solely on the analysis in paragraphs 67 to 69.</p> <p>HoTARAC considers the analysis to be superficial and unsatisfactory.</p> <p>Firstly, and most importantly, the Consultation Paper contains no analysis of the specific control tests set out in IFRIC 12. HoTARAC considers that a rigorous analysis is necessary to justify any proposed control tests. This is elaborated on under the next heading.</p> <p>Secondly, the Consultation Paper does not specify the IFRIC 12 scope criteria that it is endorsing. The scope paragraphs of IFRIC 12 deal with a range of matters. Although the Consultation Paper is probably intending to endorse the criteria in paragraphs 5 and 6 of IFRIC 12, this is not clear.</p> <p>HoTARAC recommends that the Consultation Paper quote the paragraphs of IFRIC 12 that it is referring to, as this is fundamental to an understanding of the proposals.</p> <p>Thirdly, most of the analysis preceding its endorsement of the IFRIC 12 scope criteria deals with IFRIC (and AASB) Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i> (IFRIC 4). Paragraph 68 asserts that IFRIC 12 conclusions were based on IFRIC 4. However, IFRIC 12 placed little explicit reliance on IFRIC 4. The only substantive reference to it was in paragraph BC22 of the basis for conclusions accompanying IFRIC 12, which noted that under IFRIC 4 an arrangement is a lease if it conveys the right to control the use of the underlying asset. IFRIC 12 also amended IFRIC 4 to ensure that their scopes did not overlap. The Consultation Paper appears to have endorsed the IFRIC 12 scope criteria solely on the basis of one minor reference in the basis for conclusions, which is not even integral to the Interpretation.</p> <p>Fourthly, paragraph 68 notes that IFRIC 12 concludes that an operator would not control the use of SCA property and that this implies the grantor would control</p>

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			<p>the property. However, IFRIC 12 explicitly asserts in paragraph AG6, BC27 and BC28, that the grantor controls SCA property. This is much stronger than the mere implication noted in the Consultation Paper.</p> <p><u>Appropriateness of the proposed tests is not demonstrated</u></p> <p>Paragraph 102 proposes tests to determine whether a grantor controls SCA property. These are based on the tests in IFRIC 12 and are intended to assess, in relation to the SCA property, the grantor's ability to control the services provided, customers served, prices charged and residual interest.</p> <p>Paragraph 70 asserts that these tests are appropriate, but the Consultation Paper does not indicate how the tests point to compliance with existing definitions of asset, in IPSAS 1 and control of an asset in IPSAS 23.</p> <p>Paragraph BC28 of the Basis for Conclusions in IFRIC 12 at least suggests that the tests indicate the grantor's control over the use of the property.</p> <p>While the proposed tests might arguably determine which party regulates access to the property, they do not appear to explicitly test which party uses or otherwise benefits from it, in accordance with the definition of "control of an asset" in paragraph 7 of IPSAS 23. Similarly, regarding future economic benefits in accordance with the definition of asset in IPSAS 1 and paragraph 13 of AASB and IAS 138. Nor does there appear to be any indication of how the tests demonstrate which party has exposure to the risks and rewards of ownership of the SCA property, despite paragraph 65 asserting that such risks and rewards should be considered.</p> <p>Moreover, the Consultation Paper applies its grantor-control tests inconsistently. The tests require the grantor to control both (i) the use of the SCA property and (ii) the residual interest therein. However, the grantor control tests are sometimes applied selectively. In some cases, paragraphs 135-139 and 161-163 permit a grantor to recognise SCA property as an asset if it controls (i) only the use of the SCA property or (ii) only the residual interest therein. Therefore, neither test seems to be essential for determining control. This inconsistent application of the tests suggests that they are neither robust nor based on sound principles.</p> <p>HoTARAC does not consider that the Consultation</p>

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			<p>Paper conceptually or practically demonstrates how the use and residual interest model, as used in IFRIC 12 or in its proposed modified form, test that the grantor controls SCA property in accordance with existing accounting frameworks and standards.</p> <p>HoTARAC considers that any tests of control need to be explicitly justified by demonstrating how they indicate that the controlling entity has benefit and access, or risks and rewards, or the expectation of service potential in relation to the SCA property.</p> <p>IFRIC 12 does not specify the accounting by SCA grantors and it was developed without considering the grantor's perspective.</p> <p>HoTARAC suggests that the approach used in IFRIC 12 is deficient because it:</p> <ul style="list-style-type: none"> • only considers SCAs from the operator's perspective; • captures more arrangements than intended; • adopts a regulatory control test that is unduly broad in its scope; • incorrectly assumes that a grantor and an independent regulator have similar interests; • fails to take account of the complexity of SCAs; • fails to acknowledge the operator's rights of use are often greater than the grantor's; • fails to acknowledge the operator's wide discretion in design, construction and operation; • assigns grantor control on the basis of asset reversion (which is far into the future); • breaks the nexus between control and responsibility for risk; • is inconsistent with the Framework, especially in relation to substance over form; • fails to articulate why risks and rewards are not considered; and • fails to indicate why benefits and access are not considered. <p>Many of these deficiencies are carried forward into the proposed modified IFRIC 12 approach.</p> <p><u>Political risk does not necessarily indicate control</u></p> <p>Paragraphs 90 to 94 argue that a grantor would control SCA property if it is ultimately accountable for the</p>

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			<p>services provided with it. A grantor could have the service potential risks (eg political risk) and rewards (eg achievement of its social objectives) associated with the SCA property, despite the operator having some, if not all, service delivery risks and rewards.</p> <p>HoTARAC is not convinced that political risk is a factor to be taken into account in determining which party controls SCA property.</p> <p>A Government bears political risk for many things in its jurisdiction, especially those things affecting large numbers of citizens. This is the nature of government.</p> <p>However, the existence of political risk does not necessarily indicate that the SCA grantor controls the property associated with the politically risky activity. Furthermore, political risks arising from services can be distinguished from political risks arising from the property used to provide those services.</p> <p>Users of SCA property typically look to, or prosecute, the operator in the first instance if something goes wrong. A primary objective of many SCAs is to transfer risk and responsibility to the operator.</p> <p>Although a grantor may have step-in rights in relation to SCA property, it usually has to compensate the operator fairly if those rights are exercised. A grantor therefore has to acquire control (by purchasing the SCA property). This strongly indicates that, in this situation, grantor control does not exist until the step-in rights are exercised and compensation is paid, regardless of any political risk the grantor may have.</p> <p><u>The model fails to consider risks and rewards</u></p> <p>Paragraphs 64 and 65 note that the concepts of control and risks and rewards are not mutually exclusive and that both should be considered in determining which party should recognise SCA property as its asset. Paragraphs 85 to 100 analyse some of the risks and rewards relevant to SCAs and relate them to service potential and ultimately asset control.</p> <p>However, there is no clear articulation of how the proposed modified IFRIC 12 model embodies an assessment of the risks and rewards associated with SCA property. It appears that the use and residual interest model contained in the proposal is an alternative to the risks and rewards model and takes little or no account of the risks and rewards embodied in the SCA property.</p>

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			<p>The modified IFRIC 12 approach differs from the risks and rewards model, based on FRS 5-F, used by Australian grantors. The present Australian approach determines control based on which party has certain risks and rewards, especially the demand and residual value risks.</p> <p>HoTARAC considers that an assessment of the SCA property risks and rewards attributable to each party is relevant to the determination of which party controls it and therefore recognises an asset. HoTARAC therefore recommends that the analysis sets out how the proposed tests determine which party has the majority of the risks and rewards of the SCA property.</p> <p><u>Grantor's regulatory capacity does not necessarily indicate control</u></p> <p>Paragraph 5 of IFRIC 12 asserts that a grantor controls SCA property if, among other things, it regulates certain matters relating to the use of the property. Paragraph AG2 explains that, for the purpose of interpreting the word regulates, a grantor is considered to include related parties, the public sector as a whole, and any regulators acting in the public interest.</p> <p>Paragraph 102 of the Consultation Paper proposes similar tests to those in IFRIC 12 for determining grantor control but also proposes in footnote 16 to restrict the meaning of regulates to a specific agreement between grantor and operator, rather than general legislation.</p> <p>HoTARAC is troubled by the word regulates as used in the grantor control tests in IFRIC 12 because it:</p> <ul style="list-style-type: none"> • inappropriately broadens the concept of control; • blurs the distinction between entities by including rights and responsibilities of related parties; • incorrectly assumes the interests of a grantor and an independent regulator would be the same; • is based upon form rather than substance; and • misinterprets the nature of a government's regulatory role. <p>IFRIC 12 did not explain the reason for using this term. "Regulates" has several possible interpretations. For example, it could mean legislates or restricts or, simply, controls.</p> <p>Authoritative pronouncements on the meaning of control of an asset identify the controlling entity's</p>

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			<p>ability to (i) benefit from the asset and (ii) regulate or restrict others' access to that benefit. Paragraph 7 of IPSAS 23 <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> states that:</p> <p>“control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.”</p> <p>Paragraph 13 of IAS 138 and AASB 138 <i>Intangible Assets</i> discusses control of an asset in equivalent terms but uses the expression “restrict the access of others” rather than “regulate the access of others”.</p> <p>Accordingly, HoTARAC considers that, in the context of determining control of an asset, the term “regulates” should be interpreted to mean “restricts” rather than “legislates”.</p> <p>Moreover, as the concept of an entity’s ability to regulate or restrict access is already embodied in authoritative pronouncements on asset control, HoTARAC considers it superfluous to state it separately in the proposed tests, thereby implying it differs from control.</p> <p>The test should be “controls” rather than “controls or regulates”.</p> <p>HoTARAC recommends that the term “regulates” be deleted from the proposed grantor control tests.</p> <p>However, if the IPSASB wishes to retain the term, HoTARAC agrees with the Consultation Paper that, as a minimum, “regulates” needs to be interpreted more narrowly than the way it has been used in IFRIC 12.</p> <p>HoTARAC notes that paragraph 37 of IPSAS 6 <i>Consolidated Financial Statements and Accounting for Controlled Entities</i> indicates, in relation to controlled entities, that a Government’s regulatory power does not constitute control for the purposes of financial reporting.</p> <p>HoTARAC notes that unity of purpose between a grantor and an operator is insufficient to establish control. For the grantor to control the operator and its assets, the grantor must have a presently exercisable capacity to exert power over the operator. Such control does not usually exist in SCAs, as an operator is free to engage in other activities during the concession period.</p> <p>Where a grantor is permitted to intervene, this is usually an action of last resort and requires the grantor</p>

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			<p>to pay compensation to the operator.</p> <p>In addition, HoTARAC considers that the substance of a grantor's ability to control or regulate SCA property is more important than its form. A grantor's capacity to regulate is more likely to give rise to control if, in substance, the regulation is specific to the SCA rather than of general applicability, regardless of whether it is contractual or legislative.</p> <p>The Consultation Paper's narrower interpretation of "regulates" has a potentially significant impact, at least in theory. For example, in our assessment, in one Australian jurisdiction alone, 11 SCAs that would be grantor-controlled under IFRIC 12 would fail the grantor control tests in the Consultation Paper, solely as a result of the narrower interpretation of "regulates". However, in practice there is no impact as the grantors, not being subject to IFRIC 12, do not presently recognise such property; and this non-recognition would continue under the proposed tests in the Consultation Paper.</p> <p>HoTARAC also considers that, due to its potentially significant impact, the Consultation Paper should be more explicit about the narrow interpretation of "regulates". It should be presented as part of the grantor control tests in paragraph 102. It warrants greater prominence than a mere footnote.</p> <p><u>The residual interest test is unnecessary</u></p> <p>Paragraphs 74, 82 and 102 propose that, in order to recognise SCA property as its asset, a grantor would, among other things, need to control the residual interest in the property at the end of the arrangement.</p> <p>Under IFRIC 12, a grantor only needs to control a "significant" residual interest (or no residual interest in the case of a whole-of-life asset). However, the Consultation Paper proposals would require the grantor to control the residual interest in all cases, even if the interest is insignificant. This is a major difference from IFRIC 12, unnecessarily expanding the scope and intent of the residual interest test.</p> <p>HoTARAC is not convinced that a grantor needs to control the residual interest in the SCA property in order to demonstrate control and therefore recognise the property as an asset during the concession period. HoTARAC believes this proposed requirement would conflict with guidance in existing accounting standards.</p>

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			<p>For example, under IPSAS 13/IAS 17/AASB 117 <i>Leases</i>, a finance lessee is required to recognise leased property as its asset without necessarily controlling any residual interest therein.</p> <p>HoTARAC also notes that a leasehold improvement that reverts to a lessor at the end of a lease would normally be recognised as the lessee’s asset in the interim, despite the lessee’s lack of control over the residual interest therein.</p> <p>Moreover, IFRIC 12, on which the proposal is based, only requires the grantor to control the residual interest in certain, not all, circumstances. The proposal also ignores the possibility that the operator’s control of the SCA property during the concession may be far more significant than either party’s control of the residual interest.</p> <p>HoTARAC finds the arguments in paragraphs 74 and 82 unconvincing.</p>
6	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance	A	We are of the view that this approach is clearly more feasible than the risk and rewards approach, as it leads to a clear decision for each asset in question.
7	Dr. Joseph S Maresca	C	<p>The Board believes that the grantor controls when the grantor regulates conditions which the service operator must satisfy with the underlying property, to whom provided, pricing and grantor control of the residual interest. I don’t always agree.</p> <p>Control over delivery of the service does not necessarily reside with the grantor. For instance, the patent owner of a horizontal drilling process controls whether or not provable oil reserves can be exploited effectively or in a cost efficient manner. Without the horizontal drilling process, no oil exploration is commercializable in certain areas of the USA like the Bakken oil reserves in the Dakotas.</p> <p>A patent on horizontal drilling must show unobviousness in areas; such as, successful application of drilling techniques previously thought to be impractical, too costly or unworkable.</p> <p>The “Artificial Sun” emulates virtual power utilizing nuclear technology. A virtual power reaction and harnessing energy may provide an operable result where other processes either failed or were unworkable.</p> <p>Therefore, the patent or patent group on the “Artificial</p>

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			<p>Sun” only provides operability through the efforts of the patent owner or consortia of individual patentees or multiple dependent patent holders.</p> <p>Certain types of solar energy cells provide significant operability under weather conditions that would deteriorate other materials/ processes or arrangements rendering them inoperable or impractical to maintain.</p> <p>The innovation might involve chemical processes, physics enhancements in the management of light or electrical arrangements that allow for efficient power throughout.</p> <p>Wind mill technology is subject to patentable enhancements in various areas; such as, minimization of noise or drone, electrical interference or materials resistance to oxidation. Variable positioning of the wind mill apparatus may provide more efficient electrical power thereby enhancing patentability and exclusivity to the owner.</p> <p>A windmill farm may be subject to local zoning variances by municipalities. Therefore, local municipalities may become PPP or Public Private Partnerships to deliver a public service or power grid enhancement otherwise unavailable.</p> <p>Countries or portions thereof in a developmental stage may benefit from PPP arrangements in order to import the technology or know-how otherwise unavailable. For instance, inland China has had problems in importing the coastal technologies to inland China and places like Tibet.</p> <p>A multiply dependent PPPP arrangement can be crafted from the National Government to the Beijing Municipal People’s Government to the District People’s Government to the District Government Arms and neighborhoods.</p>
8	France - Direction Generale des Finances Publiques	D	
9	France - Ministere de la Sante, de la Jeunesse, des Sports et de al Vie Associative	D	<p>The consultation organised by the IPSAS Board concerns all the kinds of partnerships. Several forms of partnerships exist right now in France : public service delegation, leasing, lease administration, partnership contract, and so on. Except for some of them (« gérance », public service delegations), assets or liabilities are not recorded. Only payments are recorded in the income statement and regarding commitments for</p>

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			<p>the future ; a specific note may be added to the financial statements...</p> <p>...Finally, if the control criterion for public-private partnership accounting rules seems logical, it must necessarily be analysed very precisely in order to identify the best solution on the impact of these contracts. It must be analysed between all partners.</p>
10	The Institute of Chartered Accountants of Scotland	B	<p>However, we believe that a bolder approach to determining ‘grantor control’ is required and that the property underlying a SCA should be reported by the public sector entity if either the first or the second criterion set out in paragraph 102 is met. Our detailed comments on the criteria for determining ‘grantor control’ are set out below.</p> <p><u>First criterion</u></p> <p>The first criterion for determining ‘grantor control’ is that “The grantor controls or regulates what services the operator must provide.....” The concept of regulation in this criterion is explained in a footnote as being “restricted to arrangements agreed upon by the grantor and the operator, and to which both parties are bound. It excludes generally legislated regulation that does not establish control for the purposes of financial reporting as concluded in IPSAS 6 and IPSAS 23.”</p> <p>We have the following comments on the first criterion:</p> <ul style="list-style-type: none"> • We have concerns about how the concept of ‘regulation’ is handled in the consultation document and take the view that the terms ‘regulates’ and ‘regulation’ should not be used in any criteria for determining ‘grantor control’. The use of the words such as ‘regulate’ could be easily misinterpreted. For example, governments regulate some private industries but these should clearly be outside the scope of the guidance. • We recommend that footnotes are not used in guidance in relation to the determination of ‘grantor control’. As this is fundamental to accounting for SCA’s, we believe it should be defined entirely within the main text of any guidance. • We are not clear why IPSAS 6 ‘Consolidated and Separate Financial Statements’ is referred to here as it deals with the definition of control in relation to one entity controlling another entity rather than an entity’s control of a tangible fixed asset. Secondly, there are also difficulties with the reference to

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			<p>‘regulation’, if the concept of ‘regulation’ is a separate concept from that of ‘control’ then ‘regulation’ should not be defined using the term ‘control’ to avoid using a self-referring definition.</p> <ul style="list-style-type: none"> We have a similar difficulty with the cross-reference to IPSAS 23 ‘Revenue from Non-Exchange Transactions’. Paragraph 32 of IPSAS 23 states that “The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity’s assets from those public goods that all entities have access to and benefit from.” This also indicates that the ability to regulate is an aspect of control of an asset not a separate concept. <p><u>Second criterion</u></p> <p>The second criterion also needs to be strengthened to reflect the position in IFRIC 12 in relation to the residual interest. This would be achieved if the grantor’s interest in the residual interest is required to be ‘significant’ in order to evidence ‘control’. If the grantor’s interest in the residual is ‘insignificant’ then it is inconsequential and has no bearing on whether the grantor controls the property for financial reporting purposes.</p>
11	France - Cour des Comptes	C	<p><u>Response to question posed by IPSASB</u></p> <p>2.1.1. The two criteria selected by IPSAS do not, in principle, pose any problem for the recording of an asset in the accounts of the public entity. Provided that it effectively controls the asset which the contract entered into with the private entity relates to, the State would be justified in recording an asset in its accounts. The criteria proposed by IPSAS modelled on the IFRIC 12, i.e. the ability to regulate the service and the existence of a residual interest at the end of the contract, effectively cover a broad range of contracts, the value of which could well be recorded in the States’ accounts.</p> <p>2.1.2. However, the application of these criteria cannot be deemed sufficient to discriminate between the different types of contracts associating the State with companies. In this respect, a difference should be established between the cases in which the State has contracting authority over the asset considered and those in which it doesn’t. This additional criterion would make it possible to take into account Eurostat’s</p>

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			<p>perspective via the notion of risks and benefits, the contracting authority corresponding with the scenario in which the State bears the risks associated with the project.</p> <p>2.1.3. Therefore an additional option to that of IPSAS is proposed.</p> <p>2.1.3.1. This option would consist of selecting the control criterion as formulated by IPSAS and modelled on IFRIC 12 as a justification of the recording of a fixed asset in the accounts of the public entity.</p> <p>2.1.3.2. It would also consist of adding an extra criterion to determine whether this recording should be made as a tangible asset or an intangible asset.</p> <p>2.1.3.3. The recording would be made as a tangible asset when the criteria stipulated by the accounting standards of the French State are complied with:</p> <p><i>“The tangible fixed assets recorded in the State ‘s accounts are those that it controls.</i></p> <p><i>The control, which generally takes a legal form (ownership or usage right), is characterised by:</i></p> <ul style="list-style-type: none"> - <i>the control over the asset’s usage conditions;</i> - <i>the control of the potential services and/or future economic benefits resulting from this usage.</i> <p><i>The fact that the State bears the risks and charges associated with the holding of the asset also constitutes a presumption of the existence of control.”</i></p> <p>2.1.3.4. In the other cases, compliance with both control criteria defined by IPSAS would result in the recording of an intangible asset in the public entity’s accounts.</p> <p>2.1.4. The advantage of this dual mechanism would be to reconcile the different points of view presented by IFRIC on the one hand and Eurostat on the other.</p> <p><u>General comments in response letter</u></p> <p>1.1. THE TRANSPOSITION OF IFRIC 12 PROPOSED BY THE CONSULTATION PAPER DOES NOT ACCOUNT FOR ALL EXISTING SCENARIOS IN TERMS OF SERVICE CONCESSION ARRANGEMENTS.</p> <p>1.1.1. The approach initially announced by IPSAS consisted of exploring the topic of SCAs independently</p>

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			<p>of the provisions stipulated as part of IFRS, more specifically of IFRIC 12. However, the consultation paper reveals that IPSAS's approach consists of reiterating the criteria set out and defined in IFRIC 12, with regard in particular to the definition of control, in almost identical words. Under these conditions, provided that the two specific criteria are complied with (conceded service regulated by the public entity and significant residual interest at the end of the arrangement), "service concession arrangements" will be recorded in the grantor's accounts, although from now on in the form of long-term investments or intangible assets depending on the characteristics specific to the arrangements concerned.</p> <p>1.1.2. This approach, solely modelled on the consideration of the mirror effect of the accounting methods selected by the State's partner, does not enable IPSAS to account for the specific perspective of the State via this type of contract or the diversity of the contracts at stake. IPSAS, due to this mirror effect, only provides the States with a recording solution, i.e. the recognition of tangible assets, although the diversity of underlying scenarios should result in a broad range of possible accounting methods.</p> <p>1.1.3. In particular, the approach proposed by IPSAS does not differentiate between the different types of arrangements, whether or not the State controls the service potential concerned. However, it appears that the State is not in the same situation in the case of what is referred to as a public- private partnership within the French context and in the case of what is referred to as a concession.</p> <p>1.1.3.1. In the case of a concession, the user pays for the service provided, not the State; the risks — notably those associated with demand — are endorsed by the operator, not by the State; finally, the private operator controls the asset throughout the concession period.</p> <p>1.1.3.2. This scenario is clearly distinct from that referred to as public- private partnership contracts in France, whereby an operator builds and operates an asset on behalf of the State, the State paying for the construction and bearing part of the risk — including that associated with demand — and controlling usage conditions.</p> <p>1.1.4. However, the criteria proposed by IPSAS</p>

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			modelled on those of IFRIC 12 would mean dealing with these two scenarios in the same manner and recording in both cases the underlying asset of the contract under the public entity's tangible fixed assets. It may be considered that the control criteria set out by IFRIC are fulfilled in all scenarios. Nonetheless, the position of the State with regard to the asset concerned cannot be considered identical because, on the one hand, it involves an asset financed by the State, for which it bears the risks and the usage of which it controls and, on the other hand, an asset not financed by the State, for which it does not bear the risks and the usage conditions of which it does not control.
12	Fédération des Experts Comptables Européens	B	6. However, we consider that it would be more helpful if the control criteria were directly aligned with IFRIC 12, where they are framed in terms of 'significant residual interest' rather than 'residual interest'.
13	The Association of International Accountants	B	<p>... clarity is important because under IFRIC 12 the operator is deemed not to have control over the use of the property in SCAs that meet the scope of IFRIC 12 and also clearly distinguishes regulatory control which is not sufficient to meet the control aspect of the definition of an asset (IPSAS 23 and IPSAS 6).</p> <p>The proposed control-criterion could also be clarified for certain SCAs that IPSASB acknowledge may be whole-of-life arrangements, resulting in a less than significant residual interest in the underlying property. Under the IPSASB proposal whole-of-life SCAs would not satisfy the control-criterion.</p> <p>Under the proposed control-criterion for regulation and residual interest neither the grantor nor the operator will recognise the property underlying the SCA as an asset in their respective financial statements.</p>

	NAME	VIEW	COMMENT
14	International Monetary Fund	D	<p>We note that under existing accounting concepts and standards, generally legislated regulations are not considered adequate to establish control for the purposes of financial reporting. Consistent with this approach, the paper suggests that only regulations agreed upon by the grantor or operator would be taken into account in determining whether the grantor controls the asset. However, we suggest that consideration be given to allowing generally legislated regulations to be taken into account to provide corroborating evidence of the existence of control or the lack thereof, particularly when the SCA is unclear on the issue of control.</p>
15	City of Calgary, Alberta, Canada	B	<p>... however, feel certain of the control criteria identified are unnecessarily restrictive. The City agrees that control is established when ultimately the grantor remains accountable for the provision of services provided through the property to the public. The grantor continues to be subject to the risks and rewards related to service delivery that is associated with the property.</p> <p>It is the requirement regarding the control or regulation of the price ranges or rates that can be charged for the service may be unnecessarily restrictive. We feel the same accountability can be articulated by noting that when the grantor has the ability to significantly influence the operating conditions (which would naturally include not only user charges, but standards of service and maintenance of the property to ensure the ultimate residual value that will revert back to the grantor), control would exist and an asset recognized.</p> <p>We are also cautious about control “based on ownership, beneficial entitlement or otherwise” as it pertains to land (non-depreciable asset). In cases where the SCA involves significant land values, and the agreement does not contain specific terms that allow the land to be owned by the government (say, transfer of title or a bargain purchase option), then a significant loss on asset disposal would occur at the end of the SCA. The City would prefer that those payments or values specifically related to the land portion be expensed as incurred, similar to an operating lease.</p> <p>We are in agreement with control “based on ownership, beneficial entitlement or otherwise” as it pertains to all other depreciable assets.</p>

	NAME	VIEW	COMMENT
16	UK National Audit Office	B	<p>... but would question the departure from the IFRIC 12 principle regarding residual interest.</p> <p>We question the paper's use of 'residual interest' as a criterion for control, as opposed to the IFRIC 12 criterion of 'significant residual interest'. Control over the residual interest, whether or not that interest is deemed to be significant, is viewed by the paper as important in preserving the continuous public sector use of the property. But we believe that where there is only an insignificant residual interest but that the first control criterion of grantor control and regulation of the services and to whom and at what price they should be provided, is met, then continuous public sector use of the property has in substance been achieved. If this were not to be the case then arguably the residual interest retained by the operator should be classified as 'significant'. Our concern here is lest a property may not be reported by a grantor simply because of a very insignificant residual interest retained by the operator.</p>
17	The Japanese Institute of Certified Public Accountants	A	<p>We agree with this approach and the control criteria identified. The reason is as follows.</p> <p>IPSAS 1 defines assets as "resources controlled by an entity as a result of past events and from which economic benefits or service potential are expected to flow to the entity.</p> <p>In the CP, a grantor is required to report the property underlying an SCA as an asset, on the condition that the grantor controls not only the residual interest in the property at the end of the arrangement, but also the services provided through the property underlying an SCA. The grantor's control over services provided through the property underlying an SCA indicates that the grantor can expect future service potential to flow from the underlying property. Therefore, the property controlled by the grantor meets the definition of an asset in IPSAS 1.</p>
18	UK - The Chartered Institute of Public Finance and Accountancy	B	<p>Applying the proposed control criteria and related reporting guidance should result in operator and grantor reporting on that are mutually consistent. In particular, for arrangements which are in the scope of IFRIC 12, the operator balance sheet will show financing or intangible assets, while the grantor balance sheet will include property, plant and equipment (PPE).</p> <p>However, we have some concerns arising from the use of a 'residual interest' control criterion which is not the</p>

	NAME	VIEW	COMMENT
			<p>same as the criterion used to define the scope of IFRIC 12.</p> <p>The Consultation Paper proposes that a common approach to grantor reporting should apply to arrangements where any residual interest (whether significant or not) is controlled by the grantor at the end of the arrangement, whereas IFRIC 12 requires the residual interest to be significant unless the arrangement is a ‘whole life’ arrangement.</p> <p>These two approaches will normally be equivalent, but using terminology which differs from IFRIC 12 increases the risk that operator and grantor accounting on some Service Concession Arrangements may be inconsistent. We suggest that in developing an Exposure Draft, the Board might consider whether it can more closely reflect the IFRIC 12 wording, or provide further explanation which makes it clearer that the proposed approach does not introduce a risk that PPE assets ‘go missing’ or are ‘double counted’ in operator and grantor balance sheets.</p>
19	Dexia Bank Belgium	A	<p>DBB agrees with the control criteria proposed. DBB agrees that, in case that the grantor controls the use of the property, it also can be expected that the grantor will benefit from the property future service potential. In that way, the property underlying an SCA, will meet the definition of an asset in IPSAS I</p>
20	The Netherlands Court of Audit	B	<p>...but we suggest to be more explicit about the reasons why the control criterion is preferred to the economic risks and rewards approach, as it is used by Eurostat.</p> <p>Opening comment letter remarks:</p> <p>We warmly welcome the initiative by IPSAS to produce this consultation paper in order to make Service Concession Agreements (SCAs) more transparent in government accounting and financial reporting. The setting of standards is an important step in that direction. We also think that the standards should lead to a situation in which SCAs are regarded as part of governments (long term) liabilities, where appropriate. This will help to ensure that SCAs – as a means to provide public services - are not chosen for the wrong reason, namely to meet fiscal targets and EMU criteria of public debt. In order to reach this goal the financial reporting standards should be, as far as possible, in line with for example the EU-statistical criteria in this respect. It is not clear if this is the case.</p>

	NAME	VIEW	COMMENT
			We suggest to pay explicit attention to this aspect.
21	Canadian Council for Public-Private Partnership	C	<p>... We believe that the control tests recommended to determine whether the underlying asset is recorded on balance sheet do not sufficiently differentiate between conventional delivery and the many varied types of PPP transaction which could be described under an SCA. We recommend a risk-based approach to determine which party should recognize the asset and liabilities</p> <p><u>Residual Interest as a Determinant of Control</u></p> <p>CCPPP believes that the <i>Consultation Paper</i> places excessive emphasis on the residual interest in the property as a determinant of control (#74-84). CCCPP considers this as one of the defects of lease accounting which was commonly used for SCAs in the absence of the more specific guidance proposed in this <i>Consultation Paper</i>. In particular, CCCPP believes that the value of any residual interest as a proportion of the total value of the asset needs to be considered (the proposition put forward in #83 but then rejected). Residual interest should also be only one of the considerations taken into account.</p> <p>Hence there would be a difference in accounting treatment between a public sector building (for example a hospital) which:</p> <ol style="list-style-type: none"> 1. Is designed, built and operated by an operator over a 20-year concession term and handed back to a public-sector grantor in a condition which allows for a further 20 years of useful life, or 2. Is designed, built and operated by an operator over a 60-year concession term which reflects the design life of the facility <p>It is important to note that typical SCAs pass the risk of the performance of the asset at the end of the SCA term to the operator (not the grantor) and therefore it is inappropriate for the asset to be fully depreciated in the statements of the grantor at the end of the term, and a portion of the payments in effect represents a pre-payment for service yet to be delivered by the asset. We attempt to address this in our comments on “Extending the Useful Life of the Asset” below. (Staff note: See discussion under ‘9.2 Other Comments Received’)</p> <p>The <i>Consultation Paper</i> does recognize (#81) that some SCAs may be whole of life arrangements resulting in a less than significant residual interest in the underlying property.</p>

	NAME	VIEW	COMMENT
			<p>CCPPP is concerned that this emphasis could inappropriately incentivize transactions which transfer a residual interest to the private operator, where the public interest may be better served by retaining the flexibility for the grantor to do whatever is in its best interests at the end of the concession arrangement.</p> <p>We therefore agree with the position set out in #83 and find the <i>Consultation Paper</i>'s overall conclusions inappropriate. If the main purpose of the residual interest criterion is to determine preservation of the right of continuous use during the arrangement (#84), then this should be addressed more directly.</p> <p>We think that the compensation-upon-termination provisions of the typical SCA are potentially more pertinent to control than the simple fact that there may be a residual interest. Most SCAs do provide for the payment of compensation at fair market value for the impaired asset in the event of termination. However, CCCPP's recommendation is that these provisions constitute a contingent rather than an actual liability.</p> <p><u>Use as a Determinant of Control</u></p> <p>CCPPP believes that the <i>Consultation Paper</i> places excessive emphasis on the control of <i>use</i> of the property. CCCPP believes the appropriate emphasis should be on who controls and takes the risks associated with the <i>performance</i> of the property.</p> <p>In particular we believe that:</p> <p>The key element of control is whether “the purchaser has the ability or right to operate the asset in the manner it determines” in order to achieve the performance requirements . . . and not “while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.”</p> <p>We are not sure why control of physical access to the asset is so significant. The key issue is who controls the risk of deterioration of the performance of the asset. A useful example to illustrate this would be that most road PPP's would allow the operator to obtain a pre-determined increase in its payments if traffic volumes exceed a certain benchmark or if heavier load vehicles are allowed to use the road, as both of these things would increase wear and tear on the road. In other words, the operator takes performance risks within normal boundaries of physical access, but if the grantor approves access outside these ranges, then the risk</p>

	NAME	VIEW	COMMENT
			<p>remains with the grantor.</p> <p>This is another way of saying that the key criterion should be how variable are the payments. CCPPP believes that there is a big difference between a grantor buying an asset and committing to make a certain level of payments regardless of the performance of the asset compared to a grantor making payments only if the asset meets reasonably high-performance standards.</p> <p>CCPPP finds the proposed definition of control of use (#102) to be too broad and encompassing all likely SCA arrangements other than outright privatization. By way of example, CCPPP does not see why the accounting treatment should be different for a direct toll road:</p> <ol style="list-style-type: none"> 1. Under which the grantor controls or regulates the price ranges or rates that can be charged for services; compared to 2. One in which the operator is free to set tolls at whatever the market will bear. <p>Again this treatment could encourage a lack of regulation of tolls which may not be in the public interest, while not materially changing the level of risk borne by the private operator.</p> <p>CCPPP therefore strongly supports the position set out in IPSAS 23 (#71) that public sector control of a regulatory nature should not satisfy the criteria for recognition of an asset.</p>
22	Association of Chartered Certified Accountants	A	<p>ACCA is broadly in agreement with the three Specific Matters for Comment while not forgetting the complex practical issues raised above. (Staff note: See discussion under ‘9.2 Other Comments Received’)</p>
23	Florida Institute of Certified Public Accountants	A	<p>Yes. We agree with the approach and criteria as proposed in the Consultation Paper.</p>
24	Professor David Heald - University of Aberdeen Business School	B	<p>5. I can understand why the Board sees appeal in having two control criteria, one over use and the other over residual interest, as these represent two well-understood dimensions of service concession arrangements. However, given the prior history to which I refer above (Staff note: See discussion under ‘9.2 Other Comments Received’), I fear that having two control criteria may make it easier to design projects around the accounting standards to achieve Off-balance sheet treatment for the grantor. As mentioned above, this may involve sacrificing</p>

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			<p>some potential Value-for-Money gains by sub-optimal contract design or by finding some artificial means to arbitrage the accounting standards.</p> <p>If there are two control criteria, it is imperative that IFRIC 12's wording of 'significant residual interest' be used; residual interest that is not significant should not influence the accounting decision. I commend the clarity of the flowchart developed by the UK Treasury to explain mirror-image treatment under IFRIC 12.</p>
25	South Africa Accounting Standards Board	B	<p>We support the proposed criteria for determining whether the grantor controls the underlying property in the SCA as set out in paragraph .102.</p>
26	US Governmental Accounting Standards Board	D	<p>However, we do not agree with the specific control criteria proposed in paragraph 102.</p> <p>Control over the aspects of the property and related service detailed in the first criterion proposed in paragraph 102 may indicate that the grantor possesses “ultimate” control over the property underlying an SCA.</p> <p>However, we believe that solely controlling these aspects of the property is not sufficient to establish accountability for the services provided through the property on the part of the grantor. We believe that the aspects proposed are broad parameters that are commonly controlled by a government as part of its regulatory authority over enterprises in certain industries. In this circumstance, the government would not be considered accountable for the services provided through the property of such enterprises. We believe the criterion also should require that the grantor control some aspect of how the service related to the property is provided or the level of service that is provided through the property. We believe this would more clearly indicate that the grantor has substantive control over the use of the property resulting in a stronger link to grantor accountability for the property and its related service.</p> <p>We also believe that the control over residual interest criterion should be reconsidered. We are not persuaded by the argument made in the Consultation Paper that control of <i>any</i> residual interest in the property preserves the public use objective of the property during the arrangement. This argument presumes the occurrence of an unexpected future event—the default of the</p>

	NAME	VIEW	COMMENT
			<p>operator on the contract. We do not believe that this presumption should impact the financial reporting of the property at the execution of the arrangement. Additionally, preservation of the public use objective during the arrangement can be substantially achieved by contractual terms other than those related to control over residual interest at the end of the arrangement, for example, explicit prohibition of the operator's ability to pledge the property as collateral and onerous liquidating damages provisions in the event of operator default.</p> <p>We believe the importance of the control over the residual interest in the property at the end of the arrangement is the preservation of the public use objective of the property and, therefore, the service potential of the property subsequent to the arrangement. Therefore, we believe that the residual interest in the property should be required to be controlled by the grantor and be expected to be significant at the end of the arrangement. We do agree with the assertion in the Consultation Paper that, as a practical matter, the residual interest in the property at the end of most SCAs will be significant because of contractual terms requiring the property be maintained and returned to the grantor in a state of good condition.</p>
27	Wales Audit Office	A	<ol style="list-style-type: none"> 2. We note that paragraph 7 of IPSAS 1 Presentation of Financial Statements defines assets as resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow. 3. At present, the IPSASB has not yet published a framework for the preparation and presentation of financial statements. Therefore to consider the underlying principles for defining assets, we have referred to the IASB Framework for the Preparation and Presentation of Financial Statements. Paragraph 49 of the Framework also uses the concept of control in defining assets in the same manner as IPSAS 1. 4. Therefore, using control as a basis for determining whether or not the grantor should record the property as an asset, is consistent with IPSAS and the framework that underpins IFRS. 5. We note the reference in paragraphs 28 to 41 setting out the rationale for using a risk and rewards

	NAME	VIEW	COMMENT
			<p>approach as a basis for determining the accounting treatment of Service Concession Arrangements. However, we agree with the conclusion expressed in paragraph 94 that where the grantor has ultimate control over the property, it is accountable for the property and the services provided and is therefore exposed to the risks and rewards related to service delivery and the achievement of service objectives.</p>
28	New Zealand Office of the Controller and Auditor-General	B	<p>We generally agree with the control criteria identified, however, we have suggested below some improvements that could be made to the proposals:</p> <ul style="list-style-type: none"> The first aspect of the control criteria uses the term regulates. The consultation paper provides a footnote explaining that the concept of regulate is restricted to arrangements agreed upon by the grantor and operator and excludes generally legislated regulation. For clarity, regulates could be replaced with contractually determines to give the same intended effect. If the Board decides to continue with the existing wording of the proposal, we recommend the exposure draft include a definition of regulates to clarify the Board's intended meaning of that term.
29	Canada - Auditor General of British Columbia	B	<p>In theory, the concept of residual interest makes sense (it does provide pervasive evidence that the use of the property is preserved over the life of the agreement – e.g. operator can't sell the property). The paper provides a reasoned explanation for why residual interest is a strong indicator of control.</p> <p>However, we question whether it is a necessary criteria to evidence overall control. Within a principle based approach to standard setting, this criteria seems to be prescriptive. In most cases where residual interest doesn't exist, the framework leads to the use of lease accounting and likely capitalization as a finance/capital lease.</p>
30	Australasian Council of Auditors-General	B	<p>However ACAG has some concerns about the control criteria identified.</p> <p>Specifically, the first criterion of the proposals refers to the grantor regulating the utility of the property, restricted to arrangements agreed upon by the grantor and the operator to which both parties are bound. ACAG believes that the term "regulate" is unnecessary from the perspective of a grantor, as a grantor having control of the utility of the property would also</p>

	NAME	VIEW	COMMENT
			<p>encompass situations where the grantor has the ability to regulate by agreement. Accordingly, ACAG suggests deleting “or regulates” from the first control criterion, but provide guidance similar to paragraph 32 of IPSAS 23 in the final standard to clarify that control derived solely from a government’s regulatory role does not constitute control over the underlying assets for financial reporting purposes.</p> <p>The second proposed criterion for control refers to the grantor’s ability to control the residual interest in the property at the end of the arrangement. While the analysis outlined in paragraphs 66-84 suggests that it is the Board’s intent to include whole-of- life agreements, without specific words in the criteria to capture this intent may result in whole-of-life SCAs not satisfying the control criteria. This is because the criterion, as it is currently worded, would appear irrelevant if no residual interest exists at the end of the term of the arrangement. To address this, ACAG suggests that the second criterion be reworded as follows:</p> <p>“The grantor controls through ownership, beneficial entitlements or otherwise — residual interest at the end of the term of the concession period.”</p>
31	Canada - Provincial Comptroller of Saskatchewan	A	<p>We agree that the control criteria are appropriate to establish that a grantor has control over a property throughout and subsequent to its service life. We question however, whether it would be apparent to users of the standard that control would exist when the grantor is responsible for any subsequent liabilities related to the property. It may be important to clarify in supporting paragraphs that control of residual interest of a property would also be evident when the grantor has responsibility for losses subsequent to the end of the arrangement.</p>
32	United Kingdom – Financial Reporting Advisory Board	B	<p>The Board also agrees the first of the two criteria, i.e. ‘The grantor controls or regulates what services the operator must provide with the underlying property, to whom it must provide them, and the price ranges or rates that can be charged for services’.</p> <p>However, the Board has reservations about the second of the control criteria that ‘The grantor controls – through ownership, beneficial entitlement or otherwise – the residual interest in the property at the end of the arrangement’. The IPSASB’s reasons for this is that controlling the residual (rather than significant residual)</p>

	NAME	VIEW	COMMENT
			<p>interest in the property serves to preserve the grantor's continuous use of the property during the arrangement as well as at the end of the arrangement, and does not depend on its significance.</p> <p>The Board is of the view that this control of continuous use is satisfied by the first of the criteria and if the residual interest is insignificant, then whether the grantor controls the residual interest is inconsequential, and should have no bearing on which party controls the property for financial reporting purposes. The Board believes that for this second test to be meaningful the residual interest should be significant and supports the wording in IFRIC 12.</p>
33	Canada – Québec Ministère des Finance	C	<p>We believe that the approach taken by IPSASB in its consultation paper focusing on control criteria means that only privatized assets will not be recorded in the government's books.</p> <ul style="list-style-type: none"> Regarding the criterion relating to the control of the use of the asset, the government, in the public interest, generally retains a certain degree of control regarding the use of an asset that is part of a service concession arrangement agreement. Accordingly, most of the assets included in this type of agreement will be recorded in the government's books despite the fact that the private partner assumes most of the other risks (operational, demand, construction, financial, performance, etc.). <p>In addition, the proposals place too much emphasis on the control criterion relating to residual interest. In our view, the accounting treatment applied to an asset built and operated by the private sector over 35 years and thereafter transferred to the government in good condition to be used for another 35 years should not be the same as the treatment applied to an asset built and operated by the private sector over its entire estimated useful life.</p> <p>We are of the view that, in substance, PPP agreements are similar to a lease contract, i.e. a contract by which an entity cedes, for a fixed length of time, the right to use an asset to another entity for a sum of money. Accordingly, an approach based on risks and benefits, like the one used for lease contracts, is more appropriate for the accounting for this type of contract.</p>

REQUEST FOR COMMENT 2 – MEASUREMENT OF ASSET AND RELATED LIABILITY

The underlying property reported by the grantor as an asset and the related liability 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.

Agree	A	15
Agree with comment	B	13
Disagree	C	0
No clear view expressed	D	5
Total		33

Of those expressing a view - % supporting view:	A	57%
	B	43%
	C	0%

	NAME	VIEW	COMMENT
1	The Institute of Certified Public Accountants of Cyprus – Public Sector Committee	A	The financial reporting requirements by the grantor when the proposed control criteria are met are generally based on the requirements of other IPSASs, as IPSAS 13 “Leases”, IPSAS 17 “Property, Plant and Equipment” and IPSAS 21 “Impairment of Non-Cash generating Assets”, and thus, we agree with them.
2	CPA Australia Ltd, The Institute of Chartered Accountants in Australia, National Institute of Accountants	A	We agree with this proposed treatment.
3	Canadian Public Sector Accounting Standards Board	B	Separation of unified payments is a quandary as old as accrual accounting, e.g. when acquiring real estate, determining the allocation to land apart from that for structures. Recently issued standards have laid the expectation that accountants face up to these challenges and not seek refuge based on simplistic or arbitrary points of reference. As an example, the valuation and allocation of purchase price to all items in a business acquisition is required. Although allocation of unitary pricing provisions within certain SCAs may prove complex, it is a matter that in our view is best accomplished by disaggregating contractual requirements into separate performance obligations as the consultation paper proposes. We support this

	NAME	VIEW	COMMENT
			<p>approach based on our understanding that it aligns with current thinking as reflected in the joint IASB/FASB revenue recognition project.</p> <p>We support the principle that the present value of the scheduled construction payments be used if it is lower than the fair value of the property. However, we believe this outcome is one that should give an accountant reason to pause, much as an initial finding of negative goodwill when allocating value to items in a business acquisition. In development of the detailed standard, this issue warrants further evaluation. There are many reasons such problems can arise: it may be that the overall discount rate is too low or not all of the contributions made by the grantor (or benefits to be received) have been identified or their value properly attributed.</p> <p>As well, guidance should expressly address that risk factors, as reflected in discount rates, vary over the life cycle of the arrangement: pre-construction financing, post-construction financing, and financing required to support the service provision element. Provisions within standards that explicitly provide for a single discount rate over the term and suggest the application of straight-line revenue recognition of advance receipts while expedient, may enable “income smoothing” and in our view should be avoided. Transactions involving sale of interests in established SCAs clearly signal the market’s receptivity to lower discount rates once an arrangement matures into the post-construction operating phase. We note that among the distinguishing risk factors of an SCA identified in the paper is the potential that a government may “step in” to ensure continuity of an essential service. The financial implications of such an event will vary during the lifecycle of an arrangement.</p>
4	French Ministry for the Budget, Public Accounts and Civil Service	B	<p>The question is to be linked with proposal in § 136 and seq. The arrangements for evaluating the assets and related liability are based on the distinction between separable or inseparable nature of payments made by the public entity to private operator between construction and services elements.</p> <p>The understanding of the proposals is as follows: It is proposed that when payments are separable, the underlying property and related liability are recognised at fair value of the property, or whether it is lower the present value of payments related to construction. The</p>

	NAME	VIEW	COMMENT
			<p>subsequent evaluation of the property would be based on provisions of IPSAS 17 (amortization, depreciation, evaluation at cost or at fair value according to the alternative revaluation model). The liability would be assessed similarly to a debt in the case of a finance lease. The payments services would be recognised as expenses as they occur. If payments are not separable, the consultative paper proposes that the property be recognised at fair value along with the corresponding debt.</p> <p>After the contract come into force, any payment scheduled should be apportioned between debt repayments, an estimated expense of interest (based on the cost of capital of the operator under the SCA) and operational costs to reflect part of the SCA service.</p> <p>The subsequent assessment and reporting of the property and debt are similar to above (IPSAS 17).</p> <p>Attention is drawn to the following points:</p> <p>-- In the case where 2 criteria controls are not met, the property is not recognised in the accounts of the public entity. If the applicable standards of evaluation were not the same (historical cost or replacement cost amortized or depreciated in place of the fair value) in this case, a property of the same nature would be accounted for according to different valuation methods. For example, two different valuation methods apply to the same asset on the balance sheet as is put in a concession or not (for a highway, assets not put in a concession are valued at cost and the depreciated replacement cost, assets in a concession are valued at fair value).</p> <p>-- These valuation methods can be difficult to implement in regard to infrastructure under a concession for which the determination of fair value or market value is not feasible: the case of a dam.</p> <p>Subject to what is mentioned above, we have agreed with the proposal to use the present value of expected payments under construction if it is less than the fair value of the property in case of payment separable.</p>

	NAME	VIEW	COMMENT
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	B	<p>HOTARAC supports the proposed basis for initially measuring a grantor-controlled SCA asset and its associated liability, but requests some additional guidance.</p> <p>Paragraphs 135-138 propose that where a grantor recognises an asset and associated liability for grantor-controlled SCA property, they should initially be measured based on the lower of (i) the fair value of the property and (ii) the present value of any separable scheduled construction payments. Question 2 of the Consultation Paper specifically seeks comment on this. HoTARAC agrees with this proposal, provided that all relevant commissioning costs are included. HoTARAC also requests that the Consultation Paper be expanded to include specific guidance on the subsequent measurement, including revaluation of the grantor's asset, given that it may have a long life and be managed by the operator.</p>
6	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance	A	Yes, we do agree. As mentioned in our introduction to this consultation paper we express again the need of presenting the liabilities, as this is very controversial in our jurisdiction.
7	Dr. Joseph S Maresca	D	
8	France - Direction Generale des Finances Publiques	D	
9	France - Ministere de la Sante, de la Jeunesse, des Sports et de al Vie Associative	D	
10	The Institute of Chartered Accountants of Scotland	A	<p>We agree with the proposal that:</p> <ul style="list-style-type: none"> the underlying property and related liability should be measured at fair value where contracts are not separable; and if contracts are separable, the property and related liability should be measured at the lower of the present value of construction payments or fair value.
11	France - Cour des Comptes	B	2.2.1 Subject to the general observations made on the overall principles underpinning the consultation paper, the answer to this question is yes.

	NAME	VIEW	COMMENT
			<p>2.2.2. Nevertheless, it seems more appropriate to highlight the notion of <i>fair value</i> when evaluating the asset. The idea is not to offer an alternative (<i>fair value</i> versus present value of the minimum payments) but rather to point out more clearly that the <i>fair value</i> is to be estimated in other ways, notably by establishing the depreciated replacement cost of the tangible fixed asset concerned (method already used for certain types of tangible fixed assets).</p> <p>2.2.3. The accounting method by components should be selected in the scenarios involving the recording of a tangible asset in the State's accounts. This method should apply particularly in order to distinguish land from constructions or constructions from equipment which call for different accounting methods.</p> <p>2.2.4. The evaluation method for intangible assets will be the same as those stipulated by the standards regulations relating to this category of assets, notably referring to the market value, accompanied by annual impairment tests.</p>
12	Fédération des Experts Comptables Européens	A	FEE agrees with this proposal.
13	The Association of International Accountants	A	AIA agrees with this proposed treatment.
14	International Monetary Fund	D	
15	City of Calgary, Alberta, Canada	B	<p>Currently, PSAB differs from IPSAS 17 in that PSAB requires the use of historic cost only. Our preference would then be that in cases where the scheduled payments made by the grantor can be separated into a construction element and a service element, the historic cost of the asset be the lower of the present value of the scheduled construction payments and the fair value of the property. Otherwise, the fair value of the property should be the asset's cost.</p> <p>In addition, The City supports the proposal that for SCA's involving existing property that the grantor has already reported as an asset, no additional accounting associated with the property generally should be required.</p>
16	UK National Audit Office	B	Question 2 – reporting of asset and liability – we generally agree with the proposal, subject to some reservation regarding the nature and extent of the

	NAME	VIEW	COMMENT
			<p>liability arising in service concession arrangements where the operator's income is received direct from third party users. Staff note: See discussion under '9.2 Other Comments Received'</p> <p>On the subject of the calculation of the interest rate used to impute the finance charge inherent in a service concession arrangement (paragraph 122 of the paper) we note that there has been some divergence of opinions and that, for example, the UK Government Financial Reporting Manual requires use of the UK long-term real interest rate, as a market risk-free rate representing the grantor's cost of capital. We consider the rationale for using the operator's cost of capital specific to the arrangement set out in paragraph 122 to be more persuasive, but would support further refinement of this towards a rate that would be more property specific. This would reflect the guidance in the UK FRS 5 PFI Application Note and the relevant leasing accounting standards.</p>
17	The Japanese Institute of Certified Public Accountants	A	<p>We agree with this proposal. The reason is as follows. Using the fair value of the property as the initial measurement of the asset is consistent with the guidance prescribed in IPSAS 17 for another circumstance when there is no discernable "historical cost" to use for the initial measurement of the property.</p>
18	UK - The Chartered Institute of Public Finance and Accountancy	A	<p>CIPFA agrees with this proposal.</p>
19	Dexia Bank Belgium	B	<p>DBB believes that using the fair value of the property for the initial measurement of the asset and related liability is appropriate when the scheduled payments cannot be separated (construction/service element) This is consistent with the guidance provided in IPSAS 13 for the reporting of finance leases.</p> <p>DJ3B suggests clarifying the basis on which the separation into service/construction element of the scheduled payments can be identified.</p> <p>§ 114 mention that the separation should be based on the terms of the contract or other information. DBB would like to know, in case no specific information is provided in the contract, which "other information" can be used.</p> <p>Is internal information, provided by the grantor, appropriate to determine the construction and service</p>

	NAME	VIEW	COMMENT
			<p>element of the scheduled payments?</p> <p>As the operator makes a similar calculation in order to split the received scheduled payments into construction element (asset receivable) and service element (to be recognised as revenue if incurred), this could lead to different results to those made by the grantor.</p>
20	The Netherlands Court of Audit	B	<p>In case of ‘separable payments’, initial measurement of the asset and the related liability should be based on fair value or, if lower, the present value of the scheduled construction payments. This would imply that, in case the fair value of the asset is lower than the present value of the construction payments, the liability would be measured at an amount lower than this present value. We suggest to reconsider the proposal in the light of this possible consequence. (staff note: see ‘other comments’ - Liabilities in SCAs - Guidance on Recognition & Measurement)</p>
21	Canadian Council for Public-Private Partnership	B	<p>In this area, CCPPP believes there is potential to reconcile the differing needs of the asset side of the public sector balance sheet (to fully record the fair value of the public capital stock) with the liability side of the balance sheet (to record the financial obligations which must be met by user charges, taxation or other forms of public sector revenue). In other words, the asset recorded in respect of an SCA could be greater than the corresponding liability.</p> <p>This goes to the heart of the PPP model. CCPPP believes the <i>Consultation Paper</i> does not effectively address one of the major issues associated with PPP accounting. This can be best summarized in the context of #114.</p> <p>Under most SCAs, the operator takes the risk on whether its proposed mix of investment in the construction of the property and its anticipated service (OMR) expenses provide the necessary performance to earn the concession payments.</p> <p>It is in practice quite difficult to separate capital improvements on an asset (capitalized) from O&M costs (expensed). This separation becomes almost impossible under an SCA arrangement when the operator will typically have the discretion to choose the approach used to meeting the performance standards.</p> <p>Where payments are regarded as inseparable, the <i>Consultation Paper</i> recommends capitalization of fair value at inception (#119). The practical challenge is</p>

	NAME	VIEW	COMMENT
			<p>how to determine fair value. Again using the simplified example above, the fair value of Bidder A may be determined to be higher than the fair value of Bidder B. The solution is the same – to ensure that fair value is determined in a way which does not prejudice the approach taken by any one bidder.</p> <p>Even if these payments are separable (#114) into capital and service payments, as long as a performance abatement affects both types of payment, then it is inappropriate to capitalize one and expense the other.</p> <p>This can best be seen in this very simplified example of two separate operators bidding for the same project (staff comment – please see response #21 for example).</p> <p>In CCPPP's opinion, it is essential for the fair value of the asset which is capitalized to reflect only the minimum level of capital cost. In other words, if a PPP operator chooses to invest more upfront to mitigate long-term operating and maintenance expenditures then this should not increase the capitalized value.</p> <p>The value of the capital asset could be computed using the fixed-price contract entered into by the private sector concessionaire adjusted by:</p> <ol style="list-style-type: none"> 1. Any ongoing operations required to be undertaken by the design-build contractor for an existing facility during construction; 2. The insurance- and executory-cost component of the design-build contract, which can be disclosed by the contractor; and 3. The monetary value of any specific, additional requirements placed on the design-build contractor by the private sector developer beyond the scope of the government requirements. Note: the monetary value of these requirements should be lower or equivalent to the present value of future operating and maintenance payments that would have otherwise been required if not for the intervention of the private sector developer. <p>The valuation above can be checked for reliability against a crude estimate of the asset value derived using the present value of the minimum-payment stream discounted based on the internal rate of return of the private sector concessionaire.</p> <p>The valuation can also be checked against the potentially more reliable fair-value assessment of the assets provided by the insurer of the project.</p>

	NAME	VIEW	COMMENT
			<p>CCPPP also recommends the importance of a public authority establishing its accounting treatment for a transaction prior to receiving bids from the market, to avoid accounting treatment prejudicing one bidder's approach over another's. This means the following types of solutions:</p> <ul style="list-style-type: none"> • using a hypothetical mix of construction and service inputs based on the grantor's own public sector comparator approach; or • using the average mix of construction and service inputs of all the bids received. <p>It means not digging into the actual mix of construction and service inputs used by the winning bidder.</p> <p>CCPPP strongly endorses the recommendation (#122) that the appropriate discount rate used to discount minimum lease payments should be the operator's cost of capital specific to the SCA. This should ideally be done on an average basis so as not to discriminate between the costs of capital of different operators bidding.</p>
22	Association of Chartered Certified Accountants	B	<p>ACCA is broadly in agreement with the three Specific Matters for Comment while not forgetting the complex practical issues raised above.</p> <p>...we do not consider that sufficient guidance has been given to the implied financing charge to be disclosed in the grantor's books. From the perspective of the operator this is a major consideration. When assembling the commercial package the operator typically follows the following steps:-</p> <ul style="list-style-type: none"> • Establish the forecast construction cost • Establish the forecast life time operating costs • Establish the expected return to the investor • Sculpture the debt to minimise cash flow exposure • Agree the financing costs <p>Typically the operator will be highly leveraged, with virtually all of the funding being secured from senior and mezzanine sources. In the construction phase of the concession, where the operator is bearing construction risk, the cost of capital will be priced to reflect that risk. However, once the installation is constructed, and that risk is passed, major opportunities for refinancing gains become apparent. An example of the magnitude of the gains is included with this</p>

	NAME	VIEW	COMMENT
			<p>response.</p> <p>We would therefore tend to agree with the Consultation when it suggests that the financing rate should be an estimate of the operator's cost of capital specific to the Service Concession Arrangement. Actually determining that cost of capital, however, is not a simple task.</p> <p>This is but one aspect of the complexity of accounting for Service Concession Arrangements. We have found it of use to go back to first principles with a theoretical example and to follow the double entry bookkeeping entries. The attached spreadsheet shows our workings and may be of help in subsequent illustrative guidance from IFAC on this topic.</p> <p>Staff note: Please see response #22 for spreadsheet example.</p>
23	Florida Institute of Certified Public Accountants	A	<p>Yes. We agree the underlying property should be reported by the grantor as an asset and the related liability should initially be measured based on the fair value of the property except in cases where scheduled payments made by the grantor can be separated into a construction element and a service element. In those cases, the present value of the scheduled construction payments should be used if lower than the fair value of the property.</p>
24	Professor David Heald - University of Aberdeen Business School	D	
25	South Africa Accounting Standards Board	A	<p>We support the proposals on the initial measurement of separable and inseparable scheduled payments.</p>
26	US Governmental Accounting Standards Board	A	<p>Yes. We agree with the proposals made in the Consultation Paper associated with this question.</p>
27	Wales Audit Office	A	<p>6. We agree with the use of fair value in estimating the initial value of the property.</p> <p>7. Where it is possible to separately identify a payment stream linked to the underlying property and where using this method will result in a value that is lower than fair value calculated by other means, it is reasonable to estimate the fair value of the asset by reference to the present value of that payment stream Where a separate payment stream cannot be identified, the asset value should be measured using</p>

	NAME	VIEW	COMMENT
			<p>a fair value approach.</p> <p>8. Paragraph 122 notes that scheduled payments for a SCA should be allocated between amounts that reduce the liability associated with the asset, the imputed finance charges and charges for services provided by the operator. The paper concludes that the imputed finance charge should be considered by reference to an estimate of the operator's cost of capital specific to the SCA. It would be useful to practitioners to provide an example of how the cost of capital might be estimated. In the UK, HM Treasury has provided further guidance in the IFRS based Financial Reporting Manual.</p>
28	New Zealand Office of the Controller and Auditor-General	A	<p>We agree with the proposed basis for initial recognition of property associated with SCAs. However, we found the consultation paper did not clearly set out the reasons for there being a different approach for determining the imputed finance charge for separable and inseparable payments. For inseparable payments, it appears that the Board believes that by transferring financing risk to the operator, the grantor has subjected itself to the operator's cost of raising capital through borrowings or equity contributions. We feel this rationale equally applies to separable payments.</p> <p>The Board's preferred approach for inseparable payments, whilst consistent with current UK guidance on private-public-partnerships, is not consistent with IFRIC 4 Determining Whether an Arrangement Contains a Lease (IFRIC 4) paragraph 15. For inseparable payments, IFRIC 4 requires the finance charge to be based on the lessee's incremental borrowing rate of interest. In our opinion, the Board should base the imputed finance charge on existing IPSAS standards (in this case, IPSAS 13 Leases) rather than UK guidance, unless there is a clear rationale for departing from a relevant existing IPSAS.</p>
29	Canada - Auditor General of British Columbia	B	<p>In general, we agree that the measurement of the asset should be based on the fair value of the property.</p> <p>Base on our experience, fair value (at inception) can be measured as the amount that the operator paid to build/acquire the property. This can generally be obtained from the successful proponents financial models.</p> <p>Reducing the cost of the asset if the net present value of the scheduled payments is lower than the fair value is</p>

	NAME	VIEW	COMMENT
			<p>conceptually sound. However, it does lead to several significant issues that are discussed in the paper.</p> <p>Does the liability need to mirror the asset? At the core of this issue is whether the obligation is, in substance, a financial liability (and should be reported at fair value). We believe that the asset will mirror the liability at the start of the agreement. However, over time, it is unlikely that the payment stream (which represents the liability) will mirror the systematic amortization of the asset. As such, the asset and liability should be tracked and valued separately over the term of the agreement.</p> <p>What is the appropriate rate for discounting cash flows? The consultation paper suggests the operator's cost of capital should be used (based on the grantor subjecting itself to the operators cost of raising capital). An alternative view is the appropriate rate for measuring the accounting net present value should be the grantor's (government) incremental cost of borrowing (as it represents the rate at which the grantor can directly finance). To use the proponents cost of capital understates the liability. There are compelling arguments for both approaches, yet the paper focussed primarily on the former. In order to provide a complete analysis, it would be useful to compare and contrast the alternative approaches to selecting the discount rate.</p>
30	Australasian Council of Auditors-General	A	ACAG agrees with the proposed treatment.
31	Canada - Provincial Comptroller of Saskatchewan	B	<p>We agree with the proposals on accounting for property in specific circumstances. Cost continues to be the most appropriate measure for initially reporting capital property, and the lesser of fair value and the present value of scheduled payments is the best estimate of cost in these types of SCAs.</p> <p>In the consultation paper, there are a number of proposals for accounting for the property underlying the different types of service concession arrangement, which may lead to a less principles-based standard. We suggest that the proposals be combined where possible to help ensure the standard is not rules-based.</p>
32	United Kingdom – Financial Reporting Advisory Board	A	The Board agrees the proposal.
33	Canada – Québec Ministère des	B	<p>We agree with the paper's proposals that:</p> <ul style="list-style-type: none"> ◦ where the payments the government must make can

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	Finance		<p>be separated into a construction element and an operational element, the asset and the corresponding debt must be valued at the lesser of the present value of construction payments or the fair value of the asset;</p> <ul style="list-style-type: none"> ○ where the construction payments cannot be separated from those relating to the operation of the asset, the asset and the corresponding debt must be valued at the fair value of the asset. <p>However, we disagree with the proposals regarding the fact that the theoretical interest charge must be calculated using the financing cost of the private partner.</p> <p>The financing rate must reflect the substance of the transaction between the public and the private partners. For instance, to the degree that the government must recognize the asset and the debt, it is appropriate to justify a financing rate closer to the financing rate on the government's long-term borrowings.</p> <p>Where a government borrows each year to fund all of its needs and projects and where no project is funded by a specific borrowing, the financing rate the government assumes on its long-term borrowings to calculate the theoretical interest charge is certainly the most appropriate.</p> <p>Accordingly, in the case where the costs associated with the two types of contract execution used by governments, namely conventional and public-private partnership (PPP), are funded the same way (i.e. by borrowings contracted on an overall basis rather than by project), the same rate must be used to calculate the theoretical interest charge, namely the financing rate the government assumes on its long-term borrowings.</p> <p>We believe that the theoretical interest charge must reflect the government's cost of borrowing, since the public-private partnership mode is just an infrastructure acquisition "technique". In our view, the present value of future flows that will have to be disbursed must be analyzed from the standpoint of the "government – investor", not from the standpoint of the capital cost for the private partner that finances the project.</p> <p>Lastly, the consultation paper does not mention the discount rate that should be applied to determine the value of the asset to record in governments' books.</p> <p>In this regard, we are of the view that the discount rate</p>

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			should be the same as the rate used to calculate the theoretical interest charge, i.e. the financing rate the government assumes on its long-term borrowings.

REQUEST FOR COMMENT 3 – RECOGNITION OF INFLOWS OF RESOURCES

Contractually determined inflows of resources to be received by a grantor should be recognized as revenue 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.

Agree	A	19
Agree with comment	B	6
Disagree	C	0
No clear view expressed	D	8
Total		33

Of those expressing a view - % supporting view:	A	81%
	B	19%
	C	0%

	NAME	VIEW	COMMENT
1	The Institute of Certified Public Accountants of Cyprus – Public Sector Committee	B	<p>Revenue recognition of contractually determined inflows to be received by the grantor from an operator as part of an SCA is in line with the IPSAS 9 “Revenue from Exchange Transactions”.</p> <p>However, we believe that the term “fully operational”, used to determine when the concession term commences, is somehow ambiguous. For instance, in the case of the construction of a new toll road under an SCA, will the grantor commence to recognise contractually determined inflows of resources as revenue once the one way direction of the road is fully operational (assuming that the grantor provides the operator access to the road by then) or will the revenue recognition commence once the whole project is fully operational?</p> <p>We suggest that the Consultation Paper should also include real-life examples and/ or further interpretation of the term, so that this ambiguity to be restricted.</p>
2	CPA Australia Ltd, The Institute of Chartered Accountants in Australia, National Institute of Accountants	A	We agree with this proposed treatment.

	NAME	VIEW	COMMENT
3	Canadian Public Sector Accounting Standards Board	B	<p>We support this position. When a grantor is in receipt of inflows arising from contractual provisions associated with an SCA, their recognition as revenue should occur as the grantor fulfills its obligations.</p> <p>In many cases, the economic obligation involves access to a resource or a right given to the operator that is integral to conduct of the SCA. The right may be exclusive or it may simply exclude others who do not hold such rights. It may be the right to provide a service, which may or may not involve the collection of a user charge.</p> <p>Since liabilities are associated with the sacrifice of future economic benefits, their fulfillment may be tied to the passage of time but satisfaction of specific contractual requirements may also be relevant. This would certainly be the case where the economic benefit transferred involves a natural resource and possibly when it is known at the outset that the rights associated with the concession will be of measurably greater significance in certain years of the concession. For example, in 2008 a government might grant a concession to operate a hotel located in Whistler, British Columbia (site of the 2010 Olympics) for five years. If the terms allow the operator to set the hotel rates based on market demand, the concession's value is arguably greatest during the 2010 fiscal year.</p> <p>The straight-line method may not always reflect the underlying economic consumption of the benefit foregone. Accordingly, we do not believe that the straight-line method should be given prominence over any other method that recognizes the sacrifice of economic benefits associated with the contractual rights transferred.</p>
4	French Ministry for the Budget, Public Accounts and Civil Service	D	<p>A liability is defined as "a present obligation of the entity resulting from past events and whose extinction should lead to the entity by an outflow of resources embodying economic benefits. A liability is recognised on the balance sheet when it is probable that an outflow of resources will be required to settle this obligation and liabilities that can be measured reliably. "</p> <p>But in the case of payments made by the end user, the CP proposes to account in return for the asset received a liability for a deferred revenue, which represents the "cost" theoretical detention. It should specify the conditions for reversal in the financial performance</p>

	NAME	VIEW	COMMENT
			<p>statement and to clarify the meaning in relation to financial reporting.</p> <p>The proposed recognition of the liabilities in the CP does not appear to meet this above definition where end users make payments: there is no obligation or outflow of resource for the public entity.</p> <p>In addition, the possibility of recognition of an asset by the counterparty of the net position is not dealt with in the CP, which retains an obligation. Or should examine the case of an asset received free of charge (which may be the case where the end-user who finance), whose counterparty could be recognised in the net position. (staff note: see ‘other comments’ – Liabilities in SCAs – Deferred Revenue).</p>
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	B	<p>HOTARAC agrees that contractually-determined inflows should be allocated over the entire concession period as they are received in exchange for granting the concession.</p> <p>Paragraph 196 proposes that contractually determined inflows to be received by a grantor from the operator as part of an SCA should be recognised as revenue by the grantor as they are earned over the concession term, using an appropriate allocation method. Question three of the Consultation Paper specifically seeks comment on this.</p> <p>HoTARAC agrees with this proposal and it favours allocating such revenue on an annuity basis because of the longevity of SCAs.</p> <p>Sometimes, as in a Build-Own-Operate-Transfer arrangement, the contractually determined inflow will be the residual interest in the SCA property, which the grantor receives for zero payment. HoTARAC considers that the proposal applies equally to such cases. Where a grantor receives a residual interest in the SCA property at the end of the term for zero payment, the grantor should recognise an asset and revenue, built up over the concession term.</p> <p>HoTARAC recommends that the proposals be expanded to explicitly indicate that, not only the asset, but also the revenue, is to be reported over the concession term, in the case of an SCA where the grantor receives a residual interest in the property for zero (or payment that is less than fair value).</p> <p>HoTARAC also notes that the residual interest in the SCA property, given in exchange for the service concession, can be likened to a royalty. Paragraph 25 in</p>

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			the Appendix to IPSAS 9 <i>Revenue from Exchange Transactions</i> (and Appendix paragraph 20 of AASB 118 or IAS 18 <i>Revenue</i>) requires royalty payments to be allocated on a straight line or other justifiable basis in accordance with the substance of the agreement. This also supports HoTARAC's recommendation.
6	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance	A	Yes, we fully agree.
7	Dr. Joseph S Maresca	D	
8	France - Direction Generale des Finances Publiques	D	
9	France - Ministere de la Sante, de la Jeunesse, des Sports et de al Vie Associative	D	
10	The Institute of Chartered Accountants of Scotland	A	We believe that inflows of resources received by a grantor from an operator should be recognised when the grantor has the right to consideration. We believe that the right to consideration should be the basis of any accounting policy on revenue recognition and we agree that in the case of a SCA it is likely that the right to consideration is earned over the life of the SCA beginning at the commencement of the concession term.
11	France - Cour des Comptes	D	
12	Fédération des Experts Comptables Européens	A	FEE agrees with this proposal.
13	The Association of International Accountants	A	AIA agrees with this proposed treatment.
14	International Monetary Fund	D	
15	City of Calgary, Alberta, Canada	A	The City agrees with this approach.
16	UK National Audit Office	A	Question 3 – revenue recognition – we agree with the suggested approach.

	NAME	VIEW	COMMENT
17	The Japanese Institute of Certified Public Accountants	A	We agree with this proposal. The reason is as follows. Recognizing contractually determined inflows of resources to be received by a grantor from an operator as part of an SCA as revenue by the grantor as they are earned over the life of the SCA beginning at the commencement of the concession term is consistent with the guidance prescribed in IPSAS 9 that revenue associated with the transaction involving the rendering of services should be recognized by the reference to the stage of completion of the transaction.
18	UK - The Chartered Institute of Public Finance and Accountancy	A	CIPFA agrees with this proposal.
19	Dexia Bank Belgium	A	DBB agrees with this proposal. DBB is in favour of the proposal that for the recognition as revenue of the inflows, a method, different from the straight- line method can be used if, given the facts and circumstances of the SCA, this method better reflects the operator's economic consumption of the access of the property and/or time value of money.
20	The Netherlands Court of Audit	B	We tend to agree with this proposal. There is, however, one aspect that needs some further clarification, and maybe also reconsideration. The question whether the property is fully operational, is not just depending on the grantor providing access, but also on the operator actually using the property. We would propose to strictly connect revenue recognition with the performance of the grantor, that is, has the grantor provided access. Otherwise, revenue recognition would have to be postponed –or interrupted- in cases where property is not operational due to circumstances exclusively on the operators side.
21	Canadian Council for Public-Private Partnership	D	With regard to #126-132, this implies that the grantor must recognize as an asset property at its fair value and then record as an offsetting liability the obligation of the grantor to provide access to the property. (staff note: see 'other comments' – liabilities in SCAs – deferred revenue).
22	Association of Chartered Certified Accountants	A	ACCA is broadly in agreement with the three Specific Matters for Comment while not forgetting the complex practical issues raised above. Staff comment: See Other Comments

	NAME	VIEW	COMMENT
23	Florida Institute of Certified Public Accountants	A	Yes. We agree 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 and amounts received in advance of providing a commensurate level of access to the property should be reported as a liability.
24	Professor David Heald - University of Aberdeen Business School	D	
25	South Africa Accounting Standards Board	A	We support this proposal.
26	US Governmental Accounting Standards Board	A	Yes. We agree with the proposals made in the Consultation Paper associated with this question.
27	Wales Audit Office	A	<p>9. Revenue sharing provisions are often incorporated into the terms of an SCA. We agree that resource inflows should be recognised as revenue as they are earned. For SCAs where there is a contractual entitlement, we agree that this should occur over the operational life of the SCA and amounts received in advance of this date, recognised as a liability.</p> <p>10. This treatment would be consistent with paragraph 42 of IPSAS 13 Leases, which states that lease payments under an operating lease shall be recognised as an expense on a straight line basis over the lease term. Paragraph 19 of IPSAS 13 also states that a payment made on entering into or acquiring an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.</p> <p>11. The proposed treatment of cash inflows would, in our opinion, be consistent with the principle behind the treatment of lease payments.</p>
28	New Zealand Office of the Controller and Auditor-General	B	<p>We agree with the Board's proposal, however, provide specific comments below.</p> <p>In our opinion, the term fully operational is ambiguous and may lead to different interpretations for when revenue recognition should commence. For example, is property fully operational when it is in a condition that it is ready to be used by the operator or when it is actually being used by the operator?</p> <p>We suggest revenue recognition be described as</p>

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			<p>commencing when property subject to the SCA is available to be used by the operator. Revenue recognition from that point in time is consistent with the requirement of IPSAS 17 paragraph 71 that depreciation of the underlying asset commence when it is available for use.</p> <p>Paragraph 195 of the consultation paper outlines that the time value of money notion may be appropriate for a SCA with a term extending over several decades. The time value of money notion is an issue, particularly where a grantor receives concession payments from the operator at the commencement of a SCA that has a term spanning several decades.</p> <p>In New Zealand, we have a SCA where the grantor received a significant concession payment at the commencement of the SCA that spans 50 years. The grantor of this SCA recognises a finance cost based on the outstanding amount of the unearned revenue liability and an associated amount of revenue so as to recognise an equal amount of revenue over each period of the arrangement. Particular issues we have had to consider with this SCA included an assessment of whether the finance cost and concession revenue be reported gross or net in the statement of financial performance and the basis for determining the discount rate given the long-term nature of the liability.</p> <p>We note that the discounting of revenue received in advance of it being earned is not common in practice and is not specifically considered by the IPSAS or IFRS standards. IPSAS 9 Revenue from Exchange Transactions paragraph 16 provides guidance for the measurement of revenue where payment is deferred, but does not require the same approach for payments received in advance.</p> <p>At a conceptual level, we accept the argument for discounting revenue received in advance of it being earned. However, we are concerned about how this concept is applied in practice and how it is reported in the financial statements of grantors. We believe that further guidance is needed if the Board proposes to apply the notion of the time value of money to payments received in advance (see comments below on guidance and illustrative example), including clarity about when it shall be applied.</p>
29	Canada - Auditor General of British	A	We agree that inflow of resources should be deferred

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	Columbia		until the commencement of service, and recognized in a systematic manner (based on the level of service provided). This is consistent with the concept of government deriving benefit from future service potential (substance over form).
30	Australasian Council of Auditors-General	A	ACAG agrees with the proposed treatment.
31	Canada - Provincial Comptroller of Saskatchewan	B	<p>We agree with this proposal for revenue recognition as it follows the principle that revenue be reported in the period that it is earned.</p> <p>The revenue recognition proposals in paragraphs 190 and 196 are both based on the principle that revenue be recognized when earned, that is, when the service that brings about an economic benefit has been provided. As stated above, we agree with the principle, and understand that for discussion purposes the two issues need to be addressed separately. However, we suggest the standard include one recommendation for revenue recognition and any additional guidance on specific situations, including the assessment of any contingent events, be provided in supporting paragraphs.</p>
32	United Kingdom – Financial Reporting Advisory Board	A	The Board agrees the proposal.
33	Canada – Québec Ministère des Finance	A	We agree with the IPSASB proposal.

ANALYSIS OF RESPONSES TO CONSULTATION PAPER *ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS* – OTHER COMMENTS

STAFF SELECTED ‘OTHER COMMENTS’ FOR SPECIFIC CONSIDERATION – DISCUSSED IN 9.0

Staff selected ‘other comments’ for specific consideration relate to the following issues in 9.0

- **Issue 3 - Grantor financial reporting when control criteria not met** - see summary of related comments - page 2 below;
- **Issue 4 - Scope broader than grantor reporting** - see summary of related comments - page 9 below; and
- **Issue 6 – Revenue Recognition** – see summary of related comments - page 12 below.

PAGE 28 ONWARDS CONTAINS THE REMAINDER OF ‘OTHER COMMENTS’ RECEIVED

ISSUE 3 OF 9.0 - GRANTOR FINANCIAL REPORTING WHEN CONTROL CRITERIA NOT MET

	Name	Comment	Staff Response
GRANTOR FINANCIAL REPORTING WHEN CONTROL CRITERIA NOT MET			
		Control Criteria Not Met Application of Leasing Guidance	
21	Canadian Council for Public-Private Partnership	<p>CCPPP believes that it is inappropriate to revert to lease guidance if the SCA meets the control-over-use criterion but does not meet the residual-interest criterion.</p> <p>CCPPP believes that the typical SCA does not meet the definition of a finance lease (#57) which “transfers to the lessee substantially all of the risks and rewards incident to ownership”. We believe that under most SCAs the majority of the risks and the majority of the financial rewards belong to the operator not the grantor. The key provision in our view is whether at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Under most SCAs, the asset does not exist at the inception of the transaction. The operator is exposed to the full risk of completing construction of the asset and will typically not be entitled to any payments until this is achieved.</p> <p>Once construction is completed successfully, there may be a probability argument that the required level of service is likely to be met and therefore that the payments are relatively certain, but in fact the operator is rarely entitled to minimum lease payments and is exposed to the risk of both the underlying asset and any associated services meeting the performance standards necessary to receive any or all payments.</p> <p>This is a radically different arrangement from, for example, buying a motor vehicle from General Motors and accepting a lease financing package.</p>	

	Name	Comment	Staff Response
25	South Africa Accounting Standards Board	<p><i>159. The Board proposes that for SCAs in which neither of the proposed control criteria discussed in the previous section is met, the grantor should not report the underlying property as an asset. Consequently, any outlays related to the SCA are for a service, not for property, and therefore, should be expensed as incurred, that is, as the economic benefits of the service are rendered. If the underlying property exists and is reported by the grantor as an asset at the time the SCA is entered into, the property should be derecognized as in a disposal under IPSAS 17.</i></p> <p>We are of the view that, if either one of both of the proposed control criteria has been met, that the grantor should first determine whether the SCA constitutes a lease, as defined in IPSAS 13. Only if the SCA does not constitute a lease should the grantor expense any payments to the operator as proposed in paragraph 159.</p> <p><i>160. The Board proposes that the guidance in IPSAS 13 for lessees should be followed for SCAs in which the grantor only controls the use of the property during the arrangement (such as in certain BOO arrangements), if the arrangement meets the definition of a lease.</i></p> <p>In terms of the proposed control criteria, both criteria need to be met before the property and associated liability is recognised by the grantor. Therefore, if either one of both of the proposed control criteria has been met, the grantor's next step will be to determine whether the SCA constitutes a lease as defined in IPSAS 13. Whether the lease should be classified as a finance or operating lease will depend on risks and rewards incidental to the ownership of the property. Only if the SCA does not constitute a lease should the grantor expense any payments to the operator as proposed in paragraph 159.</p> <p><i>161. If the grantor only controls the use of the property during the SCA, and the SCA does not meet the definition of a lease</i></p>	

	Name	Comment	Staff Response
		<p><i>because the grantor maintains ownership of the underlying property during the arrangement, the Board further proposes that the grantor should report the property as an asset. If the SCA in this case involves newly constructed property, the property and a related liability would be reported and measured as described in the previous section on grantor financial reporting when the control criteria are met. At the end of the arrangement, the remaining carrying value of the property would be derecognized, reflecting the transfer of the property to the operator. If the SCA does not meet the definition of a lease and the grantor does not own the property, then the grantor should not report the property as an asset. Instead, the grantor should expense any outlays related to the SCA as incurred.</i></p> <p>In terms of the proposed control criteria, both criteria needs to be met before the property, and associated liability, is recognised by the grantor. If the grantor only controls the use of the property during the SCA, whether existing or newly constructed property, the grantor's should determine whether the SCA constitutes a lease as defined in IPSAS 13, if either one of both of the proposed control criteria has been met. Only if the SCA does not constitute a lease should the grantor expense any payments to the operator as proposed in paragraph 159.</p>	
		<p>Control Criteria Not Met Only Control Over Residual Interest Met</p>	
3	Canadian Public Sector Accounting Standards Board	<p>We believe IPSASB has concluded that some aspect of control over a residual interest is a fundamental distinguishing characteristic of an SCA. As such, we believe the usefulness of the standard in practice would be enhanced if guidance is included as to measurement of the residual interest on initial recognition and the need to re-evaluate the carrying value in subsequent periods, in line with the entity's accounting policies specific to the measurement of</p>	<p>Staff view: See response 25 below – related to the same issue.</p>

	Name	Comment	Staff Response
		property. This guidance should specifically address whether the value is discounted and align with other guidance provided on how the discounted rate should be determined.	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>Paragraphs 150 and 162 deal with how a grantor should account for an arrangement, involving newly-constructed SCA property, where it only controls the residual interest therein at the end of the concession term but not the use thereof during the term. Those paragraphs propose that the grantor recognise its interest as an asset, built up over the concession term, and measured as the excess of the expected fair value of the property at the end of the term over the amount payable by the grantor on reversion.</p> <p>While HoTARAC agrees with the need to build up the asset over the concession term, the proposal does not specifically consider the case of a grantor receiving such a residual interest without having to pay for it. The grantor in such arrangements grants the service concession solely in exchange for its right to receive the infrastructure (in good condition) at the end of the arrangement. The grantor pays nothing for the property it receives. Such arrangements are common in Australia and often involve toll roads. HoTARAC considers that the guidance in the proposals, and also in FRS 5-F, applies equally to such zero-payment cases. The grantor would recognise an asset, built up over the concession term and measured as the expected fair value of the property at the end of the term.</p> <p>HoTARAC strongly recommends that the proposals be expanded to explicitly cover the case of an SCA where the grantor receives a residual interest in the property for zero payment.</p>	Staff view: Staff concur that the respondents scenario has merit. There is difficulty in covering off all possible scenarios in the CP. In developing final guidance, staff will give further consideration to the comment – possibly in the development of examples to accompany the guidance.
21	Canadian Council for Public-Private Partnership	<p><u>Extending Useful Life of Asset</u></p> <p>CCPPP endorses the <i>Consultation Paper's</i> recommendation that the portion of payments attributable to extending the useful life of the asset should be recognized as an asset (#154).</p>	

	Name	Comment	Staff Response
		<p>A typical SCA hands back to the grantor at the end of the term an asset with a significant useful life and a fair value which will typically greatly exceed the cost to the grantor of purchasing back the asset (usually zero). This value is rarely recognized because the built costs of the asset are fully amortized during the term in parallel with the reduction in liability as the payments are made. The remaining portions of the payments (reflecting OMR) are expensed, even those which actually contribute to ensuring that the asset has a useful life and value after the end of the term.</p> <p>A simplified way to achieve this would be as follows:</p> <p>A grantor will usually depreciate its highway assets over 40 years. However, the hand-back conditions under an SCA over a new highway require an asset condition which delivers a useful economic life of 10 years after a 40-year concession period. The capital payments should accordingly be amortized over 50 years rather than the typical 40.</p> <p>Note this does not solve two problems:</p> <ol style="list-style-type: none"> 1. The capitalized “debt” value of the SCA will still be higher than appropriate, even though the annual budgetary impact will be lower. 2. It does not address the portion of the service payments spent on capital rehabilitation which will be expensed as incurred rather than capitalized as they appropriately should be. <p>Another way to look at this would be to try to specifically identify the proportion of the capital payment that is being allocated to extend the life of the asset and capitalize this as the increase in the asset value. The emerging asset approach described below as applicable to user pay transactions may have some application here. For example, as the initial fair value of the asset is being amortized, the value could be written back by an index reflecting the increase in construction costs for a new road.</p>	

	Name	Comment	Staff Response
25	South Africa Accounting Standards Board	<p>162. <i>For SCAs involving newly constructed property in which the grantor does not control use of the property during the arrangement, but instead controls the residual interest in the property at the end of the arrangement (such as in certain BOOT arrangements), the Board proposes that the grantor report as an asset the excess of the expected fair value of the property at the end of the arrangement over the amount the grantor will be required to pay the operator upon reversion. This asset should be built up from payments made by the grantor to the operator over the life of the SCA.</i></p> <p>Even though we support this proposal, we are of the view that the operator may account for the property under this SCA in a different manner when applying IFRIC 12, IFRIC 4 and IAS 17. The grantor would account for the transaction in terms of IPSAS 13 as the proposed control criteria were not met. The property would in all probability be recognised as a leasehold improvement and the land as an operating lease. It is unclear how the grantor would account for the residual value that needs to be returned to the operator. We therefore recommend that consideration be given to the accounting by the operator to ensure that both parties come to the same conclusion when applying the approach applicable to them. Also refer to our comment raised under general matters.</p> <p>Furthermore, guidance should be given on how to determine the expected fair value of the property at the end of the arrangement, for example, is the residual value representative of the residual value as defined in IPSAS 16?</p> <p>163. <i>For SCAs involving existing property in which the grantor does not control use of the property during the arrangement, but instead controls the residual interest in the property at the end of the arrangement, the Board proposes that the guidance for lessors in IPSAS 13 should be followed if the arrangement meets the definition of a lease. If the arrangement does not</i></p>	

	Name	Comment	Staff Response
		<p><i>meet that definition, the grantor should derecognize the property as an asset, and recognize as an asset the operator's obligation to return the property at the end of the arrangement. This asset should be recognized at the expected fair value of the property at the end of the SCA. The net derecognition amount should be reported as a gain or loss in the period in which the SCA was entered into.</i></p> <p>As stated in our response to the proposal in paragraph 162, even though we support this proposal, we are of the view that the operator may account for the property under this SCA in a different manner when applying IFRIC 12, IFRIC 4 and IAS 17. The grantor would account for the transaction in terms of IPSAS 13 as the proposed control criteria were not met. The property would in all probability be recognised as a leasehold improvement and the land as an operating lease. It is unclear how the grantor would account for the residual value that needs to be returned to the operator. We therefore recommend that consideration be given to the accounting by the operator to ensure that both parties come to the same conclusion when applying the approach applicable to them. Also refer to our comment raised under general matters.</p> <p>Furthermore, guidance should be given on how to determine the expected fair value of the property at the end of the arrangement, for example, is the residual value representative of the residual value as defined in IPSAS 16?</p>	

ISSUE 4 OF 9.0 - SCOPE BROADER THAN GRANTOR REPORTING

	Name	Comment	Staff Response
		Scope Broader than Grantor Reporting	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>Paragraph 62 notes that the existing or proposed guidance on accounting for SCAs can result in different reporting results even under the same set of circumstances. To overcome this, paragraph 63 suggests there is a need for a harmonised approach to reporting. IFRIC 12 gives guidance for operators but does not consider the grantor's perspective. The Consultation Paper proposes guidance for grantors but does not consider the operator's perspective. Such unilateral approaches, only considering one party's point of view, may produce a biased accounting treatment that does not reflect the substance of the transaction consistently for both parties. Consequently, SCA property might be recognised by both parties, or neither party. HoTARAC observes several instances of the latter in Australia.</p> <p>Although two parties to a transaction may have asymmetrical accounting treatments, this usually arises where they are applying consistent rules and concepts but where their individual circumstances are different. HoTARAC considers it undesirable, however, if SCA property goes unreported because each party is applying inconsistent rules and concepts.</p> <p>IFRIC 12 and the proposals in the Consultation Paper are not equally applicable to both SCA parties. Nor are their control tests based on explicit, generally applicable concepts for determining control of an asset. HoTARAC considers that any accounting guidance for SCAs should be conceptually based and equally applicable to both parties to the arrangement.</p> <p>IFRIC 12 only applies to operator accounting for SCAs under which the SCA property is grantor controlled. Arguably, its broad control tests were framed to demonstrate such grantor control.</p>	

	Name	Comment	Staff Response
		<p>Similarly, in the Consultation Paper, the control tests based on those in IFRIC 12, and the accompanying discussion seem to be premised on grantor control of SCA property.</p> <p>HoTARAC suggests that a more conceptually balanced approach would be to consider the arrangement in its totality and test which SCA party controls the SCA property, without prejudging which party that will be.</p>	
25	South Africa Accounting Standards Board	<p>Even though this consultation paper provides guidance on the accounting treatment for SCA by grantors, we recommend that, when future guidance is developed by the IPSASB on the accounting and financial reporting for SCA, consideration be given to the contra entries of the operator to ensure that any property, liability and/or rights granted to the parties in terms of the SCA are treated symmetrically, i.e. that both parties come to the same conclusion when the applicable principles are applied. Certain inconsistencies may arise as a result of the application of the proposed approach in the consultation paper. This consultation paper propose a control approach, which is in line with IFRIC 12, but in addition, also provides guidance on assessing the risks and rewards which is not addressed in IFRIC 12. If the IPSASB is of the view that additional guidance should be provided by the IASB, we encourage the IPSASB to address the matter with the appropriate parties.</p>	
26	US Governmental Accounting Standards Board	<p>We believe that any future authoritative pronouncement issued by the IPSASB on SCAs should include financial reporting guidance for the operators involved in such arrangements. We are not convinced that SCAs for which a governmental entity that is not a government business enterprise serves as the operator occur as seldom as asserted in the Consultation Paper. In fact, in the United States, the prospect of governmental entities that would not be considered governmental business enterprises serving as operators in SCAs is gaining additional attention as concerns are raised about</p>	

	Name	Comment	Staff Response
		private sector entities operating vital infrastructure. Further, consideration of how operators should report these transactions may highlight additional financial reporting issues for grantors, or issues with the current proposals in the Consultation Paper, that might otherwise go unidentified.	

ISSUE 6 OF 9.0 - ISSUE 6 – REVENUE RECOGNITION

	Name	Comment	Staff Response
		Liabilities in SCAs Deferred Revenue	
4	French Ministry for the Budget, Public Accounts and Civil Service	<p>5) Liabilities</p> <p>Where the grantor sees its payments reduced or cancelled when the private operator is paid by the user or when the private operator receives a field for which he pays a nominal rent, the consultation paper proposes that the grantor recognises the underlying property at fair value and in return, recognise a related liability, adjusted with amount of payments received or made (or make in the future) constitute a receipt of consideration in advance (deferred revenue).</p> <p>A resource inflow giving rise to deferred revenue is conceivable if a related tangible asset is recognised on the balance sheet of the public entity. This deferred revenue can be justified by the fact that the public entity benefits from a resource that takes the form of property, net of cash received, paid or payable, without having yet issued its share of exchange, which is to provide access to good the private operator, or to be responsible as a last resort (accountable) for the provision of service to the user in case of default by the private operator.</p> <p>However, it is a very broad interpretation of the concept of deferred revenue, which is generally intended to register the return of a cash flow cashed while the corresponding benefit has not been delivered. Begin to recognise an obligation of this nature is a new issue which ought to be studied. It should clarify that this case goes beyond the SCA, including through the work of the conceptual framework.</p>	<p>Staff view: It appears the respondent agrees with the basic premise but express concern because the resource receipt that is causing the deferral may be property as opposed to cash (although it could be cash instead of property say for example when the property already exists). The definition of revenue in IPSAS 1 is broad and is based on the gross inflow of economic benefits or service potential resulting in an increase in net assets. It is not specific to cash. Therefore, although a receipt of property causing deferred revenue may be unusual, staff consider it is conceptually sound.</p>

5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>Paragraphs 135 and 138 propose that a grantor would recognise an asset and a liability in respect of grantor-controlled SCA property constructed by the operator as part of the arrangement. The grantor's liability would represent its obligation to pay the operator for the construction of the property or, if there is no payment obligation, to provide access to the SCA property.</p> <p>HoTARAC considers the explanation of the nature of the liability to be flawed. In such SCAs, the grantor would always have an obligation to provide the operator with access to the SCA property. If a grantor is to recognise a liability for its obligation to provide access, it is inconsistent to suggest it should only do so where it has no payment obligation.</p> <p>HoTARAC does not consider that a grantor should recognise its obligation to provide access. This would be a departure from current accounting practice in relation to agreements equally proportionately unperformed, with wide-ranging ramifications. Any change in this area would need to be the subject of a detailed investigation on a range of affected transactions.</p> <p>HoTARAC considers that where a grantor controls the SCA property and has no obligation to pay for it, the operator has given the property to the grantor in exchange for receiving the service concession. It is effectively an up-front service concession fee akin to a royalty. The grantor should therefore defer it and amortise it to revenue over the term of the SCA.</p> <p>While the grantor's access obligation would exist under all SCAs involving grantor-controlled property, an up-front service concession fee (in kind) would only arise in those cases where it was negotiated as part of the arrangement. Deferral and amortisation of the up-front fee would achieve the same accounting outcome as the proposal to recognise an access obligation where the grantor has no payment obligation.</p>	<p>Staff view: Staff consider that this issue could be a matter of semantics. It appears the respondent agrees with the concept of a deferred revenue for upfront payments and even new property when the grantor's payments are reduced or eliminated by the operator's ability to charge users of the property.</p> <p>The area of concern seems to be describing the grantor liability as the obligation to grant access to the property. Staff see the respondents view—the granting of physical access to the property is the same when the grantor makes payments or doesn't make payment. It is the granting of the right to charge users of the property, or as they say the service concession, that is what the grantor is exchanging. Staff consider this concern can be corrected with a more precise description of the grantor portion of the exchange.</p>
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8	France - Direction Generale des Finances Publiques	<p>- Concerning other contracts (leasing, BEA, AOT, CP, BEAH) : it could be admitted that all controlled properties be recorded as assets. However, several difficulties are to be considered:</p> <ol style="list-style-type: none"> 1. First, the consideration of these properties, when placed into service, cannot be accounted for as income recorded in advance (PCA); indeed, the very strong articulation of general accounting and budgetary accounting makes it necessary for integrated properties without an immediate outflow of cash to have their counterparts recorded in the "high balance" or debt (long term); 2. In addition, a contribution in debt without receiving funds may result in difficulties when public actors have chosen these procedures for purposes of debt "deconsolidation". This difficulty must be taken into account in the policy communication carried out by local entities. 	Staff view: Staff believe the concern is that this liability would be considered debt. Staff do not consider the amount to be a debt per se, as there are no payments to be made. No change is proposed.
11	France - Cour des Comptes	<p>2.3.1. The accounting method proposed by IPSAS for the proceeds paid by private operators, i.e. the recording under periodic income, is effectively stipulated when these proceeds exist.</p> <p>2.3.2. Generally speaking, the consultation paper appears insufficiently developed on the issue of liabilities. The issue of the different nature of the liability whether or not the demand risk is borne by the operator is not tackled: in both cases, the only indication is that a "liability" should be recorded (additional details are only provided when the State pays the operator: referral to IPSAS standard no. 13, which indicates that a long- term debt should be recorded). Furthermore, for contracts in which the operator is paid by the end user, the consultation paper proposes that a liability should be recorded to offset the asset received, representing the theoretical "cost" of the fixed asset. This position is justified by the fact that IPSAS refers to its standard no. 17 and more specifically to § 38 regarding "asset exchanges". The tangible asset would be acquired as a compensation for the exchange of an intangible asset which is the "right of access to the asset".</p>	<p>Staff view: These comments express concern/opposition to the approach in the CP. Grantor's portion of the exchange is the granting of the service concession and once it has done that it no longer has anything further to deliver.</p> <p>Staff note the views of HoTARAC above who note that where a grantor controls the SCA property and has no obligation to pay for it, the operator has given the property to the grantor in exchange for receiving the service concession. It is effectively an up-front service concession fee akin to a royalty. The grantor should</p>

		<p>However, this raises several questions:</p> <ul style="list-style-type: none"> (i) the exchange is made to offset an asset (the right of access and the right to recover receivables from the end users) which is not previously recorded in the accounts of the grantor (or at the time of the exchange). The option consisting of considering that when the asset is “financed” by the end user, it is acquired for free by the State (27 of IPSAS standard no. 17) is not discussed. In both cases however, the asset is estimated at its fair value; (ii) above all, the qualification of the “exchange” operation involves the recording of a liability (prepaid income) in the accounts. This liability is recorded because the State receives resources in the form of an asset, without paying for its share of the exchange, i.e. the right to access the asset for the duration of the contract. Based on the assumption that the asset is acquired for free by the State, there is no exchange and therefore no liability; (iii) however, based on the assumption that the asset is acquired in exchange for an intangible asset which represents a right to access the asset, one can also assume that the State has “fulfilled its obligations” when it concedes the asset or when the asset is built by the grantor: as the demand risk is borne by the grantor, the State has only committed to granting a right of access. There would therefore be no reason to record a liability, insofar as the recognition of this asset and its payment (i.e. the right of access) would be simultaneous. The benefit of this accounting option would be to highlight the substantial difference between the public service delegations and the partnership contracts and equivalent contracts, i.e. the sharing of the economic risks between the private partner and the public partner (in one of the cases a liability is recorded and in the other it isn’t). 	<p>therefore defer it and amortize it to revenue over the term of the SCA.</p> <p>Staff consider such an approach could be justified within IPSAS 9 on royalties. No change proposed.</p>
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		<p>2.3.3. To sum up, the accounting method proposed by IPSAS in order to offset the recording of the tangible fixed asset in the accounts, i.e. a prepaid income under liabilities, can be adapted for contracts in which the State effectively bears the risks associated with the operation.</p> <p>2.3.4. On the other hand, for the contracts in which the State does not bear the risks associated with the operation and which should result in the recording of an intangible asset, the net equity accounting method seems more appropriate, reflecting the asset without an opposite entry under liabilities which represents the ability to grant the use or operation in the public domain. The accounts would therefore provide the accounts reader with a fairer representation of the assets of the States.</p>	
16	UK National Audit Office	<p>We are not convinced that a grantor will have a liability to the operator in those concessions where the operator collects usage fees directly from third parties rather than the grantor. Having made an initial grant of a license to the operator it is difficult to see that there is then a further obligation to transfer economic resources that would constitute a liability under IPSAS 19.</p>	
21	Canadian Council for Public-Private Partnership	<p>With regard to #126-132, this implies that the grantor must recognize as an asset property at its fair value and then record as an offsetting liability the obligation of the grantor to provide access to the property.</p> <p>We note above that we believe there is a significant difference in risk transfer between a “user-pay” transaction under which the operator is exposed to demand risk and commits to make payments to the grantor, and one in which the public sector makes all the payments.</p> <p>CCPPP believes that there are some challenging practical issues involved in this recommendation.</p> <p>The most common forms of payments from a concessionaire to a grantor are:</p>	

		<ol style="list-style-type: none"> 1. Payments to reimburse the grantor for certain costs incurred in making the concession available, for example costs of property acquisition. 2. Concession payments made upfront at financial close in return for the rights to a long term concession. 3. Concession payments made overtime in return for the rights to a long-term concession 4. Revenue-sharing arrangements under which the grantor receives payments provided that certain operating results are achieved. <p>We believe that only Example 1 one fully meets the recommendations of the <i>Consultation Paper</i>.</p> <p>Under Example 2, the conservative approach set out in the <i>Consultation Paper</i> would be to recognize the cash received as an asset but offset this by an equal liability in the form of a prepayment which is amortized proportionately over the term of the concession.</p> <p>However, this arguably understates the financial position as the grantor is typically not undertaking any activities or taking any risks in providing access to the operator and accordingly (other than not exercising its rights to terminate) is not doing anything which could result in an obligation to refund the upfront concession payments. CCPPP believes, therefore, that it is inappropriate to record a liability associated with the concession payments if there is no situation under which the concession payment can be reimbursed.</p> <p>Example 3 is not different in concept to Example 2 other than the fact that the grantor is taking the credit risk of the project in order to receive its payments over time. As the project will typically be a special-purpose vehicle with limited resources beyond the success of the project, it is likely appropriate to conservatively record the cash inflows as an asset only as and when they are received.</p>	
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		<p>Under Example 4, it is definitely appropriate to record any cash inflows as an asset only as and when they are received.</p> <p>In order to avoid “over inflating” the public-sector balance sheet and potentially providing misleading information about the nature of private sector liabilities, CCPPP favours an approach which has been utilized in Australia referred to as the “emerging asset” approach. Under this approach, a public sector agency which has a residual interest in a user-pay asset such as a toll road at the end of an SCA term, would estimate the fair value of the asset at the end of the term and record the asset proportionately over the life of the SCA. In other words, a toll road under a 20-year concession with an estimated fair value of \$100 million at the end of the term, would add an asset value of \$5 million each year.</p>	
18	UK - The Chartered Institute of Public Finance and Accountancy	<p>IFRIC 12 recognised a tension between developing a workable standard and providing an accurate reflection of economic substance, and the consequences of this taken together with a decision not to ‘unbundle’ assets give rise to some results which we see as counterintuitive.</p> <p>This affects the Consultation Paper proposals, and specifically paragraph 138 which explains that the requirement to recognise a PPE asset and a corresponding financing liability applies even under those circumstances where the grantor is not required to make any payments for the service, typically when charges are levied on users of the service.</p> <p>This may well be the treatment which best fits with IFRIC 12, but it does seem rather odd to recognise a liability under these circumstances, and we are only partially persuaded by the comments on the requirement for the grantor to continue to ensure that the operator has access to the asset. Paragraph 138 refers to subsequent guidance on Inflows, but that later guidance mainly covers revenue sharing, and may be difficult for readers to interpret when considering arrangements where the only benefit received by the grantor is the service potential. It would be helpful to provide</p>	Staff view: Will try developing an example for possible inclusion in any finalized guidance.

		worked examples or other explanation, to distinguish these benefits from more conventional sharing of a cash inflow.	
25	South Africa Accounting Standards Board	<p><i>138: As mentioned above, in some SCAs cash payments made by the grantor to the operator for construction of the property are reduced or eliminated because the operator is directly collecting third-party usage fees or receiving other non-cash compensation from the grantor (typically through granting the operator use of additional grantor-owned land for a nominal amount). In that case, the Board proposes that the underlying property should be reported by the grantor at its fair value. A related liability reflecting the receipt of consideration in advance of performance (which in this case is the provision of access to the property) also should be initially reported at the same amount, adjusted for cash received or paid (or to be paid) by the grantor. This liability should be amortized and revenue should be recognized generally over the life of the SCA, as more fully described in the section on Inflows of Resources from a Service Concession Arrangement later in the Consultation Paper. Measurement and reporting of the property subsequent to initial recognition should be similar to that for arrangements in which the grantor makes payments to the operator, as described above.</i></p> <p>We support this proposal, but recommend that, when the IPSASB develops further guidance on the accounting and financial reporting for SCA, such guidance should include principles on the initial and subsequent measurement of the liability, i.e. does it fall within the scope of IPSAS 9.</p> <p>Furthermore, any future guidance should explain the timing of the initial recognition of the underlying property.</p>	<p>Staff view: Staff note that in paragraph 138 the initial measurement of the liability is the same as the fair value of the property. It then goes to the Inflows section of the CP which discusses amortizing deferred revenue in the context of the receipt of an upfront payment. As such, staff consider that what is being asked for may already be provided for in the CP though perhaps not as clearly and directly as it could be. Staff suspect that once the guidance is streamlined into a finalized standard, that the respondents concerns will be addressed more clearly within the existing material.</p>

ANALYSIS OF RESPONSES TO CONSULTATION PAPER *ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS* – OTHER COMMENTS

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**ANALYSIS OF RESPONSES TO CONSULTATION PAPER ACCOUNTING AND FINANCIAL
REPORTING FOR SERVICE CONCESSION ARRANGEMENTS**

OTHER COMMENTS RECEIVED

	Name	Comment	Staff Response
TERMINOLOGY			
4	French Ministry for the Budget, Public Accounts and Civil Service	<p>The term "service concession arrangement" (SCA) does not seem appropriate to reflect clear and unambiguous reality of various contracts, involving the private sector and the public sector, which the paper wants to grasp. It is also closely connotated IFRIC 12 while the Board has announced to start thinking, independence vis-à-vis this interpretation.</p> <p>It is therefore proposed to adopt a broader expression such as "public private sectors arrangements" to cover a field which does not lend to interpretation but whose scope is limited by the proposed definitions in the document.</p>	<p>Staff view: No change to terminology</p> <p>Staff consider the term 'Service Concession Arrangements' is preferable for the following reasons:</p> <ul style="list-style-type: none"> the term 'partnership' can be associated with the more specific legal type of partnership – which a SCA is not;
6	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance	<p>We do think that the term Service Concession is used in a wrong way and therefore the title of the document might be misleading — even if the document itself isn't. Generally, a concession is defined as an authorization to use a public commodity for private purposes (i.e. a hydro electric power plant using the public river to generate power). A service concession is a concession which is related to the delivery of services (i.e. bus transportation). We would propose to use and define the term Public Private Partnership for the purpose of accounting and reporting guidance in the way the consultation paper defines Service Concessions.</p>	<ul style="list-style-type: none"> 'partnership' can be interpreted as parties sharing a common goal or objectives in the arrangement – often, grantor and operators appear to have very different reasons for entering into a SCA; and
11	France - Cour des Comptes	<p>3.1.1. The term "service concession arrangements" used by IPSAS to define the scope of the consultation paper does not seem appropriate to accurately and unambiguously reflect the diverse reality of the contracts associating the private sector and the public sector that the document aims at tackling. It seems to primarily</p>	<ul style="list-style-type: none"> while ideally development of IPSASB guidance should not necessarily be constrained by IFRIC 12, the interpretation has introduced terminology which, where possible, consistency with, should help

	Name	Comment	Staff Response
		<p>refer to the so-called concession contracts although these contracts, as applied in France, are not part of the examples specifically examined by the consultation paper.</p> <p>3.1.2. Therefore a more extensive term such as “public private sector arrangements” is proposed.</p>	user friendliness.
10	The Institute of Chartered Accountants of Scotland	<p>We recommend that the use of terminology used to describe the ‘grantor’ and the ‘operator’ should be applied consistently throughout the document, for example, the word ‘purchaser’ is also used to describe the ‘grantor’. We would support the use of more intuitive terminology in describing the ‘grantor’ and the ‘operator’ such as the ‘user’ and the ‘contractor’. However, we understand the need for consistent terminology to be used within IPSASs, and related guidance, and that consistency with terminology used in IFRS is desirable.</p>	<p>Staff view: For reasons below, staff recommend no change to terminology of ‘grantor’ and ‘operator’ though agree consistency in use in future guidance important - will note in future drafting. Reasons:</p> <ul style="list-style-type: none"> • ‘user’, ‘contractor’, purchaser may be viewed to broadly or generically; • while ideally development of IPSASB guidance should not necessarily be constrained by IFRIC 12, the interpretation has introduced terminology which, where possible, consistency with, should help user friendliness. <p>Staff note ‘operator’ is terminology used in the IPSASB Handbook (eg: IPSAS 8, 17) though consider that this should not be problematic or confusing in its application to a SCA context.</p>

	Name	Comment	Staff Response
5	Australia - Heads of Treasuries Accounting and	<p>Definition of service concession arrangement</p> <p>Paragraph 22 notes that an SCA is, or includes, an operations concession arrangement. Paragraph 12, in describing the latter, effectively defines an SCA as an arrangement under which a grantor conveys to an operator “the right to provide services directly or indirectly to the public through the use of an existing infrastructure asset or public facility.”</p> <p>HoTARAC recommends that “service concession arrangement” be explicitly defined, as the term is fundamental to the proposals in the Consultation Paper.</p> <p>Based on those proposals and subject to HoTARAC’s other comments below, a possible definition could be:</p> <p>“A service concession arrangement is, or includes, an agreement under which a public sector entity (the grantor) conveys to a private sector entity (the operator) the right to provide services directly to the public through the use of an infrastructure asset or public facility.”</p> <p>Serving the public “indirectly”</p> <p>Paragraph 12, uses the term “indirectly” when describing the nature of a operations concession arrangement and hence an SCA, whereby:</p> <p>“the public sector entity conveys to the private sector entity the right to provide services directly or indirectly to the public through the use of an existing infrastructure asset or public facility.”</p> <p>Paragraph 103 also uses the term “indirectly”.</p> <p>Using this word broadens the definition considerably. An SCA could consequently include any arrangement obligating a private sector entity to use an item of plant to supply services to a public sector entity rather than directly to the public.</p> <p>For example:</p>	<p>Staff view: An established definition of an SCA important to improve clarity of applicability of finalized guidance.</p> <p>Proposed wording considered useful and will be taken into consideration in development of a draft definition. Final definition needs to clearly identify that a service concession arrangement does not encompass privatization or service/management contracts.</p> <p>Staff view: If this text is carried forward to next stage in the project, removal of ‘indirectly’ not seen as overly problematic and should help improve the intended definition of concession arrangement.</p>

	Name	Comment	Staff Response
		<p>(a) A steel manufacturer using dedicated plant to fulfil a contract to supply rails to a railway authority could be viewed as indirectly providing services to the public because supplying rails supports the authority in providing railway services to the public.</p> <p>(b) A contractor using dedicated plant to fulfil a contract to provide filtered water to a water authority could be viewed as indirectly providing services to the public because supplying treated water supports the authority in providing water reticulation services to the public.</p> <p>(c) A contractor that operates a government-owned prison could be viewed as indirectly providing services to the public because the contractor supports the government in protecting the public.</p> <p>HoTARAC considers that SCA should only refer to an arrangement where the operator provides services directly to the public, regardless of whether the operator is paid by the public or by a government agency on their behalf. The SCA operator obtains a concession to provide services to the public that the government might otherwise have provided through a public sector agency. However, HoTARAC notes that the services provided by the public sector are likely to change over time as an economy matures or as government functions are privatised.</p> <p>In any case, examples clarifying the meaning of SCA in general, or operations concession arrangements in particular, would be helpful.</p>	<p>Staff view: Agreed.</p> <p>Staff view: Agreed – examples in support of a definition for SCA will be helpful. Will be considered for an appendix to any finalized guidance.</p>

	Name	Comment	Staff Response
SCOPE			
		Scope Types of Arrangements Addressed	
4	French Ministry for the Budget, Public Accounts and Civil Service	<p>4) Is the French concession contract addressed among the examples outlined in the consultation paper?</p> <p>The concession contract is defined as follows: contract by which a public person (grantor) entrusts to a person or a legal person, usually a private corporation (operator) performing a public service, at its own risks, for a fixed-term and generally long, and with the right to levy charges on users of public service.</p> <p>This definition of the concession falls under the definition of an SCA outlined in the consultation paper since there is implementation of operating assets and service delivery.</p> <p>However, in the case of a concession is the user and not the grantor which pays the service rendered; risks - including the risk of demand - are borne by the operator and not by the grantor; finally The private operator has control of the property during the period covered by the concession.</p> <p>This case is clearly distinct from one designated by the term “public-private partnership contract” in France in which an operator builds and operates an asset for a government (central or local), the latter is paying the construction, supporting a portion of the risks - including the risk of demand - and controlling the use.</p> <p>Therefore, it does not seem that there is close correlation between the classes of contracts identified and the French concession arrangement. The latter could be likened to the DBOM, the DBFO or the BOOT arrangements apart from the uncertainty that remains on the ownership during the contract period and for the reasons mentioned above.</p> <p>In addition, even if control criteria are met within the meaning of the consultation paper, tangible assets is recognised in the accounts</p>	<p>Staff view: Staff acknowledge the apparent distinction posed by the respondent – seemingly the transfer of demand risk under a French concession being distinct from a regular public-private partnership contract.</p> <p>It is difficult to determine the possible accounting implications resulting from the nature of the agreements described, though it appears that if considered controlled under the CP proposals, then the reporting for the French concession would be impacted as under the CP the related property would need to be recorded by the grantor (regardless of the allocation of demand risk).</p>

	Name	Comment	Staff Response
		<p>of the operator according to the accounting model established by the French standards (PCG).</p> <p>It is clear, however, that when an asset is used by the operator while he was previously recognised in the accounts of the grantor, this property is recognised in a specific account titled “counterparty of properties put in a concession” of the grantor’s balance sheet for its book value.</p> <p>In addition, when the contract stipulates that the operator reverts back the property in a new condition at the end of the contract, the residual interest of the grantor is then fair value of the property. In these circumstances, it seems that the grantor has recognised this property to its balance sheet when it controlled (cf. a) criteria control), cannot account for depreciation: the depreciable amount is in this equal to zero</p>	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>Arrangements where the public sector agency is the primary operator</p> <p>A related issue is whether a service concession arrangement, as described in the Consultation Paper, could include an arrangement where the public sector remains as the primary service provider and the private sector party merely has a secondary or supportive role. For example:</p> <ul style="list-style-type: none"> (a) A public sector agency arranges for a private contractor to design, finance and build a new school. The agency then provides the teaching staff and operates the new school while the private contractor maintains the buildings and grounds under a long-term contract. (b) A public sector agency arranges for a private contractor to design, finance, supply on a daily basis, and maintain a fleet of trains. The agency then provides the drivers and operates the trains while the contractor maintains them (as lessor) under a long-term leasing contract. 	<p>Staff view: It was not the intention for the CP to address these types of arrangements – should the related discussion in the CP be carried forward to eventual guidance, staff will attempt to make exclusion of these types of arrangements more evident. These types of arrangements could be as discussed in the CP as for example, a design-build contract coupled with service contract.</p>

	Name	Comment	Staff Response
		<p>Although the public sector agency ostensibly acquires an asset and then operates it, such arrangements could be viewed as the agency conveying to the private contractor “the right to provide services indirectly to the public through the use of an existing infrastructure asset or public facility.”</p> <p>HoTARAC considers that arrangements where the public sector is the primary operator of infrastructure or a public facility and a private contractor merely provides secondary or support services should be explicitly excluded from the scope of the term “service concession arrangement”.</p> <p>Purchases and leases</p> <p>The Consultation Paper uses the term SCA so broadly that it could include long term purchase or finance lease arrangements that are not, in substance, service concession arrangements. It could include an arrangement under which a public sector agency acquires an asset, pays for it over an extended period, and requires the supplier to manage and/or maintain it during that period, even where the supplier does not have a service concession.</p> <p>Although paragraphs 160 and 161 contemplate that SCA property could be accounted for as a leased or purchased asset, the proposals do not specifically discuss purchase or lease arrangements or conceptually distinguish them from other types of SCA.</p> <p>HoTARAC also notes that paragraphs BC27 and BC28 of the Basis for Conclusions on IFRIC 12 assert that SCAs are not leases.</p> <p>HoTARAC considers it would help users if, at the outset, the proposals excluded arrangements that are clearly purchase or lease transactions. Such arrangements appear to be adequately dealt with by existing accounting standards on property, plant and equipment or leases.</p>	<p>Staff view: Staff consider that future guidance could benefit from further discussion in relation to SCAs and the relationship to leases. Depending upon the timing of future phases of the project, staff consider it would be a worthwhile addition, perhaps as part of a basis for conclusions to provide further discussion in this context.</p>

	Name	Comment	Staff Response
8	France - Direction Generale des Finances Publiques	<p>Partnerships in the local public sector encompass several types of contracts, listed in the annex to the present reply. Out of these contracts, the concession contract does not seem to be included in the Consultation Paper, However, our answer, for the sake of completeness, address all public private partnerships contracts used in the local public sector.</p> <p>For the time being, accounting regulations applicable in France to local entities authorities provide:</p> <ul style="list-style-type: none"> - For “gérance” and “DSP”, an asset is accounted for in the public partner balance sheet, either directly or as a right of return; such a right is recorded as a tangible asset, it is not subject to any depreciation under contract. The funds raised by the public partner are on the liabilities side; property is not accounted for in the public partner balance sheet for the duration of the contract. - For all other contracts there is usually no asset or liability (the related transactions are recorded as expenditure). Nevertheless, for the CP (Article L1414-1 of CGCT) a debt standstill corresponding to the capital share of fees is provisionally registered. This claim will be destined to transform into intangible asset during the commissioning of the latter. <p>Regarding commitments for the future, it is contemplated to add a specific note in the notes to the financial statements.</p> <p>These principles are based on a combination of PCG rules and the related specific accounting framework for local public entities. These rules involve:</p> <ul style="list-style-type: none"> - The right of ownership; - The provision; - The accounting for leasing contracts (Article 331-7 of PCG) in a broad vision. 	<p>Staff view: Please see response to respondent 4 above - French Ministry for the Budget, Public Accounts and Civil Service in relation to French Concessions.</p> <p>For “gérance” and “DSP”, it appears a tangible capital asset and a form of liability may already get recorded by the grantor – if so, a notable impact from the CP would appear to be the need to subsequently recognise the property in accordance with IPSAS 17.</p> <p>For other contracts, if considered controlled, recognition of the property as a tangible capital asset would be required – this appears to differ slightly to current requirements under French regulations.</p> <p>As such, there appears there could be a some impacts for at least some service concession type arrangements under French regulations compared with the CP proposals.</p>

	Name	Comment	Staff Response
11	France - Cour des Comptes	<p>3.3.1. IPSAS' consultation paper does not cover the scenario in which the agreement between the public entity and the private company relates to an intangible asset, as it is the case for example with UMTS licences. This exclusion is explicit in the consultation paper.</p> <p>3.3.2. We take note of this position, as these scenarios are dealt with in the standards relative to intangible assets.</p>	<p>Staff view: Noted. IPSASB GAAP Hierarchy would send public sector entities to IAS 38 <i>Intangible Assets</i> for appropriate guidance.</p> <p>IPSASB has convergence project on intangible assets in progress.</p>
25	South Africa Accounting Standards Board	<p>The application of the proposed principles in the consultation paper to a SCA that involves the development or acquisition of movable property during the SCA should be considered. For example, when a grantor enters into a 10 year SCA that requires the acquisition of computer hardware to be used by the operator in meeting the provisions of the SCA, and such hardware are to be replaced by the operator every three years, will the proposed control criteria apply to the acquired property that are replaced during the SCA period?</p>	<p>Staff view: Explicit statement of the applicability of such an event is not made within the CP. However, it would be anticipated that any property subject to the SCA that meet the control criteria would be reported in accordance with the CP proposals.</p> <p>All terms and conditions would need to be taken into consideration in initial reporting of the arrangement to ensure the substance is reported along with re-assessment every reporting period.</p> <p>While it is difficult to address every possible circumstance that can arise in developing reporting guidance, staff will take into consideration the scenario presented as part of the next phase of the project.</p>

	Name	Comment	Staff Response
CONTROL / RISKS AND REWARDS			
		Control / Risks and Rewards Coverage of Relationship	
24	Professor David Heald - University of Aberdeen Business School	<p>4. I was disappointed not to find in the Consultation Paper an extended discussion of how, in the context of service concession arrangements, 'control' differs from 'risks and rewards'. Paragraph 21 states:</p> <p>... The difficulty in accounting for these [service concession] arrangements results from a more even <i>sharing</i> between the grantor and the operator of the risks, responsibilities, benefits, and control of the underlying infrastructure or public facility, and the delivery of the associated services. This raises the question - which party to the arrangement should report the underlying infrastructure or public facility as an asset in their financial statements.</p> <p>This statement defines service concession arrangements in terms of both 'risks and rewards' (though the term 'benefit' is used) and of 'control' (with the term 'responsibilities' also being used). In the United Kingdom it is widely expected that the 2009-10 move to IFRS will bring On-balance sheet to the public sector client most service concession assets that are currently Off. My view is that this is not inherently a result of control replacing risk and reward but a consequence of previously bad accounting being eliminated. It is more difficult to think of service concessions that would have been properly Off under FRS 5A but On under the IFRIC 12 mirror-image treatment. Given that national accounts treatment will continue to be on a risks and rewards criterion, and that revisions to Eurostat rules follow totally different processes and timescales to those for financial reporting standards, this matter has practical importance for public sector clients that will follow IFRS for their financial statements but may also be required to provide information on a national accounts basis.</p>	Staff view: Assuming there is belief that such a comparison of control to risks and rewards can be beneficial to any finalized guidance, staff will take into consideration in the development of future guidance.

	Name	Comment	Staff Response
		Control / Risks and Rewards Mutual Agreement and Control	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>Paragraph 74 states that the grantor's control over SCA property is based on a contract willingly entered into by the operator, rather than through legislation.</p> <p>HoTARAC notes that willing agreement between contracting parties does not necessarily indicate control of SCA property by either party. Such a contract could give control to the grantor, the operator or both, jointly. Control of SCA property could vary from case to case and would most likely depend on the terms of the contract. Such contracts usually allocate risks and benefits to each party by mutual agreement. A freely negotiated SCA with a fair exchange of economic benefits does not of itself give any evidence of one party's control of the SCA property.</p> <p>In addition, some SCAs are the subject of specific legislation that, like a contract, could give control to either party.</p>	Staff view: In the context of trying to distinguish between 'regulate' in a legislative authority sense as opposed to regulate in a broader 'control' sense, the current messages in the existing discussion in para 74 are considered reasonable – no change proposed.
		Control / Risks and Rewards Relavance of Economic Risks and Rewards	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>IPSAS 1 and the AASB Framework define assets as resources "... from which future economic benefits or service potential are expected to flow to the entity".</p> <p>Paragraph 99 of the Consultation Paper asserts that focusing on service potential risks and rewards and ignoring economic risks and rewards is appropriate given the types of SCA property being considered.</p> <p>HoTARAC agrees that, for not-for-profit entities, service potential may be more relevant than economic benefits, however, it notes that some for-profit GBEs engage in SCAs. Footnote 7 to paragraph 26 acknowledges that the guidance in the Consultation Paper could be applied to GBEs that are grantors.</p> <p>Also, the commercial nature of SCAs gives rise to economic</p>	Staff view: The CP advocates service potential as a preferable focus for grantor reporting of the asset though not necessarily to the complete exclusion of the existence of economic benefits. If the related discussion in the CP is carried forward to eventual guidance, staff will review wording and 'soften' where considered helpful.

	Name	Comment	Staff Response
		<p>benefits for at least one of the SCA parties, regardless of any party's not-for-profit status. Thus, for grantors under such arrangements, economic benefits may be more relevant than service potential.</p> <p>HoTARAC therefore suggests that economic benefits need to be considered, where relevant, as they are an integral part of the asset definition and integral to the economic substance of many SCAs.</p>	
		<p>Control / Risks and Rewards Distinction - Economic and Ownership R&Rs</p>	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>Paragraph 100 asserts that when a grantor controls the SCA property, the operator, like a vendor in a service contract, only has economic, rather than ownership, risks and rewards.</p> <p>HoTARAC disagrees with this assertion and would argue instead that the risks and rewards of ownership are economic in nature. This view is supported by paragraph 12 of IPSAS 13, or paragraph 7 of AASB 117 or IAS 17, <i>Leases</i>. In determining which party controls an asset, any alleged distinction between economic and ownership risks and rewards is imaginary.</p> <p>Furthermore, an operator's obligation to deliver SCA property to the grantor in an agreed condition is, arguably, a risk of ownership during the concession period. Otherwise, the operator might only maintain the property to the extent necessary to obtain economic benefits up to the end of that period, and not beyond.</p>	<p>Staff view: Staff see merit in the response though arguably consider that maintenance of the property by the operator to an agreed condition is merely meeting a contractual requirement as opposed to acting in a manner truly indicative of an actual owner.</p> <p>Staff view: Staff consider that the predominant risks and rewards for the operator are economic in nature. If the text in question is carried forward to eventual guidance, staff will review wording.</p>

	Name	Comment	Staff Response
		Control / Risks and Rewards Unbundling Approach	
4	French Ministry for the Budget, Public Accounts and Civil Service	<p>6) Shared control and financing</p> <p>The different approaches outlined in the consultation paper have a common feature to consider the recognition of the underlying property and the related liability in the financial statements of one party to the contract.</p> <p>Consideration should be given the accounting treatment to adopt in case of shared control over the property underlying, or even financing jointly. Partial recognition or shared can refer to an analysis of risk exposure of the parties to the contract, the distribution of risks and benefits in principle attributed the party's ability to manage risk.</p> <p>While this approach is ruled out in the consultation paper on the grounds that it is difficult to apply because of the complexity attached to the quantification of risks and benefits borne by each party to determine the value of assets and liabilities.</p> <p>But this approach would be appropriate in the context of the leases as seems to indicate the draft revision of the standard of the IASB on these contracts. However, the consultation paper prescribes the use of IPSAS 13 on the leases when one out of the two control criteria is not met. The analysis in terms of risk transfer or sharing of rights and obligations assumed that there are separable rights can be transferred individually.</p> <p>Hence, the difficulties in applying this approach should not lead to avert this scenario when it met and finding appropriate treatment can be inspired by the above.</p>	<p>Staff view: While there may be conceptual merit in applying an unbundling approach, practical realities and extent of professional judgment associated with identification, recognition and arguably most importantly measurement of unbundled assets, does not appear to make this a realistic option for this project. As such, no change is proposed to the current treatment of this approach.</p>
21	Canadian Council for Public-Private Partnership	<p><u>Consideration of Risk</u></p> <p>...CCPPP supports the unbundling Approach to Rights and Obligations under an SCA described in #58 - 61. In particular, CCCPP believes in the concept that SCAs which successfully and</p>	

	Name	Comment	Staff Response
		appropriately transfer greater risk to the private operator should be “rewarded” by more favourable accounting treatment than those which transfer less risk. CCPPP therefore disagrees with the <i>Consultation Paper</i> conclusions in #101 and encourages further exploration of this issue.	
32	United Kingdom – Financial Reporting Advisory Board	<p>7. The Consultation Paper discusses the common aspect of all the existing approaches to reporting property associated with SCAs, in that only one of the parties should report the property in its financial statements. The paper further raises the prospect of an alternative approach, an unbundling or components (or rights and obligations) approach.</p> <p>8. The Board agrees with the IPSASB that although the unbundling approach may have conceptual merit, in practice it would represent such a fundamental shift in the accounting and financial reporting of assets and liabilities for public sector entities that it could have implications beyond SCAs. The Board also views that this approach would have distinct disadvantages in that the complexities involved may make the approach difficult to apply in practice, and such an approach would inevitably rely on the exercise of judgment, that can more readily lead to inconsistencies in application. The Board therefore agrees that IPSASB should not pursue the development of this approach as part of its service concession project.</p>	Staff view: Noted and agreed.
CONTROL CRITERIA			
		Control Criteria Rules vs Principles / Guidance	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>The accounting outcome is very sensitive to failing any one of the proposed grantor control tests.</p> <p>The four proposed control tests in paragraph 102 are in the nature of rules and their rigidity could expose them to manipulation or different interpretations. Three tests relate to the use of the SCA property (services, recipients and pricing) and the other relates to</p>	Staff view: A common theme through-out the project has been the need for improved consistency in reporting of SCAs – as such some degree of prescriptive guidance is considered necessary in order to

	Name	Comment	Staff Response
		<p>the residual interest therein.</p> <p>The omission of one of those tested matters from an SCA contract would be sufficient for the grantor to fail the control tests. However, the addition of an innocuous clause dealing with that matter could confer grantor control even if, in substance, nothing else changed.</p> <p>For example, in HoTARAC's experience, SCA contracts rarely specify the clients to whom services are to be provided. Market forces usually determine this. However, if the recitals to a contract were to indicate that the services are to be provided to the citizens of a particular region, this could be sufficient to satisfy one of the grantor-control tests even though the use of the SCA property, and the relationship between the contracting parties, is substantively unchanged.</p> <p>HoTARAC suggests that tests based on principles rather than rules would be more robust and less liable to manipulation or disputation with auditors.</p>	<p>be both helpful in applying the guidance and improving consistency in application.</p> <p>Staff consider that at least in the context of SCAs, if the criteria becomes more principles focused (eg: control over 'use' without any parameters as to what 'use' means) it could result in a degree of inconsistency of application that runs counter to a key goal of the project.</p> <p>Alternatively, to become more prescriptive could result in arrangements being designed to circumvent optimal accounting.</p> <p>Staff believe that the proposed criteria strike a fair balance.</p>
14	International Monetary Fund	<p>However, as currently drafted, the proposed control criteria could be susceptible to subjective and inconsistent interpretation. For example, one of the criteria is that the grantor should control or regulate "...what services the operator must provide. . . ." It is not clear from this if the grantor needs to control the general nature of the services (e.g., hospital facilities) or specific aspects of the services such as quantity, quality, and timeliness.</p> <p>We suggest that the paper more fully explain the control criteria and provide more detailed guidance on how to determine whether the grantor has control. A set of principles for determining whether or not the control criteria are met could also be included with a view to reducing inconsistent application of any eventual standard.</p>	<p>Staff view: Supporting guidance for key principles will be developed.</p>

	Name	Comment	Staff Response
25	South Africa Accounting Standards Board	We do recommend that, when further guidance is developed by the IPSASB on the accounting and financial reporting for SCA, such guidance should explain what is meant with the principle “services provided to the public”, i.e. does it constitute only those services that fall within the scope, mandate or service delivery objective of the grantor as determined by legislation or otherwise, and/or does it includes services other than those to be provided in terms of the grantor’s scope or mandate. For example, when a SCA involves the development of hotel accommodation, of which control will revert to the grantor at the end of the SCA in terms of the proposed control criteria, will the provision of such accommodation fall within the definition of “services provided to the public”? Another example would be a SCA where the services will be rendered to a public sector entity and not directly to the public.	Staff view: Staff do not consider ‘services provided to the public’ necessarily means that it is limited only to those services that fall within the scope, mandate or service delivery objective of the grantor. Will be considered further and if necessary, additional guidance developed as part of the next stages of the project.
28	New Zealand Office of the Auditor General	We note that the consultation paper has not addressed the circumstances under which the grantor is considered to control or regulate (contractually determine) the price ranges or rates that can be charged by the operator. For example, consider the scenario where the operator has the freedom to set prices, but any excess profits are returned to the grantor so in effect the operator’s return is capped. Based on the substance of this scenario, does the grantor indirectly have control over the price ranges or rates that can be charged for services? Additional commentary, similar to that found in IFRIC 12 paragraph AG3, requiring an assessment of the substance of the arrangement will aid in the interpretation of the pricing component of the control criteria.	Staff view: The CP does not go into this specific detail. The need to consider the substance of the arrangement noted and will be included. AG3 will be reviewed.
29	Canada - Auditor General of British Columbia	One additional point on the proposed criteria – the guidance should include a clear definition of the term “property” to clarify that it includes both moveable and immovable property. This will assist in ensuring consistency in the treatment of all properties involved in SCA.	Staff view: There is an expectation it applies to both – will be noted for clarification as the project develops.

	Name	Comment	Staff Response
31	Canada - Provincial Comptroller of Saskatchewan	We question however, whether it would be apparent to users of the standard that control would exist when the grantor is responsible for any subsequent liabilities related to the property. It may be important to clarify in supporting paragraphs that control of residual interest of a property would also be evident when the grantor has responsibility for losses subsequent to the end of the arrangement.	
ASSETS IN SCAS			
		Assets in SCAs Assets Identified	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>The grantor control tests in paragraph 102 aim to determine whether a grantor controls the physical SCA property. The Consultation Paper does not contemplate that the grantor may have a recognisable intangible asset. For example, a grantor's residual interest in SCA property may represent a right received in exchange for granting the service concession. It may be appropriate to recognise such right as being progressively earned over the concession period, just as the operator progressively uses the concession over the same period. This treatment would be similar to that proposed in paragraph 162.</p> <p>HoTARAC recommends that the Consultation Paper should consider whether, in some cases, the grantor might control an intangible rather than a physical asset in relation to the SCA property and whether the control tests would be equally appropriate for determining the presence of such control.</p>	Staff view: This appears to be matter of how the asset is most appropriately classified and not whether an asset should be reported – the net effect on the balance sheet would appear to be nil. As part of the next phase of the project, staff will consider further.

	Name	Comment	Staff Response
11	France - Cour des Comptes	<p>1.2. THE DIVERSITY OF THESE CONTRACTS SHOULD LEAD TO TWO POSSIBLE OPTIONS, ONE BASED ON THE RECORDING OF A TANGIBLE ASSET IN THE STATES' ACCOUNTS, THE OTHER ON THE RECORDING OF AN INTANGIBLE ASSET</p> <p>1.2.1. Effectively, the idea is not to challenge the fact that the contracts associating the State with private partners are reflected in the States' fixed assets.</p> <p>1.2.2. The idea is to consider that these contracts could, depending on their nature and after examining this nature on a case by case basis, be recorded under the States' tangible or intangible assets.</p> <p>1.2.3 This type of position is currently reflected by the State's accounting standards in France.</p> <p>1.2.3.1. With regard to the so-called public-private partnership contracts, relating to contracts for which the State has contracting authority over the asset concerned, recording under the State's tangible assets is stipulated. This recording is part of the framework set by standard relating to tangible fixed assets as temporarily interpreted by the standards committee, pending further details on the normative references applicable to companies and at international level. It is based on the implementation of provisions stipulated for the financing of lease contracts.</p> <p>1.2.3.2. With regard to so-called concession contracts, relating to contracts where the State does not have contracting authority over the asset concerned, recording under the State's tangible assets is stipulated when the State itself has built the asset which is subsequently granted as a concession, an account being specifically created to the value of the assets granted.</p> <p>1.2.3.3. In the other scenarios relating to concession contracts and corresponding with contracts where the State does not have</p>	<p>Staff view: The comment appears to bear some relationship to that above in respondent 5. Notably paragraph 1.2.3.3. appears to suggest a classification issue (tangible vs. intangible) as opposed to questioning that an asset of some description should be recorded. As part of the next phase of the project, staff will consider further.</p>

	Name	Comment	Staff Response
		<p>contracting authority over the asset concerned and has not built this asset itself, the recording of a tangible fixed asset is not stipulated but that of a specific intangible asset is stipulated by standard no. 5 relating to intangible assets.</p> <p>1.2.4. Therefore, while the scenarios corresponding with public-private partnerships and concessions where the asset was built by the State are covered in a seemingly overall satisfactory manner by the IPSAS consultation paper, this is not the case for the other types of concession which would require recording under intangible assets.</p> <p>1.2.5. In France, the certifier issued a qualification of substantial nature on the implementation of these provisions in public accounts in 2006, and this qualified opinion was reiterated in 2007. It turns out that the account's producer did not implement the provisions of French standard no. 5 aimed at recording the State's specific intangible asset, pointing out the difficulties surrounding its valuation. The <i>Cour des comptes</i> estimated that the absence of these significant assets in the accounts constituted a doubt over the fair representation of these accounts.</p> <p>1.2.6. The objective of this response to the IPSAS consultation paper is therefore not to plead for the absence of recording of these assets in the accounts of the States but to make sure that the international standards which may be produced in this respect will reflect the diversity of the types of contracts at stake.</p>	
		<p>1.3 IPSAS COULD ENSURE THAT THIS APPROACH IS COMPATIBLE WITH THAT OF IFRIC 12</p> <p>1.3.1. IFRIC only applies to the accounting method to be selected with regard to private entities, thereby Leaving IPSAS with plenty of room for manoeuvre regarding the proposition of accounting methods applicable to the States.</p> <p>1.3.2. The diversity of the contracts associating the public sector and the private sector has resulted in IFRIC proposing</p>	<p>Staff view: Staff concur that IFRIC 12 does support recognizing either a tangible or intangible asset – however, the reporting requirements for the operator differ as they are not concerned with reporting property as they do not control it. As the</p>

	Name	Comment	Staff Response
		<p>differentiated accounting methods with regard to private entities, offering two accounting options depending on the nature of the contractual relationships, i.e. recording under the grantor's intangible assets or tangible assets. It is logical that the same should apply to the States and that the diversity of the types of contracts entered into by these States in their capacity as contractor should result in various possible accounting options, i.e. the recording of a tangible asset or that of an intangible asset.</p> <p>1.3.3. In the long term, it would be prejudicial if the references applicable to the States and private entities were not harmonised, even if the different approaches of the States and the companies could justify this situation as a last resort.</p> <p>1.3.4. In this overall context, the creation of an IPSAS standard relating to service concession arrangements may be considered as an opportunity for IPSAS to request IFRIC to detail the point of view currently proposed by its interpretation no. 12, so that the different points of view reflected by the existing standards regulations can be harmonised.</p>	<p>grantor controls the property, the focus of subsequent reporting focuses on a tangible asset. The broader issue of a possible intangible asset is noted by staff and will be considered further as noted above.</p>
14	International Monetary Fund	<p>Finally, the paper, as currently drafted, appears to be primarily concerned with SCAs with only one asset and one service component. While adequate for characterizing many traditional infrastructure PPPs, this approach may prove difficult to apply to modern contracts aimed at exploiting more complex synergies between the public and the private sector. In practice, large PPP contracts usually contain multiple asset and service components, and these may be distributed differently between the parties over the course of the contract. The paper could make it clear that when an SCA involves multiple asset and service components, the control criteria should be applied separately to each asset and service component.</p>	<p>Staff view: Staff concur that in those situations involving an SCA with multiple asset and service components, the control criteria should be applied separately to each asset or as appropriate. More explicit mentioning of this aspect will be taken into consideration in future drafting.</p>

	Name	Comment	Staff Response
25	South Africa Accounting Standards Board	<p>We support the proposals on the initial measurement of separable and inseparable scheduled payments.</p> <p>In addition, we recommend that, when further guidance is developed by the IPSASB on the accounting and financial reporting for SCA, such guidance should require an entity to also determine the fair value of the services to be provided under the SCA that will constitute the service element of the unitary payment.</p> <p>The entity then needs to determine whether any additional amount is payable to the operator as part of the unitary payment. This should be done by deducting the fair value of the construction and service element from the unitary payment. If an additional amount is payable to the operator, it may constitute an onerous payment that needs to be accounted for in terms of IPSAS 19. If, however, the fair values of the construction and service elements are more than the unitary payment, the entity should recognise the difference as an asset if, and only if, the definition of an asset is met.</p> <p>Reference should be made to the applicable IPSAS for guidance on the recognition and measurement of such an asset. If the definition of an asset is not met, the difference should be recognised in the statement of financial performance.</p>	Staff view: Staff acknowledge that such a scenario could occur and may need to be reported in accordance with IPSAS 19 or if a benefit, an asset or potential classification of revenue. To be considered further in future drafting.
		Assets in SCAs Measurement	
21	Canadian Council for Public-Private Partnership	<p><u>Reporting Limited to Cash Transfers</u></p> <p>With regard to #124-132, CCPPP agrees with the position set out in #131 which would record the SCA on the face of the financial statements only to the extent that cash is or will be transferred between the grantor and the concessionaire.</p> <p>We do not support the recommendation made in #132 which we believe risks confusing broad economic benefits with financial assets and liabilities.</p> <p>The <i>Consultation Paper</i> seems to imply that an asset which costs</p>	Staff view: Staff continue to support that recording the SCA on the face of the financial statements only to the extent that cash is or will be transferred between the grantor and operator potentially understates both the assets used to provide services to the public, and the assets for which the grantor is accountable.

	Name	Comment	Staff Response
		\$1 but delivers economic benefits to the community of \$7 should be reflected in the government's financial statements at \$7. CCPPP would argue that it should be recorded at a dollar. In the event that a private-sector operator will take the risk on delivering the improved services or receive only \$0.80 cents, then this lower amount should be recorded.	The cost of providing services also would potentially be understated because the grantor would not report depreciation of the property. As such, no change is proposed.
3	Canadian Public Sector Accounting Standards Board	<p>Paragraph 139 states "For SCAs involving existing property that the grantor has already reported as an asset, no additional accounting associated with the property generally should be required when the SCA is entered into." The paragraph continues and indicates that an impairment should not be recorded as a result of granting access to a non-cash generating asset as defined in IPSAS 21.</p> <p>In our view some further development of these comments, perhaps as part of the guidance would be useful. When existing assets are contributed to a new arrangement and control remains with the grantor, there is continuity of the grantor's interest. As such, we support the conclusion that the carrying value of the contributed assets would not be adjusted when the SCA is granted.</p> <p>While this result may appear to be self evident, others may wish to argue that granting the SCA is an economic event requiring a reevaluation of all assets and liabilities associated with the transaction. If IPSASB intends that this not occur, we believe it would be useful to communicate this conclusion in a direct manner.</p>	Staff view: Fair comment. For completeness, revised paper will add commentary that an assessment for impairment should be considered triggered by entering into the arrangement.
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	Paragraphs 134 and 139 note that, despite a grantor relinquishing its right to charge for the use of SCA property, such property would not be impaired under IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i> . While this is true under IPSASs, it does not necessarily hold in jurisdictions, like Australia, where national or IASB standards prevail. Under IAS 36 and AASB 136 <i>Impairment of Assets</i> , grantor-controlled SCA property is likely to be	Staff view: Noted

	Name	Comment	Staff Response
		substantially impaired in cases where the grantor is a for-profit entity (eg a GBE) and the SCA permits the operator to enjoy the cash inflows from the property during the concession period.	
25	South Africa Accounting Standards Board	<p><i>139. For SCAs involving existing property that the grantor has already reported as an asset, no additional accounting associated with the property generally should be required when the SCA is entered into. An impairment of the value of the property in the grantor's financial statements should not be recorded as a result of granting the right to access the property to the operator through the SCA assuming that the property is considered by the grantor to be a non-cash-generating asset as defined in IPSAS 21.</i></p> <p>Even though the grantor will not account for any additional property associated with this type of SCA, the grantor can still have an obligation towards the operator. We therefore recommend that , when the IPSASB develops further guidance on the accounting and financial reporting for SCA, such guidance should include principles on the initial and subsequent measurement of liabilities, where applicable, that can be incurred by the grantor under such SCA, and explain what IPSAS should be applied for the subsequent measurement of such a liability.</p> <p>In addition, we recommend that, even though an impairment of the value of the property in the grantor's financial statements should not be recorded as a result of granting the right to access the property to the operator, the grantor should still assess whether an indicator for an impairment of the asset was triggered by applying the principles in IPSAS 21.</p>	<p>Staff view: Any obligations/commitments resulting from this SCA should be reported though most would seemingly be addressed in the 'commitments/guarantees' section of the CP. Will be considered further in the context of the level of detailed guidance to be provided in any eventual standard.</p> <p>Staff view: See response to # 3 above.</p>

	Name	Comment	Staff Response
		Assets in SCAs Recognition	
21	Canadian Council for Public-Private Partnership	<p>The <i>Consultation Paper</i> does not appear to provide clear guidance on the issue of the timing of recognition of the asset and liability associated with an SCA. Paragraph #135 implies that recognition during construction is likely as long as construction-in-progress can be measured and the SCA prevents either party terminating without a penalty even if the risk of construction completion is transferred to the operator.</p> <p>CCPPP agrees with the guidance of the UK Accounting Standards Board (#106) and recommends that typically the asset and liability should only be recognized upon completion of construction as this is typically the trigger point for commencement of payments by the grantor. We disagree with the guidance in IPSAS 17.</p> <p>Under most PPP transactions, any construction risk obligations of the grantor are contingent in nature and are capable of being mitigated without requiring financial payment from the grantor. For example: (1) sharing risk for geotechnical conditions outside normal expectations, which is capable of mitigation through design variation or (2) having an obligation to make compensation payments upon termination which can be mitigating by procuring an alternative concessionaire or contractor. The main exception would be circumstances in which the grantor makes progress payments during the course of construction, which should be recognized as an asset as and when they are incurred.</p>	Staff view: The timing for recognition ideally needs to be principles oriented in order to provide for the breadth of SCAs. IPSAS 17 provides well established guidance specifically on the recognition of property plant and equipment and as such should continue to be referred to as the most appropriate for basis determining recognition.
24	Professor David Heald - University of Aberdeen Business School	5. The transfer of construction risk to the private sector consortium, and in particular to its construction partner, is one of the mechanisms through which the public sector client can potentially achieve Value-for-Money gains from service concession arrangements. Accordingly, unless there is clear evidence in a particular case that construction risk remains with the grantor, my view is that the timing of recognition should be	

	Name	Comment	Staff Response
		when the property first comes into use. Accordingly, I disagree with the view in paragraphs 106-112 and support the existing guidance provided by the UK Accounting Standards Board in FRS 5A.	
25	South Africa Accounting Standards Board	<p><i>135. For SCAs meeting the proposed control criteria, the Board proposes that the criteria in IPSAS 17 for recognizing property, plant and equipment should be used to determine when to recognize the underlying property as an asset (for example, during construction, or when it is in place and operational), along with a liability reflecting the grantor's obligation to provide compensation (either cash or non-cash) to the operator for that property. The Board expects that the recognition criteria will often be met during construction if the value of the construction-in-progress can be reliably measured. This is either because the grantor bears construction risk, or if not, because the terms of the arrangement prohibit either party from canceling it without significant penalty. If neither of these scenarios is the case, the recognition criteria are unlikely to be met until construction is complete.</i></p> <p>We support this proposal.</p>	Staff view: Noted and agreed.
25	South Africa Accounting Standards Board	<p><i>140. For aspects of reporting the property underlying an SCA beyond recognition and measurement, including reporting subsequent expenditures related to the property and financial statement note disclosures, the guidance in IPSAS 17 should be applied, as appropriate.</i></p> <p>We support this proposal.</p>	Staff view: Noted.
28	New Zealand Office of the Controller and Auditor-General	We agree that the recognition criteria of IPSAS17 Property, Plant and Equipment should be applied to the property underlying a SCA. However, in addition to the indicators provided in paragraph 135 of the consultation paper, we consider the transfer of legal ownership	Staff view: As proposed, the recognition criteria is subject to professional judgment. The provision of further supporting

	Name	Comment	Staff Response
		of the underlying property to the grantor as construction progresses is an indicator of the timing of recognition (referred to as continuous transfer). For example, in certain jurisdictions (such as New Zealand) the legal ownership of improvements attached to land transfer to the land owner, unless agreed otherwise. This provides an indicator that the risks and rewards associated with the construction of the asset attached to the land transfer to the land owner as construction progresses.	guidance considered helpful. As such, 'continuous transfer' could be a useful indicator to build into final guidance. Noted and will be further considered.
32	United Kingdom – Financial Reporting Advisory Board	<p>For SCAs meeting the proposed control criteria, the IPSASB expects that the recognition criteria will often be met during construction if the value of the construction-in-progress can be reliably measured.</p> <p>The Board agrees this approach in that where the grantor bears the construction risk it should recognise an asset and a liability as the asset is being constructed.</p> <p>You will wish to note that within UK PPP/PFI contracts construction risk is generally passed to the operator and therefore if the property were determined to be on the grantor's balance sheet, recognition in the financial statements would be as the property becomes operational, i.e. when it comes into use.</p>	Staff view: Noted.
LIABILITIES IN SCAS			
		<p>Liabilities in SCAs</p> <p>Guidance on Recognition & Measurement</p>	
6	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance	We would like to stress the importance of liabilities. In our jurisdiction the accounting for assets is rarely an issue, but the accounting for liabilities which result out of such contracts is highly controversial. The ad-hoc committee fully agrees with the proposed accounting treatment of liabilities. However, as this is extremely controversial, the basis of conclusion of a future standard needs to be particularly strong in respect of liabilities.	Staff view: Conscious effort already made to bring the liabilities to forefront in the CP in response to concerns when drafting the paper. For the purposes of the CP, recognition of a liability is linked with the

	Name	Comment	Staff Response
14	International Monetary Fund	The paper is heavily focused on accounting and reporting issues associated with the SCA asset. Liabilities are discussed mainly in the context of those that are associated with the recognition of the asset. We believe that from a fiscal management perspective the liabilities arising from SCAs are of equal, if not greater, importance. We would, therefore, welcome more guidance on the recognition, measurement, and reporting of liabilities that may be explicitly or implicitly accepted by the grantor, regardless of the issue of the reporting of the asset. We also suggest that the existence of such liabilities could be taken into account, particularly when contracts are unclear, to provide corroborating evidence of the existence of control or the lack thereof.	related asset – the CP has attempted to address both whenever possible. Staff uncertain what guidance can/should be given with respect to liabilities. Specific examples of areas of possible further guidance noted in some comments (eg: respondent 25) – will take into further consideration in future guidance.
21	Canadian Council for Public-Private Partnership	<p>The <i>Consultation Paper</i> does not sufficiently address the nature of the liability which should be recorded. This is addressed in #114 - 118. CCPPP believes that there is a significant difference between, for example:</p> <ul style="list-style-type: none"> • consolidation of the debt associated with the private sector special purpose vehicle; • the present value of the scheduled construction payments; • an amount equal to the fair value of the as built asset; • a contingent liability to make service payments subject to performance; and • an obligation to continue to provide access to the asset in return for a pre –payment under a user pay transaction. <p>It is not clear from the <i>Consultation Paper</i> that each of these different scenarios would not receive substantially the same treatment on the liability side of the financial statements.</p>	
20	The Netherlands Court of Audit The Netherlands Court of Audit	In case of ‘separable payments’, initial measurement of the asset and the related liability should be based on fair value or, if lower, the present value of the scheduled construction payments. This would imply that, in case the fair value of the asset is lower than	Staff view: Recording of the liability at an amount other than the actual amount of the obligation should not occur.

	Name	Comment	Staff Response
		the present value of the construction payments, the liability would be measured at an amount lower than this present value. We suggest to reconsider the proposal in the light of this possible consequence.	Possible linkage to onerous contract comment raised by respondent 25. Will be considered in future drafting.
21	Canadian Council for Public-Private Partnership	CCPPP agrees with the UK Accounting Standards Board that transfer of demand risk is a key determinant of control. This does not appear to have enough emphasis in the <i>Consultation Paper</i> . We are surprised that there appears to be no significant distinction between a user pay asset and one in which the payments are made directly by the public grantor. Although there is a valid argument that both should in some way be reflected in the public sector's financial statements, CCPPP believes that there is a very significant difference between the nature of the liability associated with these different transactions.	Staff view: The CP is not premised on specific identification, separation and allocation of risks and rewards. Its view of risks and rewards is broader with the approach that ultimately the grantor is the one subjected to the risk and rewards. As such no differentiation in the type liability is performed dependent upon which party is exposed to demand risk in the terms of the arrangement.
25	South Africa Accounting Standards Board	We support the proposal on recognition of the liability at fair value ... <i>where the construction and service elements of scheduled payments by the grantor can be separated</i> . However, the argument for recognising the liability is based on the principles in IPSAS 13 on <i>Leases</i> . We recommend that, when further guidance is developed by the IPSASB on the accounting and financial reporting for SCA, such guidance should set the principle for recognising and measuring the liability rather than making reference to IPSAS 13, as IPSAS 13 deals with lease accounting only and when applying the proposed control criteria, lease accounting may not be applicable to that SCA. Furthermore, we recommend that more guidance should be provided on the subsequent measurement of the liability where the proposed control criteria are met. Any further guidance to be developed by the IPSASB on the accounting and financial reporting	Staff view: Noted and agreed – a principle is ideally better established within the actual guidance. Additional guidance on subsequent measurement of liability to be considered in future drafting.

	Name	Comment	Staff Response
		for SCA should clarify whether the liability falls within the scope of a financial liability, and if not, what IPSAS should be applied for the subsequent measurement of such a liability.	
GUARANTEES AND OTHER COMMITMENTS			
7	Dr. Joseph S Maresca	<p>In cases where the IAS 39 on financial guarantee contracts aren't met, IPSAS 19 provides for contingent liabilities where:</p> <ul style="list-style-type: none"> o the entity has present obligations resulting from a past event i.e. a major Act of G-d destroying the subject matter of the contract o a probable outflow of resources embodying economic benefits or service potential requisite to settling an obligation o reliable estimates can be made <p>I concur.</p> <p>Probable factors in measuring a liability include:</p> <ul style="list-style-type: none"> o Grantor guarantee of the debt and there is an unconditional obligation and a conditional obligation to repay the debt if the operator defaults. <p>The Board believes that IAS 39 financial guarantee contract theory governs to measure the financial liability related to the guarantee in the grantor's financial statements.(pp. 54)</p> <p>I concur.</p>	Staff view: Noted
15	City of Calgary, Alberta, Canada	<p>In addition, The City would like to comment on the proposal in section 178, which requires guarantees and commitments made by a guarantor as part of an SCA to be recognized as a financial liability related to the guarantee in the grantor's financial statements. The City disagrees with this approach as it would create an inconsistency in the approach to handling guarantees. The current CICA PSAB requirements for guarantees is that they be disclosed in the notes to the financial statements only. Adopting this proposal would mean that some guarantees are recognized in the financial statements and others only in the notes to the financial statements.</p>	Staff view: The CP proposal relates only to those guarantees and commitments which meet the definition of a financial guarantee in IAS 39 which unfortunately appears to be creating a jurisdictional difference for the respondent. Given the absence of financial instrument recognition and measurement guidance in the IPSASB Handbook, the GAAP

	Name	Comment	Staff Response
			hierarchy directs to IAS 39. IAS 39 is beyond the scope of this project.
25	South Africa Accounting Standards Board	<p><i>178. The Board proposes that for guarantees and commitments made by a grantor as part of an SCA that meet the IAS 39 definition of a financial guarantee contract, the provisions of that statement should be used to measure and recognize a financial liability related to the guarantee in the grantor's financial statements.</i></p> <p>We support this proposal.</p> <p><i>179. The Board further proposes that the guidance in IPSAS 19 generally should be applied to determine the accounting and financial reporting for guarantees and commitments made by grantors that do not meet the IAS 39 definition of a financial guarantee contract. The Board believes that the existence of these guarantees and commitments under an SCA would not necessitate accounting treatment different than that for similar guarantees and commitments made in another context. Potential amendments to IPSAS 19 based on any amendments the IASB makes to IAS 37 may be considered by the IPSASB as part of a broader project on provisions, contingent liabilities and contingent assets, in accordance with its policy to converge public sector accounting standards with private sector standards to the extent appropriate. Proposals for disclosures related to guarantees and commitments are discussed later in the Consultation Paper.</i></p> <p>We support this proposal.</p>	Staff view: Noted.
32	United Kingdom – Financial Reporting Advisory Board	The Board agrees that for guarantees and commitments made by a grantor as part of an SCA that meet the IAS 39 definition of a financial guarantee contract, the provisions of that Standard should be used to measure and recognise a financial liability related to the	Staff view: Noted.

	Name	Comment	Staff Response
		guarantee in the grantor's financial statements. The Board also agrees the further proposal that the guidance in IPSAS 19 should generally apply to determining the accounting and financial reporting for guarantees and commitments made by grantors that do not meet the IAS 39 definition of a financial guarantee contract.	
INFLOW OF RESOURCES FROM A SCA			
25	South Africa Accounting Standards Board	<p><i>190. The Board proposes that grantors should recognize revenue (and related receivables) generated from revenue-sharing provisions in SCAs as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (such as the achievement of a revenue threshold) is deemed to have occurred.</i></p> <p>We support this proposal, but in addition recommend that, when the IPSASB develops further guidance on the accounting and financial reporting for SCA, such guidance should include principles on the initial and subsequent measurement of the revenue in terms of the applicable IPSAS.</p> <p>Furthermore, we recommend that the relationship between contingent assets and revenue generated from revenue-sharing provisions should be expanded and clarified in the future guidance.</p>	Staff view: Noted – further guidance to be developed. Given an SCA is an exchange arrangement, application of IPSAS 9 <i>Revenue From Exchange Transactions</i> seems appropriate for treatment of revenues. Further consideration of relationship with IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> noted in the development of any future guidance.
29	Canada - Auditor General of British Columbia	<p>Additional Proposals in the Consultation Paper – Inflow of Resources</p> <p>In instances where the SCA provides the operator with the right to collect revenue from third parties (such as a toll road), should the revenue be reported by the grantor? For example, in situations where the grantor provides a guaranteed minimum revenue and shares in revenues above a set threshold, should the grantor record the total (gross) revenue from tolls with an offsetting expense to reflect the operator's portion of revenue. One could argue that under a control based approach, where the grantor controls the underlying property and retains at least some portion of the revenue</p>	<p>Staff view: While staff see the logic supporting the respondent's comment, it is considered that grantor control of the asset does not therefore translate to being an extension to controlling the associated revenues collected by the operator.</p> <p>While the net effect of recording gross revenues on the financial statements of the grantor may net</p>

	Name	Comment	Staff Response
		risk, the operator is collecting the revenues on behalf of the grantor therefore the gross basis of accounting for revenues should be used. In summary, the paper assumes that grantor records revenue on a net basis. It would be useful to include a discussion of the gross basis of recording revenue.	to nil, the absence of the necessary control over those related revenue supports the existing basis for revenue recognition in the CP continuing to apply.
CONSOLIDATION			
10	The Institute of Chartered Accountants of Scotland	The guidance is not applicable to government business enterprises. This is the same approach taken by IPSASs as government business enterprises are expected to follow private sector GAAP. However, any inconsistencies between accounting policies adopted by government business enterprises and other public sector entities could cause difficulties for countries preparing whole of government accounts: hence, the importance of IPSASB guidance and IPSASs as a whole being consistent with IFRS. We consider that the treatment of government business enterprises should be considered as part of IPSASB's conceptual framework project.	Staff view: Noted for the conceptual framework project.
11	France - Cour des Comptes	3.2.1. The consultation paper includes a section dedicated to the accounting methods to be selected with regard to contracts entered into by the States with State-owned companies. 3.2.2. As recommended by IPSAS, this scenario in which the State has a contractual link with a public entity calls for no specific accounting treatment, the reconciliation of the States' accounts and those of State- owned companies being carried out via the standard relating to consolidation.	Staff view: Noted.
25	South Africa Accounting Standards Board	<i>216. The Board proposes that the relationship between the grantor and the operator in an SCA should be evaluated using the guidance in IPSAS 6 to determine whether the grantor controls the operator for financial reporting purposes. The characteristics of the reporting entity is a component of the Board's current project to develop a public sector conceptual</i>	Staff view: Noted.

	Name	Comment	Staff Response
		<p><i>framework that would apply to the preparation and presentation of general purpose financial reports of public sector entities. The conceptual conclusions regarding the reporting entity drawn as part of that project may therefore impact determinations reached related to consolidation in the context of SCAs. The Board also proposes that the guidance in IPSAS 7 and IPSAS 8 should also be considered if the grantor has an ownership or equity interest in the operator.</i></p> <p>We support this proposal.</p>	
33	Canada – Québec Ministère des Finance	<p>With the approach based on the notion of control advocated by IPSASB, we are concerned that the government may have to consolidate in its financial statements the financial results of the entity created to manage and operate the asset that is part of the “public – private partnership” contract and not just the asset and the debt towards this entity, even if the risks and benefits are transferred to a large extent to the private partner.</p> <p>We believe that a government’s reporting entity must include the organizations under the government’s control. Control refers to the power to direct the financial and administrative policies of another organization such that the latter’s activities will produce expected benefits for the government or expose it to a risk of loss. Accordingly, where the government does not have the power to direct the financial and administrative decisions of the entity, the government is not required to consolidate them in its financial statements.</p>	<p>Staff view: The CP proposes that the relationship between the grantor and the operator should be evaluated using IPSAS 6. In supporting analysis the CP notes that as described in IPSAS 6, whether there is clear evidence that an entity other than the grantor holds control over the operator should be considered. In most cases involving an SPE as an operator, the papers notes that there is an expectation that such evidence will exist. It is considered that the sponsors/shareholders of the SPE generally will exhibit a greater degree of control than the grantor over the SPE. Staff considers that the CP in this respect provides adequate guidance in this respect.</p>

	Name	Comment	Staff Response
DISCLOSURES			
20	The Netherlands Court of Audit	<p>The paper is focused on the balance sheet of financial reporting. The risks that are present in SCA's only play a role in deciding which party is in 'control' and therefore should represent the value of the assets and liabilities of the contracted entity on it's balance sheet. In our experience there is also much to be gained if government would be more transparent in it's financial reporting – more specifically, in the disclosures - about the (public) risks that are involved with SCA's. Especially in these kind of contracts it is possible to quantify at least a large part of the risks, since they should be made explicit in the agreement anyway. In the disclosure to the financial statement there should be systematic information about the SCA's, the division of responsibilities and the risks involved for the public party. We recommend that the IPSAS standards also give guidelines for these aspects. A problem with the explicit mentioning of risks could be corporate confidentiality. The standards should also give guidance on how to deal with this problem.</p> <p>In the paper a few important risks are mentioned. We think there should be a more extensive overview of types of risks involved with these contracts. We would like for instance to add the so-called interface risks.¹</p>	Staff view: Further disclosures relating to risk exposure will be considered in drafting for the next stage of the project.
24	Professor David Heald - University of Aberdeen Business School	The reputation of service concession arrangements has been damaged by manipulated accounting and inadequate transparency which have together clouded debates about whether they generate Value for Money. There should be a disclosure requirement on public sector grantors so that their annual report and accounts disclose the name, address and tax domicile of the private sector operator of each service concession arrangement, its duration and purpose, and - in all cases where the property is not on the balance	Staff view: Staff support see the need for improved transparency via disclosures though consider that the extent of counter party disclosures could be commercially sensitive. Will be considered in drafting for the next stage of the project.

¹ Risks that are related to the performance by other (public) parties or other projects on which the performance of the SCA is dependent.

	Name	Comment	Staff Response
		sheet of the grantor - whether it is on the balance sheet of the private sector operator (usually a Special Purpose Vehicle) and of ultimate parents. These disclosures will enhance transparency and provide safeguards against new forms of accounting manipulation.	
25	South Africa Accounting Standards Board	<p>228. <i>The Board proposes that the following types of information should be included in disclosures related to SCAs in the financial statements of grantors:</i></p> <ul style="list-style-type: none"> • <i>A general description of the SCAs in effect during the reporting period, including management's objectives for entering into them;</i> • <i>The nature and extent of rights acquired under SCAs, which may include rights to expect the provision of services and revenue-sharing;</i> • <i>The nature and extent of obligations, guarantees, and other commitments assumed under SCAs, which may include guarantees of operator debt and guarantees of minimum revenue amounts for the operator;</i> • <i>Aspects of SCAs that may impact service delivery to constituents, which may include property operation and maintenance requirements, events of operator default and their potential effect on service delivery, and information on the financial condition of the operator;</i> • <i>The nature and amount of assets and liabilities related to SCAs that are recognized in the statement of financial position; and</i> • <i>Future cash inflows and outflows associated with SCAs, and any significant conditions or contingencies that may affect the amount, timing, and certainty of those future cash flows.</i> 	

	Name	Comment	Staff Response
		<p>We support the disclosure requirements.</p> <p>In addition, we recommend that grantors should also be required to disclose any assumptions made by management in determining the fair values of the property and/or liabilities that were recognised in the financial statements as a result of entering into the SCA.</p> <p><i>229. The Board acknowledges that some grantors may have several SCAs in effect at one time, which could make developing detailed disclosure information costly and burdensome. To balance the cost and benefit of providing SCA information in the financial statement note disclosures, the Board believes that aggregation of information should be considered, as appropriate.</i></p>	<p>Staff view: Noted. Disclosure of assumptions is considered a worthwhile requirement.</p>
		<p>We support this proposal, but in addition recommend that the future guidance to be developed by the IPSASB should clarify that the aggregation of such information should be based on management's discretion.</p> <p><i>230. In addition to the types of information proposed above to be included in disclosures specifically addressing SCA contracts, the disclosure requirements of other authoritative guidance that may apply to aspects of the SCA should also be followed, as appropriate.</i></p> <p><i>These may include, for example, the disclosure requirements related to:</i></p> <ul style="list-style-type: none"> • <i>Property, plant, and equipment present in IPSAS 17;</i> • <i>Financial liabilities (including financial guarantees) present in IPSAS 15; and</i> • <i>Contingent liabilities present in IPSAS 19.</i> 	<p>Staff view: Noted. 'Management discretion' considered a worthwhile requirement.</p>

	Name	Comment	Staff Response
		We support this proposal, but recommend that contingent assets should also be included in this list.	Staff view: Noted. ‘Contingent assets’ considered a worthwhile requirement.
31	Canada - Provincial Comptroller of Saskatchewan	<p>The proposal for disclosure of SCAs includes information on future cash inflows and outflows and the impact of any uncertainty that would affect these flows. Disclosure on future cash flows is rarely required in financial statements.</p> <p>We grant that information on cash outflows might provide some relevant information to financial statement users, similar to information on future lease payments, although this seems to be covered in the requirement to disclose commitments. However, it is questionable whether providing information on expected future cash inflows would be relevant. The significant uncertainty surrounding most cash inflows would diminish the value of any disclosure. We suggest the Board reconsider the proposal to require disclosure on cash flows, particularly cash inflows.</p> <p>We note that the consultation paper proposes a number of disclosures specific to SCAs and acknowledges that other existing proposals might overlap. We suggest that the guidance make reference to these possible overlaps, and recommend that professional judgment be used to determine appropriate disclosure in each case.</p>	<p>Staff view: Given the long term nature contractual nature of these arrangements, disclosure information on cash flows considered essential for accountability purposes – no change proposed.</p> <p>Treatment of ‘overlapping’ requirements to be reviewed and treated in a manner consistent with other guidance in the IPSASB Handbook</p>
32	United Kingdom – Financial Reporting Advisory Board	Given the general complexity of SCAs and their potential material impact on the financial statements of grantors, the Board agrees that there is a requirement to provide guidance on the required disclosures, taking into account the objectives of general purpose financial reporting in the public sector. The IASB’s SIC-29 provides an appropriate basis for the drawing up of the necessary disclosures for both grantors and operators.	Staff view: Noted.

	Name	Comment	Staff Response
OTHER ISSUES			
		Other Issues Re-Financing /Re-Negotiation /Premature Ending	
10	The Institute of Chartered Accountants of Scotland	The re-financing of projects is not addressed by the consultation document. Refinancing is common when operators are in financial difficulties. Even if re-financing arrangements are to be outside the scope of the guidance then there should at least be a cross-reference to those IPSASs which would apply in such Circumstances.	Staff view: Reporting of the SCA should be based on all known information at that time. A re-assessment of reporting should be made at each reporting date to ensure reporting continues to reflect the substance of the arrangement. Staff will consider if any useful cross-references could be added.
20	The Netherlands Court of Audit	<p>One special risk is the risk of having to renegotiate the contract. The paper supposes a sort of stable situation in which the contract as it is at a certain point in time is the basis for deciding whether it should be represented in the balance sheet and also deciding on the value of it.</p> <p>We would like to point out that investigations of for example the British NAO show that most PPP-contracts are renegotiated within a few years after the first closure. This can influence the outcome of the ‘control’ criterion, the (residual) value of the assets concerned and also the risk profile that remains for the parties involved. The paper should also give guidance on how to deal with the issues that follow from this, such as uncertainty of the residual value of the asset, uncertainty on future debts, etc.</p>	<p>Staff view: Application of the guidance will have to be based on the circumstances known at the time – including where possible, the influence of any future contract re-negotiations.</p> <p>There will also be a need to re-assess the reporting of the arrangement at each reporting date to ensure reporting continues to reflect the substance of the SCA.</p>
33	Canada – Québec Ministère des Finances	We believe that the proposed accounting standard must also provide directives or clarifications in the event of non-performance, non-availability or breach of contract of service concession arrangements. While the specific circumstances of each PPP agreement preclude isolating all possible situations, references to	Staff view: Cross reference to applicable IPSASs could be useful. To be considered further in developing future guidance though noting that final guidance

	Name	Comment	Staff Response
		<p>existing accounting standards would be useful.</p> <p>For instance, in the event of the premature end of a service concession arrangement, directions must be provided regarding the revaluation of the asset and liability underlying the agreement. While professional judgement is recommended in each situation, an accounting standard on PPPs that ignores this would be incomplete.</p>	cannot expect to cover all possible situation that may occur.
		<p>Other Comments</p> <p>Performance Reporting / Fiscal Sustainability</p>	
22	Association of Chartered Certified Accountants	<p>Lastly, adoption of the Consultation Paper's requirements will undoubtedly have a material effect on long term fiscal sustainability reporting in some jurisdictions.</p>	<p>Staff view: Agreed – long term nature of SCAs will have an impact on long term fiscal sustainability reporting.</p> <p>Disclosures on future cash-flows of assistance.</p>
28	New Zealand Office of the Controller and Auditor-General	<p>Also, we agree that for many arrangements the grantor will be accountable for services from the property underlying a SCA. We therefore believe there should be a link between the accountability for services and the reporting of service accomplishments, that is, non-financial reporting of performance. The grantor normally remains accountable for the services under SCAs and accordingly, should be reporting on its service accomplishments. We appreciate that the Board has yet to consider the whole area of non-financial performance reporting. However, we don't think that this precludes increasing the prominence of the link with non financial performance information.</p>	<p>Staff view: Staff concur that given ultimate accountability remains with the grantor, that there are implications for reporting on service performance/accomplishments. IPSASB has specific project on Performance Reporting on its Workplan which will ultimately address this requirement. Staff propose to leave this as a matter for the performance reporting project.</p>

	Name	Comment	Staff Response
		Other Issues Borrowing Costs	
21	Canadian Council for Public-Private Partnership	CCPPP believes that there is considerable uncertainty over whether or not interest during the construction period should be included in the fair value of the asset capitalized. It does not appear that the <i>Consultation Paper</i> addresses this.	Staff view: The CP is silent on the treatment on borrowing costs. Agreed that further consideration needs to be given to this issue in the context of recent proposed revisions to IPSAS 5. Deliberations on the recently issued ED of IPSAS 5 do not appear to have considered the treatment of borrowing costs in this context. Has been raised with IPSAS 5 project staff and will be considered further as part of the next stage of the project. Any possible impact on IPSAS 5 would seemingly be best effected as a consequential amendment once any SCA guidance is finalized.
28	New Zealand Office of the Controller and Auditor-General	It appears that the consultation paper has not addressed how IPSAS 5 Borrowing Costs (IPSAS 5) should be interpreted and applied in the case of an entity (that is party to a SCA) that capitalises borrowing costs. There are a number of questions that need to be considered: <ul style="list-style-type: none"> • Is the finance charge on the outstanding liability to provide the operator compensation a borrowing cost eligible for capitalisation? • When there is a finance charge, does it matter whether the liability to provide the operator compensation reflects the grantor's obligation to provide compensation in the form of cash, 	

	Name	Comment	Staff Response
		<p>the right for the operator to charge third-party users, or a combination of both?</p> <ul style="list-style-type: none"> How should borrowing costs be reflected in the measurement of the underlying asset? <p>In our view, the Board needs to consider how IPSAS 5 and an IPSAS on accounting for SCAs will interact with each other when developing a SCA exposure draft.</p>	
		<p>Other Issues</p> <p>Clarity Improvements / Recommendations</p>	
4	French Ministry for the Budget, Public Accounts and Civil Service	<p>Apart from the SCA, which correspond to the scope of the study itself, charts A and D provide straightforward contracts that could be seen from reading the text as PPP (privatization, government service contract, etc.). This ambiguity should be removed from the scope of the PPP presented at the beginning of the consultation paper. Both the SCA and the PPP must remain complex contracts in which there is provision of an operating property (or renovating a property) and services (maintenance, operation,).</p>	<p>Staff view: While staff question if the existing diagrams will be suitable for carry forward to final guidance, if they do, staff consider they should, given the international context of the eventual standard, continue displaying the full breadth.</p>
7	Dr. Joseph S Maresca	<p>Grammatical pp. 179 ln.5: “different than should be different from”</p>	<p>Staff view: Will be followed-up.</p>
20	The Netherlands Court of Audit	<p>We suggest to include an explicit statement in the introduction of the standard, in which it is emphasized that the starting point for the reporting decisions to be taken is formed by a careful analysis of the terms, conditions and risks of every single specific SCA.</p>	<p>Staff view: Agreed.</p>
20	The Netherlands Court of Audit	<p>A future standard would also gain in clarity by describing different SCA-cases and the way they should be represented in the financial report, according to the reporting principles included in the proposed standard.</p>	<p>Staff view: Agreed. Inclusion of examples in an appendix to be considered in development of final guidance. Will assist in applying guidance.</p>
20	The Netherlands Court of Audit	<p>We agree with the description of different types of PPP. It is relevant and useful. However it is not clear what the categories mean in terms of the control criteria in the paper. Do all of the PPP-</p>	<p>Staff view: Descriptions provided more for explanatory purposes showing the different types of</p>

	Name	Comment	Staff Response
		types fall within the criteria of control by government or are there distinctions to be made?	arrangements which can get categorized as PPPs. The descriptions are not intended to represent any application of the control criteria.
25	South Africa Accounting Standards Board	The explanatory guidance in this consultation paper that explains the relationship between the proposed control criteria, the risks and rewards approach in IPSAS 13, and how the grantor's control over the property will result in expected future economic benefits and service potential, is extremely useful. We would encourage the inclusion of such explanatory guidance in any future guidance that the IPSASB intends to develop on the accounting and financial reporting for SCA.	Staff view: These explanations are key to under-pinning the control basis of the CP. Carry forward to future guidance considered important and will be incorporated – possibly as 'basis for conclusions'.
25	South Africa Accounting Standards Board	The consultation paper considered the application of the control approach to "whole-of-life" arrangements. It was concluded in paragraph .84 that controlling the residual interest in the underlying property to the SCA serves to preserve the grantor's continuing use of the property during the arrangement, and it does not appear to depend on the significance of the residual interest at the end of the arrangement. Based on this conclusion, of the term "significant" was excluded from the proposed control criteria in the consultation paper when compared to the criteria applied by the operator under IFRIC 12. The reason for excluding the term "significant" from the control criteria to be applied by grantors is therefore critical in understanding the difference between the two approaches to be applied by grantors and operators. We therefore recommend that the exclusion of the term "significant" from the control criteria to be applied by grantors, should be explained in any future guidance that the IPSASB intends to develop on the accounting and financial reporting for SCA.	Staff view: Noted – will be considered for inclusion in any eventual guidance material – possibly as 'basis for conclusions'.

	Name	Comment	Staff Response
32	United Kingdom – Financial Reporting Advisory Board	The Board views that it is important to clearly set out the accounting requirements in the event that one or all of the control criteria are not met.	Agreed. Further consideration of this aspect of the CP considered important. To be raised as a key point with the Board.
3	Canadian Public Sector Accounting Standards Board	<p>We found the illustrative flowcharts valuable in understanding and gaining perspective on the proposals. However, in the development of a final standard we would suggest that reconsideration be given to Flowchart 1. As it is depicted, the right hand path applies terms that are not defined. This may allow readers to reach conclusions about accounting treatment based on the types of Public-Private Partnerships as described in paragraphs ten, eleven and sixteen. We favour an approach that would describe criteria to determine the accounting for specific types of service concession arrangements. We support this approach as we understand it to be consistent with that adopted for IFRIC Interpretation 12, “Service Concession Arrangements”.</p> <p>In our view, a superior approach would combine the two flowcharts, eliminating the path that presently appears on the right side of Flowchart 1.</p>	Staff view: Staff concur as to the necessity of flowcharts, diagrams and development of examples. All such aids will significantly assist in the application of principles once finalized. All comments will be considered in the further development and placement of these materials.
20	The Netherlands Court of Audit	In our view, SCAs are a quite complex reporting issue. The understandability of a future standard would highly benefit from inclusion of flowcharts, like the current flowcharts 1 and 2. These flowcharts could be designed for every major reporting-decision topic related to SCAs.	
25	South Africa Accounting Standards Board	The inclusion of a flow chart or diagram that will illustrate the approach to be adopted in determining ownership of an asset, and illustrating the recognition of the associated liability, where applicable, will be very useful to assist preparers in understanding the approach to be adopted in recognising SCA. We recommend that such a flow chart or diagram should be included in future	

	Name	Comment	Staff Response
		guidance to be developed by the IPSAS on the accounting and financial reporting for SCA.	
25	South Africa Accounting Standards Board	When the IPSASB develops future guidance on the accounting and financial reporting for SCA, the inclusion of practical examples and illustrations will assist in understanding the principles to be applied in accounting for SCA. We therefore recommend the inclusion of such examples and illustrations.	
27	Wales Audit Office	12. We note that the scope of the consultation document is wider than that of IFRIC12 Service concession arrangements. The flowcharts included in the appendix to the consultation paper are a useful tool in determining the accounting requirements for SCA5 especially where an SCA only meets one of the two control criteria. It would be useful to practitioners to give the flowcharts more prominence within any final document.	
28	New Zealand Office of the Controller and Auditor-General	Due to the complex accounting for SCAs, it would be beneficial to include illustrative examples in an IPSAS to demonstrate the practical application of the proposed accounting requirements.	
10	The Institute of Chartered Accountants of Scotland	the consultation document contains an excessive amount of detail on the research undertaken in developing the guidance and this approach obscures the actual guidance itself. We are of the view that a further consultation should be undertaken on a more focussed document before a final version of the guidance is issued	Staff view: Working on the assumption that the Board continues to support current approach to property and liability recognition in the CP, staff do not consider the nature of the remaining comments warrant a further consultation paper. If the Board concludes to revise key components of the current proposals, then a Consultation Paper would appear necessary.

	Name	Comment	Staff Response
		Other Issues Rights and Obligations	
26	GASB	However, we are concerned that if the IPSASB decides to adopt a rights and obligations approach to define assets and liabilities, that the SCA guidance will directly conflict with the IPSASB's conceptual framework.	Staff view: Agreed – a fundamental shift in the underpinning of an asset in the IPSASB Handbook will necessitate reviewing SCA guidance as currently proposed. To be noted and considered as the conceptual framework project evolves.
		Other Issues Impact of Proposals on Entities/Jurisdictions	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	<p>Paragraph 102 states the proposed tests for determining whether a grantor controls SCA property. These tests appear to result in a similar outcome to the existing accounting approach adopted in practice by public sector grantors in Australia.</p> <p>From HoTARAC's assessment, applying the proposed control tests to a sample of 20 Build-Operate-Transfer, Build-Own-Operate-Transfer or Build-Own-Operate arrangements in one Australian jurisdiction results in exactly the same outcome as applying the control tests under HoTARAC's existing guidance for Australian grantors, based on FRS 5-F. None of the SCA properties was assessed as grantor-controlled under either approach.</p> <p>In each case in the sample, the SCA property fails at least one of the grantor control tests under the proposed model. In most cases, the grantor does not control to whom the operator must provide the services. In some cases, the grantor does not control the price ranges or rates that the operator can charge. In some cases, particularly in BOO arrangements, the grantor does not control the residual interest in the SCA property.</p>	Staff view: The application of the control criteria discussed under 'Request for Comment – Criteria'.

	Name	Comment	Staff Response
		<p>HoTARAC considers the similarity of the outcomes of both approaches to be purely coincidental, given its reservations with the robustness and conceptual justification for the proposals.</p> <p>HoTARAC also notes that the impact of the proposed grantor control tests could vary among jurisdictions due to differences in applying the tests, as discussed in the next section.</p>	
8	France - Direction Generale des Finances Publiques	<p>The IPSAS Board proposed rules, given the current absence of French standards in the PCG for the registration of partnerships for the public partner, are interesting as they specify the criterion of control.</p> <p>They may result, if they were then validated by an appropriate national procedure, in changes for all controlled properties. These changes are here roughly described, bearing in mind that a more detailed analysis should be conducted contract by contract (under rare circumstances, it could be possible that public control cannot be ascertained).</p> <p>Such developments would be as follows:</p> <ul style="list-style-type: none"> - Concerning “gérance” and “régie intéressée” : the property is controlled and is already included in the public partner’s accounts. Hence, no change is necessary. - Concerning “affermage” : the rules of “régie intéressée” apply when the property is controlled, no change is necessary; when it is not the case, the rules of the concession (see below) prevail. - Concerning concession : these contracts are particularly challenging because, for the time being, the local government balance sheet only records the properties made in the initial concession in the form of right of return not depreciated. <p>Accepting the IPSAS proposal could lead to integrate additions (return and surrender properties), to contemplate the possibility of accounting for depreciation in the local authority’s balance sheet (currently recorded in the private partner financial</p>	<p>Staff view: Appears proposals will have minimal impact to some existing arrangements with the main impact relating to ‘concessions’ – as noted in response to respondent 4 French Ministry for the Budget, Public Accounts and Civil Service, under – Scope - Types of Arrangements Addressed.</p> <p>See also staff comment to respondent 8 under – Scope - Types of Arrangements Addressed.</p>

	Name	Comment	Staff Response
		<p>statements) and the related integration (preferably through the net position to be related to the excess/deficit of income over expenditure, given the strong link between general accounting and budgetary accounting for local entities in France). These additions would make it necessary to redefine the private partner reporting.</p> <ul style="list-style-type: none"> - Concerning other contracts (leasing, BEA, AOT, CP, BEAH) : it could be admitted that all controlled properties be recorded as assets. However, several difficulties are to be considered: ... <p>...3. Finally, some partnership contracts (those who fall under Article L1414-1 of CGCT) are eligible for a specific central State grant paid according to the investment incurred by the public partner (in the framework of the State Compensation Fund for the value added tax - FCTVA - a percentage of such investments is paid back to the local authorities two years later). As a result, accelerating the accounting for assets would have consequences for the State which should be taken into consideration.</p>	
9	France - Ministere de la Sante, de la Jeunesse, des Sports et de al Vie Associative	<p>First of all, it should be noted that French hospitals have specific accounting standards, but they refer to those of the General Accounting Chart (Plan Comptable Général - PCG) which is based on IFRS. As a result, IFRS, once integrated in the french accounting law, constitute the reference. The IPSASs, insofar as they converge with IFRS, are also taken into consideration in the discussions relating to accounting regulations even if they do not form a standard.</p> <p>However, possible changes in current accounting rules would be well analysed, given the specificities of public hospitals : what liability is recorded when an asset is recorded ? what is specific for the different kinds of contract ? In this regard, we can note that :</p> <ul style="list-style-type: none"> - Budget documents requested by the control authorities (EPRD - statement of estimated revenue and expenditure) are based on the 	Staff view: As with respondent 8 above, there appear to be a significant number of impacts for this respondent in many aspects of reporting their operations.

	Name	Comment	Staff Response
		<p>notion of working capital (FDR). Recording an asset makes “FDR” mechanically decline, which could be an unjustified warning on the public hospital financial situation. A PCA has no impact on the “FDR” ;</p> <p>- A contribution in debt (without receiving funds) may result in difficulties when public actors have chosen these procedures for purposes of debt “deconsolidation”.</p>	
21	Canadian Council for Public-Private Partnership	<p><u>Potential Double Recording of Assets and Liabilities</u></p> <p>The likely effect of the <i>Consultation Paper’s</i> recommendations is that many assets and liabilities will be recorded on both the public- and the private-sector balance sheets. This is not a desirable outcome.</p>	<p>Staff view: Staff are not aware under what circumstances such an occurrence may potentially occur – noted for further consideration as any eventual guidance is developed. Comments of this nature have tended to raise concern that an asset might not be reported by either entity, particularly as a result of asymmetry between the CP proposals and IFRIC 12 – notably with respect to differences in the wording of the residual interest criteria – discussed elsewhere.</p>
22	Association of Chartered Certified Accountants	<p>We would also draw your attention to the complexities of recognition of existing SCA’s in the books of the grantor, and de-recognition in the books of the operator where this is appropriate. Certainly in the UK, where many SCA’s have matured into their operational phase, a secondary market has developed with dedicated infrastructure funds buying and selling SCA’s.</p> <p>This means that the traceability of the underlying property is not a simple matter, nor is it clear whether the private sector operator will willingly “give up” the underlying asset. There may also be</p>	<p>Staff view: The extent of the impact of this issue would appear to depend on whether any finalized guidance is to be applied prospectively or retroactively. Staff consider that any finalized guidance would ideally be applied retroactively, though if retroactive reporting not considered possible</p>

	Name	Comment	Staff Response
		unintended consequences on tax planning for the private sector operator.	(supported by reasoning in the financial statements), then prospective reporting to be applied.
		Other Issues Complex PPPs For Which IPSASB Might Wish to Address in the Future	
20	The Netherlands Court of Audit	Also we would like to point out that there are other types of PPP, in which public and private parties closely co-operate in for example a SPV (Special Purpose Vehicle). We think it is relevant to note that these other kind of PPP's can occur in combination with SCA's and all sorts of other traditional and new types of contracts and financial relationships (examples: stocks, guarantees, subsidies, loans) between public and private parties. There is a lack of transparency of these 'PPP's' in general and in particular of interlinked risks, of which public parties usually take the burden. It is practical to limit the standards under consultation to SCA's but we warmly recommend these other PPP's and their complex financial relationships as a subject of future activities to IPSAS.	Staff view: The CP does contemplate grantor involvement with a special purpose entity/vehicle acting as the operator and advises that appropriate guidance should be followed – IPSAS 8 is discussed. Dissecting the entire JV/SCA arrangements should enable the relevant IPSASs/IFRIC 12 and IPSASB SCA guidance to be applied to each component.
		Other Issues Working /Liaison with other Bodies	
5	Australia - Heads of Treasuries Accounting and Reporting Advisory Committee	In December 2006, the AASB resolved to appoint an Interpretation Advisory Panel to consider accounting by public sector grantors for SCAs. A panel of experts was duly appointed and the Board considered its report in December 2007. On the basis of the Report, the AASB took the view that AASB Interpretation 12 did not determine the general accounting by public sector grantors for SCAs within the scope of the Interpretation. Although the Panel's Report was not published, it is likely to be quite relevant to the IPSASB's current project, given the grantor perspective, expertise of the Panel members and time	Staff view: A copy of the report will try to be obtained.

	Name	Comment	Staff Response
		<p>spent considering the matter.</p> <p>HoTARAC notes that the AASB's view differs from the IPSASB's view expressed in paragraph 50 that it can be inferred from IFRIC 12 that the grantor should report the SCA property as an asset. HoTARAC urges the AASB and IPSASB to confer with a view to sharing the Panel's Report.</p>	
28	New Zealand Office of the Controller and Auditor-General	<p>We note the wording addressing control of the residual value of the SCA property is different to the IASB's IFRIC 12. If the IPSASB's position continues to differ (as reflected ultimately in an IPSAS), we recommend the Board bring the wording to the attention of the IASB.</p>	Staff view: Will be done as required.
		<p>Other Issues</p> <p>Political Sensitivities in SCA Reporting</p>	
24	Professor David Heald - University of Aberdeen Business School	<p>3. I appreciate the difficulties that regulatory bodies face in the drafting of documents that go into the public domain, but there are dangers that avoiding certain issues or having recourse to coded language may damage public understanding of important accounting issues. The following statements relate specifically to the UK experience² but my understanding is that they may resonate in some other countries:</p> <ul style="list-style-type: none"> ❑ The unsatisfactory nature of service concession accounting is not primarily a technical accounting problem but attributable to governments wishing to keep privately financed assets off public sector balance sheets and/or outside fiscal rules. This leads to the design of concession arrangements around the accounting rules (sacrificing some potential Value-for-Money gains) and/or manipulation of accounting treatment (facilitated in the United Kingdom by the existence of the Treasury Technical Note 1 (Revised) (1999) in addition to 	Staff view: The political sensitivities surrounding the development of these accounting proposals are noted and are one of the key reasons behind this project – to improve the accountability and transparency for the reporting of SCAs.

² See D. Heald and G. Georgiou, "The Regulation and Substance of PPP Accounting", mimeo, 2008, attached to this comment letter.

	Name	Comment	Staff Response
		<p>the Accounting Standards Board's (1998) FRS 5A). Arbitrage between these two pronouncements, with the former being more permissive of Off-balance sheet treatment by the public sector client, has contributed to the extensive occurrence of Off-Off treatment.³</p> <ul style="list-style-type: none"> ❑ The pattern of On-treatment by public sector clients appears to owe more to the control framework under which they operate than to objective differences between the distribution of risks and rewards on particular concessions. This factor has interacted with differences of approach between the National Audit Office (which has insisted on On-balance sheet treatment for most prisons and roads) and the appointed auditors of the Audit Commission (a mixture of private firms and Audit Commission employees who exercise independent judgment); almost all schools and hospitals in England are Off-balance sheet. An extensive business has developed whereby the potential grantor's auditors and/or audit firms acting as consultants give views on accounting treatments in advance of funding/consents being approved; often funding/consents would not be available were there to be On-balance sheet treatment. ❑ The growing importance of fiscal rules and fiscal surveillance, especially for those countries within the European Union, draws attention to the significance of national accounts treatment. Whilst following financial reporting in using the risks and rewards criterion, Eurostat's guidance restricts the risks considered to construction risk and availability risk, thus making Off-balance sheet more likely than under either the UK's Treasury Technical Note 1 (Revised) or FRS 5A. This was the politically desired 	

³ Page 3 of the Consultation Paper refers to 'even *occasionally* resulting in the property not being reported as property, plant and equipment by either the public sector entity or the private sector entity' (emphasis added). In my view, this understates the extent of this practice.

	Name	Comment	Staff Response
		<p>outcome, and has contributed to IMF concerns about the fiscal risks attached to service concession arrangements.</p> <p>I would not expect IPSASB to be explicit about such regulatory arbitrage, or the motivations for it, but the context is fundamentally important and affects how the implications for new proposals based on 'control' are thought through.</p>	
		<p>Other Issues</p> <p>Legal Principles Not Set Forth</p>	
7	Dr. Joseph S Maresca	<p>The Statement does not reference legal doctrines, per se. Nevertheless, certain basic legal doctrines will apply. i.e. The “Principle of Comity” may make the grantor’s laws dispositive as long as the laws are consistent with accommodating nations, trading partners or business partners. The contract must delineate whose laws are in operation with regard to the implementation of the ongoing contract.</p> <p>The “Act of State Doctrine” is a judicially created doctrine that states the judicial branch of one country should not examine the validity of public acts committed by a recognized foreign government with regard to business activity or any activity within its own borders. The contract should provide for foreseeable conflicts in the conduct of the arrangement; such that, the discretion of the host country is not invoked adversely to the operator.</p> <p>The Doctrine of Foreign Immunity immunizes foreign nations from the jurisdiction of American Courts. A contractor or operator must be satisfied as to the proper venue to seek redress for major contractual non-compliance, non-cooperation or outright expropriation.</p> <p>The contract between the Public Service Organization and the operator must be clear as to the choice of language and the choice of forum to designate dispute resolution, local court jurisdiction or forced arbitration venues. The governing</p>	<p>Staff view: Legal principles are the key under-pinning for the establishment and execution of the SCA until expiration of the under-lying agreement(s). As such, they will influence the resultant reporting of the arrangement but do not appear to be a factor in what the accounting principles for the reporting should be.</p>

	Name	Comment	Staff Response
		<p>law with respect to the contract performance should be set forth clearly. In cases where the performance arises out of intellectual property, the governing law may be the United States Patent Law or European Patent Office.</p> <p>Civil disputes can be settled in the International Chamber of Commerce in order to avoid multi-country litigation. Section 1 of the Sherman Act provides for extra-territorial application of United States Antitrust Laws.</p> <p>These laws may apply where alleged violations have substantial impact on the Commerce of the United States, price fixing, tie-in contracts.</p> <p>The International Union for the Protection of Industrial Property (1883) guarantees non-discriminatory treatment of patents. Examples of protected instrumentalities will be provided in the energy area. i.e.</p> <ul style="list-style-type: none"> o Artificial Sun or virtual power (multi-nation project undertaking) o Horizontal drilling in places like the Bakken Reserves of the Dakotas o Unique windmill blade designs that help to deflect noise levels o Unique geothermal energy conversion in volcanic areas o Easy to maintain solar energy voltaic cells and instrumentalities o Waste recycling processes that create diesel fuel o Coal gasification processes and certain thermodynamic improvements o Improvements to the Carnot engine assumptions of energy efficiency 	

	Name	Comment	Staff Response
		Other Comments Supporting Illustrations of CP Concepts Types of PPP & Scope (CP paras 1 – 27)	
7	Dr. Joseph S Maresca	<p>pp. 8 The PPP is a public private partner association to complete new infrastructure. The definable mission is to deliver public service asset infrastructure or a public facility or service. The risks are shared between the public and private sector.</p> <p>Construction risk involves defects in materials, construction delays, structural integrity, technical deficiencies, health risks and major non-compliance with reasonable qualitative standards.</p> <p>For instance, structural integrity may relate to the ability of a dam retaining wall to sustain a reasonable overturning moment during routine storm activity.</p> <p>Health risks may attain in the construction of a nuclear power plant. i.e. control rod deficiency</p> <p>Citizen Demand Risk deals with the local acceptance of the project.</p> <p>Operating and maintenance risks are real. For instance, there are risks of material price increases, shortages i.e. (copper and vital minerals), natural disasters and Acts of G-d, deferred maintenance and obsolescence.</p> <p>A plant may be deemed inoperable due to a local change in how the law is applied to older facilities. A major coal burning plant may require significant new scrubber enhancements to operate under the new engineering code.</p> <p>The residual value risk is the difference between the market price of infrastructure and the expected original market price.(pp. 9)</p> <p>Financing Risk involves the risk that the financing cannot be obtained or the interest rate is too high or there are major currency fluctuations.</p> <p>The Public Private Partner may be used to leverage benefits of the private sector entity generally not available in the public sector.</p>	Staff view: Much illustrative support provided by these comments – will be taken into consideration as potentially adding real world examples to the concepts discussed in the paper.

	Name	Comment	Staff Response
		<p>The objective is to achieve improved value for the money.</p> <p>For instance, there is an improved ability to deliver new or renovated infrastructure. i.e. better materials like solar cells, a longer MTBF (mean time between equipment failures), energy efficiencies greater than the Carnot Energy of 51%, bridge materials that don't oxidize as readily, a material with a higher breaking point or elasticity.</p> <p>The private sector entity gets the asset-based taxable deduction and tax benefits resulting in lower charges to the public sector entity. The PPP arrangement may help in meeting fiscal targets and operational deadlines otherwise unobtainable except at significant cost.</p> <p>The public sector may pay balloon up front costs with reduced streams of periodic payments. The UK and Australia utilize the PPP to upgrade infrastructure and public facilities needs.</p> <p>Risk and responsibility grows in relation to the growing involvement of the private sector. (pp. 10) The PPP may be utilized to emulate privatization or builder/owner operation. A PPP may be employed to deliver modern electronic infrastructure and the internet superhighway to Iraq.</p> <p>For instance, the contractor could install the data centers, municipal accounting systems to track oil revenues, resource sharing via operations research algorithms, government operations and communications to a decentralized constituency of users in the Sh'ia, Kurd, Sunni and mixed communities.</p> <p>A PPP arrangement may be utilized to design and build via the private sector ability to collect food waste, recycle and manufacture diesel fuel organically.</p> <p>The Operations Concession Arrangement provides for the private sector entity to formulate public services through the existing infrastructure assets or private facilities. The private sector assumes</p>	

	Name	Comment	Staff Response
		<p>the obligation to provide the service in accordance with the public service entity requirements.</p> <p>Public service entities may make payments to private providers in response to a completed performance.</p> <p>In the “Design, Build, Operate and Maintain” scenario, the private entity has the construction risk, operation and maintenance. “Build, Own, Operate and Transfer” is the BOOT methodology. The private entity owns the arrangement until the completion or contract term.</p> <p>Privatization transfers the infrastructure to private sector entities via a sale. The public sector entity divests itself of responsibility for the property and related delivery of the service.</p> <p>In the Public, Public Partner (pp. 14), the government business enterprise may be the operator. i.e. a toll road The State is the grantor and the local toll road is the operator.</p> <p>Conceptually, this organizational structure could be seen in Iraq. i.e. The government of Iraq is the grantor and the various subgroup constituencies are the public partners. i.e. Sh’ia, Kurds, Sunni and mixed communities.</p> <p>The workable model could be formulated under a BOOT arrangement; whereby, the transfer is affected to the public entity after the workable model has been tested and implemented in the preferred mode of operation.</p> <p>In the financial reporting of infrastructure and public facilities, the risks, responsibilities, benefits and control of property are shared in varying degrees between the grantor and operator. The key question is the one involving substance over form.</p>	

	Name	Comment	Staff Response
		Supporting Illustrations of CP Concepts Financial Reporting of Infrastructure and Public Facilities (CP paras 28 - 101)	
7	Dr. Joseph S Maresca	<p>In the UK, economic risks/rewards are the basis for accounting for the property in Private Finance Initiatives. (P F I)</p> <p>Specified risks are as follows:</p> <ul style="list-style-type: none"> o demand risk which is greater or lower than predicted as in demand pull inflation o 3rd party revenues show that the revenues belong to the operator o Which party determines ultimately how the PFI is to be carried out ? <p>These risks could relate to the legal superstructure discussed earlier. i.e. Principles of Comity, Act of State Doctrine, Contract Details etc.</p> <ul style="list-style-type: none"> o Potential changes in future costs to the GRANTOR <p>Generally, the party bearing the risk gets the benefit of the residual value. Construction risks may be excluded due to starts before the concession period.</p> <p>Construction risk can deal with late delivery, substandard product/ performance, cost over-runs, technical deficiencies or environmental risks.</p> <p>Some of these risks can be very real. Environmental risks of hurricanes, earthquakes, Tsunamis can halt projects into the foreseeable future. Major cost over-runs can be incurred due to material spikes in the cost of energy. (pp. 20)</p> <p>In Availability risk , the operator bears the risk of insufficient management, strikes, work slowdowns, outsourcing risks due to language barriers and unanticipated Acts of G-d, inefficiencies and downtime in training or even employee turnover.</p>	

	Name	Comment	Staff Response
		<p>Demand risk may be due to the business cycle, new market trends, changes in user preferences, changes in the political climate or technical obsolescence. The fixed price contract transfers the construction risk to the builder. (pp. 21)</p> <p>The current economic environment has demand risk due to investor uncertainty with regard to the predictability of energy prices. Auto owners determine new market trends with regard to manufacturing energy efficient cars.</p> <p>Government users of electricity may determine whether or not solar energy is applied on a wide scale basis throughout government buildings and offices. Tougher environmental standards will mandate technical obsolescence.</p> <p>In the SCA, the operator is the service provider. (pp. 23) With respect to South Africa, possession of the property at the end of the arrangement determines the financial reporting. This applies to the grantor. A finance lease may be inferred if all risks and rewards are transferred as incidents of ownership.</p> <p>Ultimately, control and risks/rewards are necessary for the grantor to report the SCA as an asset.</p> <p>Control encompasses whether or not the purchaser (lessee) has the right to operate the asset or control physical access to the underlying asset. The purchaser is expected to benefit from the output or utility generated by the asset during the term of the arrangement. Control over residual interest is dispositive with respect to establishing control for financial reporting purposes.</p>	
		<p>Other Issues</p> <p>Ancillary Accounting Issues Associated With Property (CP paras 105 - 163)</p>	
7	Dr. Joseph S Maresca	The applicable asset is recognized when probable future economic benefits or costs are determinable. i.e. provable reserves or oil reserves that can be extracted without huge costs. (pp. 37)	

	Name	Comment	Staff Response
		<p>In some SCA, the grantor pays regularly and construction is disaggregated from the service. In these instances, preparers of financial statements may look to the finance lease guidance. IPSAS 13, 17 (pp. 39)</p> <p>In cases where the proposed control criteria has not been met in the SCA, the grantor should not classify the accounting as an asset. Instead, the SCA related outlays should be expensed as incurred. This action is similar conceptually to the service contract. When the grantor does not control the residual interest, a BOO arrangement is in order. i.e. the builder builds , owns and operates the underlying property. BOO meets the definition of a lease. (pp. 46)</p> <p>Newly constructed SCA are considered BOOT. The operator builds, owns, operates and transfers ownership at the end of the arrangement. The grantor pays a balloon payment at the end. (pp.47) An example of this would be a geothermal conversion process built for a specific community. A grantor may guarantee the debt</p> <p>of an operator in case of default or guarantee minimum revenues for the operator's permission to apply the technology in a specific governmental context. (pp. 50-52)</p>	
		<p>Other Issues</p> <p>Supporting Illustrations of CP Concepts</p> <p>Inflows of Resources from a SCA (CP paras 179 - 196)</p>	
7	Dr. Joseph S Maresca	<p>Revenue sharing may be BOOT for an indoor arena where the grantor gets a fixed royalty. That is, a transfer may occur at some point later in the contract.</p> <p>I believe that a transfer may not occur if the subject of the maintenance is so complicated that a reversion to a patent protected process is necessary into the indefinite future.</p> <p>Revenue recognition may occur when milestone goals are reached. i.e. An "Artificial Sun" virtual power has been tested and a</p>	

	Name	Comment	Staff Response
		<p>workable model has been put into place. A toll road is another classic example where a threshold toll revenue has been reached; such that, the probability of future revenue flows to the grantor is determinable objectively with a significant probability of future occurrence on a continuous basis. (pp. 55,56)</p> <p>Grantors should recognize revenue from the SCA revenue sharing provisos as earned after a contingent event is deemed to have occurred. (pp. 57 ln. 190)</p> <p>Contractually determinable inflows of the grantor as part of the SCA are to be recognized as revenues by the grantor as earned over the SCA life. (pp. 59)</p>	
		<p>Other Issues Supporting Illustrations of CP Concepts Consolidation (CP paras 197 - 216)</p>	
7	Dr. Joseph S Maresca	<p>Power conditional ownership of a majority interest should relate to a specific majority interest of at least 51% or an objectively determinable control criteria direct or indirect of an affiliate's voting common stock evidencing the controlling financial interest in a parent/sub relationship.</p> <p>A parent's control of a sub may be indirect. A less than 50% or majority owner may control an affiliate if the remaining stock is widely scattered among many hundreds or thousands of shareholders/stakeholders who don't attend shareholder meetings or vote by proxy.</p> <p>Effective control of an investee may be possible if the investor corporation management own a substantial number of investee shares or solicits proxies from the investor's or grantor's shareholders. (if the grantor is a corporation).</p> <p>Intercompany transactions between the grantor governmental levels are always a concern where the grantor is theoretically a</p>	

	Name	Comment	Staff Response
		<p>multi-level governmental entity. i.e. federal, state, municipal, neighborhood</p> <p>In cases of major intercorporate or inter-governmental transactions, the accountant must look to the substance of the transaction to determine control or even constructive expropriation.</p> <p>Restricted funds may account for resources available for current use but expendable only as authorized by the grantor of the scarce resources. Thus, a special revenue fund may be created for government use.</p> <p>The special revenues may be created for specific operating purposes or additions to property, plant or equipment. For instance, a BOOT arrangement may transfer ownership at some point to the grantor.</p> <p>Subsequently, the grantor may create a special revenue fund for routine operational purposes like toll road maintenance.</p> <p>Quasi-reorganization in bankruptcy proceedings may require a new mission for the operator due to unforeseen financial difficulties, Acts of G-d, unavoidable obsolescence or unprovable oil reserves or the existence of oil reserves which are too costly to extract in a cost efficient manner.</p>	
		<p>Other Issues</p> <p>Supporting Illustrations of CP Concepts</p> <p>Cost Accounting Considerations</p>	
7	Dr. Joseph S Maresca	<p>There are various cost accounting considerations in formulating policy for service concessions. For instance, changes in overhead may vary greatly due to energy price increments.</p> <p>Controllable costs are influenced directly by the operator as approved by the grantor within a governmental relevant range. Reasonable replacement costs may not be controllable in major disasters or Acts of G-d where the subject matter of the contract disappears or is irreparable by any reasonable estimate.</p>	

	Name	Comment	Staff Response
		<p>The concept of a learning phase and steady state phase may vary considerably depending upon the position of the product to be engineered within the technological learning curve hierarchy. The “Artificial Sun” virtual power is in a relatively nascent stage of development. After a decade or so of experimentation, the input to the nuclear reaction may be less than the energy output. At that point, the technology will approximate feasibility and practical commercial application.</p> <p>A technologically obsolescent piece of equipment will have a much higher depreciation rate than a newer piece of equipment. Equipment-replacement decisions can be complicated by unequal lives of equipment that competes technologically.</p> <p>For example, the elongated blade of an early windmill model may have a shorter productive life than a brand new blade which is technologically up-to-date.</p> <p>Generally, some residual value must be computed for comparison purposes.</p> <p>A market-based transfer pricing may be required for intergovernmental transactions involving multiple segmented levels of government grantors with a master grantor at the top of the chain. The master grantor is the national government.</p> <p>At times, the revenue sharing formula may be determined algorithmically. For instance, assume a rational energy revenue/resource sharing formula for the Iraqi Kurds, Sh’ia, Sunni and mixed communities.</p> <p>Algorithmically, the total provable reserves and applicable revenues could be allocated scientifically by linear programming methods. These linear programming methods would take the current provable oil production and allocate it amongst the various component grantor constituencies. The delivery of the refined oil could be allocated by the Transportation Linear Programming</p>	

	Name	Comment	Staff Response
		Algorithm. The optimum labor intensive tasks could be assigned utilizing the Assignment Model in the Operations Research Methodology.	