



INTERNATIONAL FEDERATION  
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## Agenda Item 7

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**Date:** October 21, 2010  
**Memo to:** Members of the IPSASB  
**From:** Joy Keenan  
**Subject:** Service Concession Arrangements – Analysis of Responses to Exposure Draft

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### Objectives

- To **confirm** the scope and approach to the ED (i.e., IFRIC 12 “mirror”);
- To **agree** on the key issues arising from respondents’ comments to the Exposure Draft (ED); and
- To **consider** other technical issues arising from responses, as time permits.

### Agenda Material

- 7.1 Responses #1-33 to ED 43
- 7.2 Analysis of Key Issues
- 7.3 Key Issues (*Cut and Paste of Responses*)
- 7.4 Technical Issue – Capital Work-in-Progress (*For information – to be discussed if time permits after consideration of Key Issues*)
  - 7.4.1 Other Issues (*Cut and Paste of Responses*)
- 7.5 Editorial Comments (*Cut and Paste of Responses*)
- 7.6 Breakdown of Responses

February 2010 Exposure Draft 43, “Service Concession Arrangements: Grantor”

### Background

1. A broad-based Consultation Paper (CP) dealing with Service Concession Arrangements (SCAs) was issued in March 2008.
  - (a) The CP proposed that a control-based approach be used to determine whether the grantor should recognize an asset under a SCA. This proposal was supported by CP respondents.
  - (b) However, the CP proposed criteria for determining control of the SCA asset that differed somewhat from the control criteria in IFRIC 12. There was no clear-cut support for this CP proposal.

- (c) The CP did not specifically identify the same scope of assets addressed in Interpretation 12 (IFRIC 12) of the IFAC's International Financial Reporting Interpretation Committee, which addressed SCAs from the operator's point of view. For example, it included guidance on instances where one or more of the control criteria for asset recognition are not met.
2. In 2009, IPSASB staff developed a draft ED based largely on the proposals in the CP that had garnered support from respondents to the CP.
  3. Nevertheless, there was still not a common understanding of or a consensus on the IPSASB of the types of assets and arrangements for which guidance should be provided in the project. There was, for example, considerable debate at the May 2009 and September 2009 meetings on whether the IFRIC 12 control criteria pertaining to "residual interest" in the asset should be retained in the proposed IPSAS. In addition, there wasn't clarity on the types of arrangements that were SCAs, consistent with the way in which that term was used in IFRIC 12. It was noted that in the absence of a public sector pronouncement dealing with SCAs from the public sector grantor's point of view, the guidance in IFRIC 12 was being applied by public sector entities to a variety of such arrangements. The importance of consistency of the two parties in determining whether to recognize (or not) an asset was also highlighted.
  4. At the September 2009 meeting, the IPSASB agreed that a Task-Based Group (TBG) should be established to develop an ED that "mirrored" IFRIC 12. TBG members are:
    - David Bean
    - Ian Carruthers (with support from Paul Mason)
    - Erna Swart
    - Ken Warren
    - Tim Youngberry
  5. The draft ED was approved in principle at the December 2009 IPSASB meeting. Approval was confirmed via ballot, and the ED 43, "Service Concession Arrangements: Grantor" was issued in February 2010, with a June 30, 2010 response date.
  6. Thirty-three (33) responses were received. A breakdown of respondents is found in Agenda Paper (AP) 7.6. Included in the responses are those from the organizations/jurisdictions of the TBG members.

### **Overview of Key Issues**

7. The TBG agrees that there is support for a project on SCAs.
8. The main issues requiring the IPSASB's initial direction at this meeting relate to whether to retain the IFRIC 12 scope and control criteria. See the detailed analysis of the key issues at AP 7.2 and the cut & paste of responses at AP 7.3. Specific questions the IPSASB needs to respond to are set out in AP 7.2 and 7.3.

9. The TBG is divided on certain of the issues in the discussion below. The IPSASB's direction is sought on those issues in particular, but also on any other significant matters TBG members have identified.
10. It is proposed that the detailed technical issues identified in AP 7.4.1 be deferred and discussed at a subsequent IPSASB meeting, in conjunction with changes made to ED 43 based on the IPSASB's direction at this meeting. Resolution of some technical matters identified in the analyses depends on the IPSASB's direction on the key issues.
11. Other of the specific accounting issues that have been raised are not dependent on the IPSASB's decision regarding the IFRIC 12 mirror approach (see paragraph 27 below). If time permits, the IPSASB's views will be sought on some of the issues identified in AP 7.4.1 after resolution of the key issues. One of those issues, capital work-in-progress, is analyzed in AP 7.4.
12. A detailed analysis of the key issues is presented in AP 7.2. An overview is presented below.

#### **IFRIC 12 "Mirror"**

13. The ED states, "This Exposure Draft addresses service concession arrangements from the grantor's perspective. It mirrors the principles set out in IFRIC 12 for accounting by the operator."
14. It was noted by one TBG member that some disagreements with the scope of the ED arise because the respondent disagrees with the principle of mirroring IFRIC 12 or with the control tests in IFRIC 12.
15. One TBG member indicated that the issues of the control criteria and the scope of the project should be addressed separately.
16. Another TBG member suggested the issue is how ED 43 relates to IFRIC 12 in a number of instances. For example, whether mirroring is a flawed approach because of weaknesses inherent in IFRIC 12, or whether it is important to ensure consistency in approach with the private sector despite the flaws.
17. However, one TBG member expressed the view that ED respondents did not raise any fundamental issues that the IPSASB has not already considered when developing the ED over the course of 2009, and that the majority of responses supported the approach the IPSASB approved in December 2010 and used in the ED. That member indicated that as a result, the IPSASB should be asked to confirm its earlier decision to remain consistent with the types of arrangements and transactions and with the control criteria set out in IFRIC 12.
18. Excerpts from relevant Minutes leading up to the development of ED 43 are included as an Appendix to this AP.

#### **Control criteria**

19. ED 43 proposed the following control criteria be applied by the grantor in determining whether to recognize an asset used in a SCA as an SCA asset.

10. **The grantor shall recognize a service concession asset in respect of an asset specified in paragraphs 8(a), 8(b) and 8(c); and shall reclassify an asset specified in paragraph 8(d) if:**
  - (a) **The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**
  - (b) **The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.**
11. **This Standard applies to an asset used in a service concession arrangement for its entire useful life (a “whole-of-life” asset) if the condition in paragraph 10(a) is met.**
20. These criteria are the same as those in IFRIC 12 for the operator. Most respondents supported the application of the control-based approach, including the consistency of the criteria with IFRIC 12.

#### **Scope of Arrangements Addressed**

21. Some respondents indicated that the scope of arrangements (i.e., only those addressed in IFRIC 12) was too narrow. Others noted that additional guidance is needed on arrangements that do not satisfy all of the elements of the control criteria.
22. A respondent also noted that, although consistent with IFRIC 12, it is not appropriate for whole-of-life assets to be included as SCAs.
23. As noted in the March 2008 CP, and by respondents to the ED, there is a wide spectrum of arrangements involving the public and private sector, which may be called SCAs even though they don't meet the criteria in ED 43 for treatment as SCAs. They are, rather, what may be loosely described as “public-private partnerships”, “public finance initiatives” or something similar in various jurisdictions. The CP called all such arrangements SCAs, which is not consistent with a control-based approach (i.e., only if the criteria are met is the arrangement a SCA, for the purposes of the proposed standard).

#### **Has IFRIC 12 Mirroring Been Achieved in ED 43?**

24. The bold letter control criteria in ED 43, as shown in paragraph 19 above, are the same as those in IFRIC 12.
25. ED 43 provides public sector guidance on the term “regulate” used in paragraph 10(a) above to address the fact that government regulation from the operator and grantor point of view has a different context.
26. One TBG member noted that because of the additional guidance on “regulate” the control criteria are slightly different and thus mirroring has not been achieved.
27. A few respondents also noted a specific technical issue for which they don't believe ED 43 mirrors IFRIC 12 (i.e., capital work-in-progress). This issue will need to be resolved irrespective of the IPSASB's decision on mirroring (see paragraph 11 above).

### **Performance Obligation**

28. Several respondents commented on the relationship of “performance obligation” with the definition of a liability in IPSAS 19 and on why the amount of the liability recognized varied when there were grantor payments to the operator and when there were not.
29. Respondents asked for clarity on the meaning of the term and on how this type of liability arises.

Appendix A

Excerpts from Minutes

April 2010 minutes

**1.5 Approval of Documents Between Meetings**

*Exposure Draft 43, “Service Concession Arrangements: Grantor”*

The Chair noted that Exposure Draft (ED) 43, “Service Concession Arrangements: Grantor” was approved between meetings.

The results of the ballot vote for the ED were as follows: **In Favor: 14; Against: 1; Abstain 2, Absent 1.** The voting details of the ballot draft approval are at Appendix 2, item 8.1.

*Dissenting view on ED 43 – Ken Warren (Member):*

My dissent concerns paragraph AG20. This states that the recognition of a constructed asset, (and by implication the corresponding liability), where the construction risk is borne by the operator, will normally be when the asset is placed into use. My objection to this stance is threefold:

- The asset is being constructed for the grantor pursuant to the contractual requirements of the service concession arrangement. Under accrual accounting principles, the grantor should recognise the asset under construction, (and the associated increasing obligation), as the asset is being constructed in accordance with the contract, rather than when it is complete. Recognition should occur at this point regardless of whether or not the grantor faces the construction risk.
- The treatment in AG20 does not mirror the treatment in IFRIC 12, the basis on which the Board agreed to prepare this standard. Under IFRIC 12 the operator recognises a growing receivable as the service concession asset is constructed. Under AG20 the "mirror" payable will not be recognised until the asset is placed into use. A further consequence is that the capital work-in-progress is not recognised by any party while the asset is being constructed.
- The deferral of recognition of the liability will inappropriately incentivise these types of transactions and provide financial engineering opportunities for Governments to report lower levels of debt in comparison to more direct financing transactions that have similar economic or present-value impact. The financial implications can be significant given the large contracts often involving a construction period covering a number of years that are typical with these arrangements.

December 2009 Minutes

**4. Service Concession Arrangements**

**Approve Exposure Draft (Agenda Item 8)**

The Chair welcomed Paul Mason, from the UK’s Chartered Institute of Public Finance and Accounting (CIPFA), who assisted the Task Force. The IPSASB first considered the most appropriate treatment of guidance the Task Force had developed to address accounting issues

that arise for the grantor when it recognizes an asset in a service concession arrangement (a “service concession asset”). It was noted that the agenda material provided included such guidance within the body of the proposed Exposure Draft (ED), and the Task Force did not have a consensus on whether this treatment is consistent with the IPSASB’s direction in September 2009 to “mirror” IFRIC 12. An alternative was discussed—to move detailed guidance on application of existing IPSASs to Application Guidance, which is considered an integral part of an IPSAS. The IPSASB agreed with this proposal, and staff presented a revised draft ED for the IPSASB’s consideration.

One Member commented that the asset recognition principle needed to be clarified to ensure that the service concession asset initially recognized is the original asset, and not subsequent improvements. The IPSASB agreed to amend the wording of the principle.

The IPSASB considered whether it was appropriate to have “terminology” rather than definitions. A Member noted that the structure of the proposed ED differs from traditional IPSAS format, which contains definitions, and this could create difficulties for users of the proposed standard. However, it was noted that this proposed standard is different from other IPSASs in that it is not a convergence standard, nor a strictly public sector standard. Rather, it is based on a pronouncement for the other party to a service concession arrangement, which does not contain definitions. As such, the focus of the proposed standard should be on content, not form. The IPSASB agreed to rename the section “Terminology” and to move the examples of service concession assets to Application Guidance.

The IPSASB also agreed that the proposed ED should provide additional guidance only on those issues on which the existing IPSASs are silent in the context of service concession arrangement transactions.

Members also agreed to the following changes:

- In the Introduction, provide a complete list of the other IPSASs that apply for the detailed accounting principles for the service concession asset and related liability, revenues, and expenses, and delete the summary of accounting principles in the proposed ED;
- Clarify that when financial liabilities arise, they are accounted for in accordance with IPSAS 28, IPSAS 29, and IPSAS 30;
- In the guidance on “regulate” in the context of the proposed ED, use the terminology in IPSAS 31, “Intangible Assets;”
- Amend the transitional provisions: and
- Delete example 4.

A concern was raised regarding the guidance on the timing of recognition of service concession assets by the grantor. In particular, one Member noted the potential delayed recognition of a service concession asset, and related liability, by the grantor when the operator faces the construction risk.

The IPSASB also suggested various other non-substantive and editorial changes to the proposed ED and agreed that the amendments should be reviewed by the Task Force before being balloted. Members agreed that a formal vote for approval of the ED should occur out of session.

The results of the vote in principle for the ED were as follows: **In Favour: 17; Against: 0; Abstain: 0.**

## [September 2009 Minutes](#)

### **6. Service Concession Arrangements**

#### **Discuss Issues (Agenda Item 3)**

The IPSASB considered certain outstanding issues from the May 2009 Washington meeting relating to scope and definitions.

Members confirmed that the proposed IPSAS on service concession arrangements (SCAs) was not intended to be a convergence project. Nevertheless, it was noted that the standard developed was intended to be the complement of Interpretation 12 of the International Financial Reporting Interpretations Committee (IFRIC 12), “Service Concession Arrangements” by providing accounting for the grantor side of the transaction.

The IPSASB considered whether the proposed standard should cover other types of arrangements than those understood to be the focus of IFRIC 12. It was noted that IFRIC 12 dealt with “infrastructure.” The March 2008 IPSASB Consultation Paper, “Accounting and Financial Reporting for Service Concession Arrangements” also focused on infrastructure, but also used the term “infrastructure assets and public property” to describe those assets within the scope.

Members noted potential difficulties in specifically including or excluding particular types of assets (e.g., vehicles, specialized assets). Some Members indicated support for having the same scope as IFRIC 12; however a concern was expressed that IFRIC 12 uses the term “infrastructure” without providing a precise definition. While IPSASs do not define “infrastructure,” IPSAS 12, “Property, Plant and Equipment” does contain criteria for determining whether an asset is infrastructure. It was noted that UK guidance was a “mirror image” of IFRIC 12, but that it tailored the definition to the public sector.

A Member noted that if the intent is to provide a “mirror image” of IFRIC 12, it would be appropriate to refer to infrastructure without providing specific examples of what is in/out. Members stressed that it is the substance of the contractual arrangement underlying an SCA that should determine whether it is within the scope of the proposed SCA standard, or accounted for under another IPSAS, such as IPSAS 13, “Leases.”

The IPSASB discussed briefly whether it would be necessary within the proposed standard to contain guidance similar to IFRIC 4, “Determining when an Arrangement Contains a Lease.” The IPSASB agreed to consider this as a possible future project when setting its project priorities for 2010-2012 at the December 2009 meeting.

It was pointed out that if the proposed standard mirrors IFRIC 12 in terms of scope, the whole-of-life issue addressed in the agenda papers will no longer be a concern. If the scope



includes a broader group of assets, the term used should be different. In addition, the accounting issues addressed by the proposed IPSAS would also be broader.

The IPSASB reached a consensus that the intended scope of coverage for the proposed SCA standard is the same as that of IFRIC 12. The IPSASB also agreed that the criteria for determining control of an asset, including treatment of whole-of-life assets, should be the same as IFRIC 12 on those issues. The term to be used to describe the asset was Page 11 agreed to be “service concession asset” and it needs to be clearly indicated that it is intended this term be used in the same context as “infrastructure” is in IFRIC 12.

## **ANALYSIS OF KEY ISSUES**

### **Key Issue #1 – Approach and Structure of the Proposed IPSAS**

1. Most respondents commented—either positively or negatively—on the approach taken in ED 43 to “mirror” IFRIC 12.
2. As noted in AP 7.0, some TBG members view the discussion of scope and approach to be linked given respondents’ comments, while others believe they are separate issues.
3. One TBG member suggests that the mirror/don’t mirror dichotomy is becoming too value-laden that it is getting in the way of debating the issues on their merits.
4. Given that there is no clear consensus on how to address the issue, the analysis that follows will look first at whether it is appropriate to use IFRIC 12 as the basis for developing an IPSAS to ensure consistency in approach by both parties to a SCA.
5. To do so, the type of assets/arrangements in IFRIC 12, and the control criteria in IFRIC 12 need to be consistent. This approach would not, however, preclude providing additional guidance on assets/arrangements that do not meet the IFRIC 12 conditions.

### **Is IFRIC 12 an appropriate basis for developing an IPSAS?**

6. The March 2008 Consultation Paper (CP) considered other approaches for determining whether the grantor should recognize an asset (e.g., a risks and rewards approach). There was strong support by respondents to the CP for proceeding with developing an IPSAS for the grantor using the control-based approach set out in IFRIC 12. However, the CP did use the exact same control criteria as those in IFRIC 12. In approving ED 43, the IPSASB also supported the control-based approach; however ED 43 used the same control criteria as those in IFRIC 12.
7. Responses fall into the following categories:
  - (a) Many respondents indicated support for the control-based approach used in IFRIC 12.
  - (b) Some respondents, while supporting the control-based approach, disagreed with certain of the IFRIC 12 criteria and/or the additional guidance in ED 43 (e.g., residual interest, “regulate”). One respondent voiced concerns with the control approach taken in IFRIC 12/ED 43, noting it is inconsistent with other asset recognition criteria in IPSASs.
  - (c) A few respondents to ED 43 expressed concern with using IFRIC 12 as the basis because of underlying flaws in the control-based approach in IFRIC 12.

## Control-based approach

### What respondents said

8. AP 7.3 Issue 1b sets out comments on the control-based approach. The TBG notes that respondents did not raise new issues related to the control-based approach and the IFRIC 12 criteria control criteria on which the IPSASB has not previously debated and reached agreement.
9. A number of respondents (#3, 4, 6, 8, 13, 16, 18, 19, 21, and 33) expressed overall support for the mirror approach taken in ED 43, including specific references to the control-based approach. Because the overall “mirror” approach includes the control-based approach, responses indicating support under Issue 1a are included as support for the control-based approach. See AP 7.3, Issue 1a and Issue 1b.
10. Only five respondents (#1, 2, 30, 31, and 32) do not support the control-based approach set out in ED 43.
11. Respondents #1 and 2 note the control approach adopted in ED 43 is inconsistent with that used in IPSAS 23. Respondent #1 does not believe sufficient rationale was given for not being consistent with asset recognition principles in other IPSASs, and that the approach taken is rules-based. That respondent recommends considering the control-based approach in a complementary way with the risks and rewards approach. Respondent # 1 also notes that the statistical framework, which considers risks and rewards, should also be taken into account. Respondents #11 and 27and also suggest a broader approach to determining control.
12. The IPSASB has previously considered whether to include guidance on the risks and rewards approach (at both the CP and ED approval stages) and concluded that there were many inherent issues with doing so. Paragraph BC11 of ED 43 explains the IPSASB’s rationale for rejecting the risks and rewards approach.
13. It is noted that the approach is also inconsistent with IPSAS 17 and IPSAS 31, as IFRIC 12 is similarly inconsistent with IAS 16 and IAS 38. However, as indicated by respondent #33, “We do not believe that the public sector environment necessitates differences in the approach to the financial reporting of service concession arrangements.” In this case, it is arguably more important to be consistent with IFRIC 12, which addresses SCA transactions.
14. While respondent #25 doesn’t support the mirror approach (AP 7.3, Issue 1a), it does support the control based approach (AP 7.3, Issue 1b).
15. Respondents #1, 9 and 33 commented on the meaning and context of the “regulates” criterion in the public sector. Respondent #9 noted the additional guidance in ED 43 creates an inconsistency with IFRIC 12. Respondent #1 considers that this outcome primarily arises from the failure of IFRIC 12 to consider the public sector grantor’s perspective. Respondent #33 points out that the context of regulation in terms of the public sector grantor should be explored further in the Application Guidance section. The respondent also suggests

- consideration should be given to limiting the scope of the ED to service concession arrangements for which the aspects of the infrastructure and its use detailed in paragraph 10(a) are controlled exclusively by the grantor or by the grantor and other public sector entities within the same reporting entity as the grantor. The respondent also suggests providing clarification in paragraphs AG6 and AG7 of the role of the “third-party regulator” and how such a regulator would impact the assessment of the criterion in paragraph 10(a).
16. Two respondents (# 26 and 31) commented on the “residual value” criterion/whole-of-life issue. Respondent # 26 supported consistency with IFRIC 12. Respondent #31 indicated such arrangements are much more akin to a privatization because the government has taken on a regulatory role in directing the activities of the operator. The IPSASB had previously considered this view at both the CP and ED stages.

### **Analysis**

17. As noted, the concerns respondents have raised regarding the control criteria have been previously debated by the IPSASB and considered in developing ED 43. Accordingly, it is proposed that no changes be made to ED 43 paragraphs 10 and 11.
18. As noted by respondent #33, the issue of regulation for the grantor is different because the grantor is determining whether to recognize the asset. This differs from the operator, for which asset recognition is not the expected outcome under IFRIC 12.

### **Proposal**

19. It is proposed that additional guidance be provided as suggested by Respondent #33. This clarification to address the public sector perspective does not create an inconsistency with IFRIC 12.

#### **Questions for the IPSASB:**

1. Do you agree that paragraph 10 should be retained as presented in ED 43, with no changes?
2. Do you agree that “regulate” should be further clarified to address the public sector perspective as suggested by respondent #33?
3. Do you agree whole-of life assets should continue to be within the scope of the asset recognition principle in ED 43, paragraph 10, as provided for in paragraph 11?

## Scope

### What respondents said

20. There were mixed views on whether the scope of the proposed standard should be limited to the assets/arrangements in IFRIC 12.
21. Respondents #1, 2, 12, 15 suggested a broader scope. Some of the comments may arise because of nomenclature. For example, in some jurisdictions, the term “service concession arrangement” may be used to describe the broader spectrum of “public-private” arrangements, of which SCAs are a specifically defined subset. As noted at AP 7.0, the proposed standard is only intended to apply to the arrangements that meet the control criteria; if not, they are something other than a SCA for the purposes of ED 43. The CP called all such arrangements SCAs, which is not consistent with a control-based approach (i.e., only if the criteria are met is the arrangement a SCA, for the purposes of IFRIC 12 and the proposed standard).
22. As noted above, the majority of respondents support the control criteria. Accordingly it is not proposed to scope in additional types of arrangements that fall into the broader category. Using the same term to describe arrangements that do not meet the control criteria will create confusion.
23. Respondent #25 agreed with the scope of arrangements considered SCAs under ED 43; however that respondent also suggested providing more guidance on how arrangements not meeting the control criteria should be accounted for. As noted above, it is not proposed to expand the scope of an SCA; however, it is proposed that the TBG consider the inclusion of additional guidance on other arrangements.
24. Respondent # 8 questioned the inclusion of intangibles, given that IFRIC 12 refers to infrastructure. Respondent #15 questioned the inclusion of inventories. Respondents #12 and 15 suggested clarification on the types of assets addressed/not addressed in the proposed standard, in particular applicability to movable/immovable assets. It is noted that the IPSASB discussed this issue in May 2009 and September 2009, and was unable to resolve it satisfactorily. The IPSASB had decided it would be more appropriate to mirror IFRIC 12 and state the principles for asset recognition.

### Analysis

25. Some arrangements that exist in the public sector, while not meeting the control criteria in ED 43, nevertheless require guidance in this proposed IPSAS because no other authoritative guidance exists. ED 43 provides only general references to other relevant IPSASs without specifying in all cases how and when they would be applied (see IN6, B3, Implementation Guidance).
26. IFRIC 12 did not address these other arrangements because it was concerned only with whether the control criteria are met for the operator. Providing such additional guidance would be a matter of providing more complete guidance for these other arrangements for public sector entities.

### Proposal

27. No changes to the scope of a service concession arrangement are proposed. The control criteria should be retained as noted above. However, the TBG will explore the feasibility of providing more detailed application guidance to direct the grantor to other pronouncements that should be considered if it is concluded that an arrangement does not fall within the scope of this proposed IPSAS.
28. Such guidance would consider the material from the March 2008 Consultation Paper.
29. However, to maintain mirroring with IFRIC 12, consideration will also need to be given to the guidance in IFRIC 4, which the private sector applies in cases where an arrangement falls outside the control criteria in IFRIC 12. This would provide for a more complete parallel with the IFRSs, not just IFRIC 12. However, such an approach would require additional TBG and IPSASB discussions. The IPSASB previously considered whether to undertake a separate project to develop an IPSAS adapted from IFRIC 4. Such a project was not put on the IPSASB's current project priority list. It is not proposed that an IPSAS be developed at this time, but that relevant guidance from IFRIC 4 should be incorporated in the SCA IPSAS. At a minimum, as suggested by Respondent #9 (see 7.4.1) a consequential amendment is needed to IPSAS 13, "Leases" to provide a scope exclusion for arrangements covered by this standard in the same way that IFRIC 4 specifically excludes service concession arrangements within the scope of IFRIC 12.
30. The IPSASB's views are sought as to whether providing such additional guidance does not undermine the consistency with IFRIC 12, as long as the control criteria in the proposed IPSAS are the same as those in IFRIC 12.

#### *Questions for the IPSASB:*

1. Do you agree that the scope of arrangements branded as "SCAs" should not be expanded?
2. Do you agree that additional guidance should be provided for arrangements that are not SCAs because they do not meet all of the control criteria? Do you agree that this would not undermine consistency with IFRIC 12?

### Key Issue #2 – Performance Obligation

31. ED 43 introduced the concept of a performance obligation that is equal to the difference between the fair value of the SCA asset and any obligation the grantor has to make scheduled payments to the operator.
32. Several respondents commented on the performance obligation (#1, 2, 3, 11, 14, 18, 19, 26, 27, 29, 30, 31, and 33).

### What respondents said

33. Most respondents who commented on the performance obligation noted that the consistency of definition of a performance obligation in the ED and the definition of a liability in IPSAS 1 is unclear and, therefore, it is necessary to explain the relationship between these definitions in the proposed standard. It is also noted that although ED 43 refers to IPSAS 19 for accounting guidance on performance obligations, IPSAS 19 does not provide a definition of, or specific guidance on performance obligations—it only addresses liabilities.
34. In addition, respondents #1, 2, 11, 26 and 31 note that the performance obligation should be recognized in full or not at all, not just as a “balancing” amount between the fair value of the service concession arrangement asset and any payments made by the grantor to the operator..

### Analysis

35. The concept of a performance obligation was developed from the March 2008 Consultation Paper, which provided the following guidance, but without referring to the liability as a performance obligation:
  126. The Board therefore believes that the grantor should report the property at its fair value. A related liability of that amount, increased for cash received by the grantor or decreased for cash paid by the grantor (or to be paid in future, which could be reported as a separate liability), would also be reported. This liability would reflect consideration received in advance of performance, because the grantor is receiving an inflow of resources in the form of the property (adjusted for cash received, paid or to be paid) without having delivered on its portion of the exchange—the provision of access to the property. The grantor would generally amortize this liability, and recognize revenue, over the life of the SCA as access to the property is provided. ...
  129. In some instances, the future cash payments to be made by the grantor to the operator as part of an SCA also may be reduced or eliminated by the provision of non-cash compensation to the operator. This non-cash compensation is most often provided through granting the operator use of grantor-owned land (often adjacent to the property underlying the SCA) for a nominal amount. The operator typically develops such land for its own profit, for example, through constructing retail space.
  130. The reporting of the property underlying the SCA and related liability in these circumstances would be similar to the reporting described above for SCAs in which the operator is compensated through the direct collection of third-party usage fees. The liability in this case would, however, be amortized, and revenue would be recognized by the grantor, over the period that the operator pays the nominal rent, as opposed to the life of the SCA. This revenue would reflect rental revenue for the rights to the additional land.
  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.

36. More guidance should be provided on the nature of a performance obligation and how it links to IPSAS 19, which indicates that liabilities are “*present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential*”.
37. As noted by some respondents, in cases when the operator has the right to charge fees directly to users of the service concession asset (e.g., a toll road), the operator recognizes an intangible asset in respect of its licence. Consideration could be given to whether the grantor has an ongoing obligation to allow the operator to charge for services. In this way, a performance obligation would arise only in cases when the operator receives income directly from the third party users of the service concession asset. However, there are two potential concerns with this approach:
  - (a) It is in effect an “unbundling of rights” approach, which was rejected as an alternative, as noted in paragraph BC13 of ED 43; however, it would not apply in all cases—only to the extent to which the operator receives third party revenue. It also is more consistent with the existing definition of a liability because the grantor is losing the economic benefit of charging the tolls itself. Further, this approach results greater consistency with the related item for the operator in IFRIC 12.
  - (b) IPSAS 31, “Intangible Assets” scoped out the power to grant licences as an intangible asset from the grantor’s point of view; however, this would be looking at the obligation side (the asset recognized by the grantor is the service concession asset).

### Proposals

38. The TBG will develop guidance on performance obligations that better explains how this item arises and its links to the existing definition of a liability.
39. At a minimum, it is also proposed to change references to “performance obligation” to the more generic “liability” pending finalization of the IPSASB’s Conceptual Framework.

#### Questions for the IPSASB:

1. Do you agree with the need to proposed additional guidance?
2. Should the TBG consider the approach discussed in paragraph 37?



## **ANALYSIS OF KEY ISSUES BY RESPONDENTS TO ED 43, “SERVICE CONCESSION ARRANGEMENTS: GRANTOR”**

### **Purpose:**

This paper presents the Task-Based Group’s (TBG) analysis of the key issues respondents raised to ED 43, “Service Concession Arrangements: Grantor.” Responses #1–33 are included in AP 7.1. An analysis of these issues is presented in AP 7.2. Other issues identified by the respondents are set out in AP 7.2.

### **List of Respondents:**

#	Respondent
1	Head of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)
2	Australasia Council of Auditors General (ACAG)
3	Accounting Standards Board Committee on Accounting for Public-Benefit Entities (UK)
4	Joint Accounting Bodies (Aus)
5	Prof. Keith Glaister (University of Sheffield)
6	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)
7	National Financial Management Authority (ESV) (Sweden)
8	Public Sector Accounting Board (PSAB) (Canada)
9	New Zealand Treasury
10	Audit Commission (UK)
11	Cour des comptes (Comité consultative sur la normalization des comptes publics) (France)
12	Ernst & Young
13	Institute of Chartered Accountants of Scotland (ICAS)
14	Japanese Institute of Certified Public Accountants (JICPA)
15	Accounting Standards Board (ASB South Africa)
16	Association of Chartered Certified Accountants (ACCA) (global body for professional accountants)
17	Dr. Joseph Maresca
18	Wales Audit Office
19	Fédération des Experts comptables Européens
20	Conseil de normalization des comptes publics (France)

#	Respondent
21	Institute for the Accountancy Profession (Far) (Sweden)
22	Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE)
23	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)
24	Auditor General of Quebec (Canada)
25	Direction Générale des Finances Publiques (France)
26	Australian Accounting Standards Board (AASB)
27	Contrôleur des finances du Québec (Canada)
28	Institute of Chartered Accountants of Pakistan
29	Treasury Board of Canada Secretariat
30	MAZARS
31	US Governmental Accounting Standards Board (GASB)
32	Office of the Comptroller General of British Columbia (OCG BC) Canada
33	KPMG

**Comments by Issue:**

**Overall Comments – Positive Support for a Project on SCAs**

#	Respondent	Overall Comments – Positive Support for a Project on SCAs
2	ACAG	ACAG members are pleased that the IPSASB is addressing, through this Exposure Draft, accounting treatment for Service Concession Arrangements for Grantors. We consider such information to be of significant public interest.
3	UK ASB	As the ASB noted in responding to the earlier Consultation Paper, accounting for service concession arrangements is a very significant reporting issue for the UK public sector. We believe the proposals will promote consistency and comparability in how service concession arrangements are reported by public sector entities.
4	Joint Accounting Bodies (Aus)	In jurisdictions such as Australia where both private and public sector entities apply the full set of IFRS as adopted there has been a significant vacuum because of the IASB's decision to not take a holistic approach, and instead prescribe the accounting by the operator, and not specify the accounting required of the grantor, including Government Business Enterprises (GBE). The Joint Accounting Bodies understand that in Australia the grantor in the service concession arrangement is either a not-for-profit public sector entity or a GBE. We consider it appropriate that the IPSASB issue a Standard that fills the vacuum for not-for-profit public sector grantors.
5	Prof. Hodges	I welcome the publication of ED 43 by IPSASB which represents an important step in the development of enabling accounting for Service Concession Arrangements (SCA) to be applied consistently internationally and across both grantors and operators. One of the key strengths of the proposals in ED43 is the attempt to mirror the equivalent accounting in IFRIC 12. Accounting for Private Finance Initiative (PFI) contracts in the UK has been bedevilled by contradictions between accounting for individual PFI contracts in the public and private sector. For example, various papers tabled at meetings of the Financial Reporting Advisory Board point to some PFI deals being on both the public and private sector balance sheet with others being on neither. Such inconsistencies suggest that accounting for PFI provides opportunities to arbitrage between different regulations, or the interpretation of regulations, which should be reduced by the application of these proposals.
6	CIPFA	<p>As we explained in the CIPFA response to the Board's 2008 Consultation Paper on Accounting and Financial Reporting for Service Concession Arrangements, we very much welcome the development of guidance on this issue by the International Public Sector Accounting Standards Board. Service Concession Arrangements are a truly international issue and are significant in many jurisdictions. The consultation on IFRIC Drafts D12-D14 attracted more than 70 responses from Europe, Asia, Australasia, Africa and North and South America.</p> <p>CIPFA and other public sector stakeholders were very concerned about the exclusive focus on private sector financial reporting in the IFRIC drafts, and the guidance provided in IFRIC 12 does not address financial reporting by public sector grantors. The IPSASB guidance will fill a very pressing need.</p> <p>In our view, ED 43 covers the issues that grantors need to address when accounting for service concession arrangements, in particular</p> <ul style="list-style-type: none"> <li>- Scope of accounting for Service Concession Arrangements</li> <li>- Asset recognition and measurement</li> <li>- Liability recognition and measurement</li> </ul>

#	Respondent	Overall Comments – Positive Support for a Project on SCAs
		<ul style="list-style-type: none"> <li>- Recognition and measurement of related expenses and revenues</li> <li>- Presentation and Disclosure</li> </ul>
7	ESV	<p>It has been criticized that governments in several countries have not in full disclosed future effects of public-private partnership (PPP)-contracts in the annual reports. It has been a general view that PPP-contracts merely are a way for government to get round budget restrictions. At the present PPP-contracts are not common in Sweden. The operators of service concession arrangements have practically always been Government Business Enterprises. ESV believes that it is likely that service concession arrangements will increase in number in the future and that the government will use arrangements with private enterprises. The standard is therefore important in the development of uniform accounting standards in Sweden.</p> <p>We have however found that the standard is very extensive, which is strengthened by the fact that it refers to many other standards that are themselves extensive and complicated. In our opinion there will therefore emerge a need to further develop the standard in the future as more PPP-contracts are signed.</p> <p>... We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards.</p>
8	PSAB	<p>In general, we agree with the approach taken in ED 43 of mirroring the principles set out in IFRIC 12 but from the perspective of the grantor. This approach will allow more symmetry and consistency in the reporting of service concession arrangements between grantors and operators and between public sector entities and private sector entities.</p> <p>... Generally, we found ED 43 to be clear and concise, appropriately addressing the reporting for service concession arrangements by public sector grantors.</p>
9	NZ Treasury	<p>Service concession arrangements have not been a feature to date of the New Zealand environment. Interest in these types of arrangements is growing however and a number of such arrangements are currently under active consideration. The issue of this exposure draft is therefore timely as there is a growing need for authoritative accounting guidance for service concession grantors. In fact the Exposure Draft has already provided the basis for advice to Ministers on the accounting for such arrangements.</p> <p>Treasury has two specific concerns with the proposals in the ED. These are:</p> <ul style="list-style-type: none"> <li>• That the guidance for the recognition point of the asset is inappropriate; and</li> <li>• That the guidance on the initial measurement of the value of the asset is confusing and ignores the possibility of subsidies or non-exchange elements</li> </ul> <p>... Our final general comment on the ED is that as it did not contain specific comment questions directed towards the major issues, we have some uncertainty that we have sufficiently analysed the issues it contains. Without the focus provided by specific questions, we believe that the IPSASB will have difficulty balancing the views and comments it receives. If only one or a small number of respondents raises a particular issue, the IPSASB will not have the benefit of knowing whether the concerns are widely held, or whether there is a wide awareness of the issue. To avoid accusations of due process failure, the Board may need to consider re-exposing its judgements on the comments it receives.</p>
10	UK Audit Commission	<p>We support the Board's proposal to codify the accounting for service concession arrangements from the grantor's perspective as a new IPSAS. The approach taken by</p>

#	Respondent	Overall Comments – Positive Support for a Project on SCAs
		<p>the Board, to mirror the principles set out in IFRIC 12 for accounting by the operator, is consistent with the approach taken in the UK by the Government Financial Reporting Manual (FReM).</p> <p>We have one specific comment.</p>
12	Ernst & Young	<p>The exposure draft addresses accounting for service concession arrangements (SCAs) by the grantor. For many countries, such arrangements are a means to ensure large scale infrastructure projects. However, in many jurisdictions there is no sufficient guidance for public sector entities on how to account for SCAs. Therefore we welcome the initiative of the International Public Sector Accounting Standards Board (IPSASB).</p> <p>IFRIC 12 addresses accounting by the operator, usually a private sector entity, and does not provide guidance for the grantor. By contrast, the scope of the exposure draft addresses accounting by the grantor, usually a public sector entity. The main accounting issue in SCAs is whether the grantor should recognize a service concession asset and a related liability. Given the limited scope of IFRIC 12, it follows that developing an IPSAS can't be a pure conversion project. However, the guidance in IFRIC 12 is sufficiently precise to allow a mirror. As expressed in the Basis for Conclusions (see para. BC2) the rationale for this decision was that this approach requires both parties to the same arrangement to apply the same principles in determining whether the asset used in a SCA should be accounted for as an asset thus minimizing the possibility for an asset to be accounted for by both of the parties, or by neither party.</p> <p>The approach is compatible with the strategy of the IPSASB, whereby a similarity to the IFRS is intended. Specific public aspects which would require derogations from IFRS are not obvious. Therefore, we agree with the approach as used by the IPSASB.</p>
14	JICPA	<p><i>This Exposure Draft addresses service concession arrangements from the grantor's perspective. It mirrors the principles set out in IFRIC 12 for accounting by the operator.</i></p> <p><i>Do you agree with this approach?</i></p> <p>We agree with this approach. The reason is as follows.</p> <p>This approach would require both parties to the arrangement to apply the same principles in determining whether the asset used in a service concession arrangement should be accounted for as an asset, thus minimizing the possibility for an asset to be accounted for by both of the parties, or by neither of the parties.</p>
16	ACCA (UK)	<p>Generally we consider the consultation paper provides useful guidance on a complex issue. Service concession arrangements entered into by public bodies are significant around the world. For your information we have recently commissioned research on the implementation of public - private partnerships (PPPs) and private finance initiatives (PFIs). Our research seeks to address five key questions:</p> <ul style="list-style-type: none"> <li>• Under what conditions are PPPs and PFIs the best options for delivering public services and key infrastructure projects?</li> <li>• What is the impact of the financial crisis on the take up of PPP/PFI schemes around the globe and what is their potential long-term future?</li> <li>• Have some of the earlier PPP/PFI schemes delivered real value for money in terms of performance and costs?</li> <li>• What lessons can be learnt from project management and delivery?</li> <li>• How should PPP/PFIs be accounted for?</li> </ul>

#	Respondent	Overall Comments – Positive Support for a Project on SCAs
		Although key findings won't be published until November 2010, we have highlighted the research to make the International Public Sector Accounting Standards Board aware of its development. The Exposure Draft (ED43) is particularly helpful in addressing how PPP/PFIs should be accounted for and it will be interesting to see from the research how these schemes have been accounted for across six countries including: China, France, Japan, Indonesia, Malaysia, New Zealand, Thailand and the UK.
17	Dr. Joseph Maresca	Generally, I concur.
18	Wales Audit Office	<p>In our view, the proposed approach provides a practical approach to accounting for Service Concession Arrangements.</p> <p>The provisions of ED43 support the alignment of IPSAS and IFRS and are consistent with the accounting practices now in use in the United Kingdom. On this basis, and subject to the comments below, we agree with the approach proposed in ED43.</p> <p>However we consider that public sector accounting standards should be based on the needs of the users of public sector accounts, rather than driven simply by the desire to conform with a standard that is designed solely for the private sector. What is appropriate accounting treatment in the private sector may not necessarily be appropriate in the public sector. We therefore consider that when the IPSAS conceptual framework is finalized, this standard should be subject to early review within the context of the new framework.</p>
19	FEE	<p>We are pleased to see that the International Public Sector Accounting Standards Board is developing guidance on this issue. Service Concession Arrangements are significant in many European jurisdictions, and the development of IFRIC 12 and its exclusive focus on private sector financial reporting only serve to highlight the need for public sector guidance.</p> <p>In our view, ED 43 covers the issues that grantors need to address when accounting for service concession arrangements, in particular:</p> <ul style="list-style-type: none"> <li>• Scope of accounting for Service Concession Arrangements;</li> <li>• Asset recognition and measurement;</li> <li>• Liability recognition and measurement;</li> <li>• Recognition and measurement of related expenses and revenues;</li> </ul> <p>Presentation and Disclosure.</p>
21	Far	<p>Far is pleased to see that the International Public Sector Accounting Standards Board is developing guidance on this issue. Service Concession Arrangements are significant in many European jurisdictions and the development of IFRIC 12 and its exclusive focus on private sector financial reporting only serves to highlight the need for public sector guidance.</p> <p>In Far's view ED 43 covers the issues that grantors need to address when accounting for service concession arrangements, in particular:</p> <ol style="list-style-type: none"> <li>1. Scope of accounting for service concession arrangements</li> <li>2. Asset recognition and measurement</li> <li>3. Liability recognition and measurement</li> <li>4. Recognition and measurement of related expenses and revenues</li> </ol> <p>Presentation and disclosure</p>

#	Respondent	Overall Comments – Positive Support for a Project on SCAs
25	Direction Générale des Finances Publiques (France)	We believe that the control-based approach, as set out in IFRIC interpretation 12, is appropriate to determine the accounting treatment for the service concession asset even though it doesn't consider all the existing contracts.
25	Direction Générale des Finances Publiques (France)	<p>We welcome the decision of the board to issue an exposure draft on the accounting treatment for service concession arrangements by the grantor since French State frequently use service concession arrangements for delivering public services.</p> <p>We believe that the control-based approach, as set out in IFRIC interpretation 12, is appropriate to determine the accounting treatment for the service concession asset even though it doesn't consider all the existing contracts.</p> <p>According to us, the exchange transaction model should be improved in the case of a concession where the grantor compensates the operator by granting the right to collect fees from users of the service concession asset as in the intangible model asset set out in IFRIC 12.</p>
26	AASB	<p>Australian grantors and operators have embraced service concession arrangements as a way of developing infrastructure and delivering infrastructure-related services. Participants are exposed to major risks and benefits for long periods of time associated with billions of dollars of investments in toll roads, airports, ports, railways and water treatment facilities (for example). Therefore, there is considerable interest in Australia in the accounting by grantors for service concession arrangements.</p> <p>Accordingly, the AASB issued an Exposure Draft (ED 194) in April 2010 to publicise the IPSASB's proposals and to seek the views of Australian constituents. The comments received from constituents have been taken into account by the AASB in preparing this submission. The comment letters received are published on the AASB's website (<a href="http://www.aasb.gov.au">www.aasb.gov.au</a>).</p> <p>In general, the AASB supports the proposals in ED 43 and encourages the IPSASB to continue its work on this important project. Our main concerns or comments regarding the proposals are noted below.</p>
28	Institute of Chartered Accountants of Pakistan	<p>We agree with the approach suggested in the exposure draft for service concession arrangements from the grantors' perspective.</p> <p>We agree with the approach suggested in the exposure draft for service concession arrangements from the grantors' perspective.</p>
29	Treasury Board of Canada Secretariat	In general, we agree with the proposed guidance outlined in the exposure draft, including the requirement that a grantor recognize the property underlying a service concession arrangement as an asset in its financial statements based on the control approach. We agree with the control criteria proposed in the exposure draft, and that mirroring the scope and approach in IFRIC 12 from the grantor's perspective is appropriate.

### Overall Comments – Qualified Support for ED

#	Respondent	Overall Comments – Qualified Support for ED
1	HoTARAC	Service concession arrangements have existed in Australia for the past 20 years and their use is increasing. There is a growing need for authoritative accounting guidance for service concession grantors. HoTARAC therefore supports the EDs objective

#	Respondent	Overall Comments – Qualified Support for ED
		<p>which aims to meet this need.</p> <p>HoTARAC agrees with the ED’s proposals that:</p> <ul style="list-style-type: none"> <li>• where a grantor controls service concession property it should recognise that property as its asset;</li> <li>• the meaning of the word “regulates” in IFRIC 12 needs to be interpreted more narrowly when applied in a public sector context: and</li> <li>• a grantor’s revenues arising from a service concession arrangement may need to be recognised on an annuity, rather than a straight line, basis due to the extended duration of the arrangement</li> </ul> <p>HoTARAC appreciates the difficulty in trying to address the accounting for the various forms of service concession arrangement that exist. However, HOTARAC has concerns with the proposed approach to grantor accounting as the proposal</p> <ul style="list-style-type: none"> <li>• relies on rules rather than an underlying principle to determine which party controls the concession property;</li> <li>• is based on the IFRIC 12 model, which HoTARAC considers to be problematic;</li> <li>• does not exactly mirror IFRIC 12 despite purporting to do so, which could result in non-recognition of the service concession property by both parties;</li> <li>• does not adequately explain or justify the basis for recognising a grantor’s performance obligation and does not require such obligations to be recognised in all cases where they arise;</li> </ul>
11	Cour des Comptes	<p>The exposure draft proposes that IFRIC 12, which is applicable to the financial statements of operators (private companies) be “mirrored” by grantors (public sector entities). In any event, the <i>Cour des comptes</i> is very pleased that the international public sector standardisation body has considered the various forms of delegation of public services to third parties.</p> <p>Considering the long-standing importance of public service delegations in France—concessions representing a special form of such delegations—it seems relevant to respond to this exposure draft based on the four items below:</p> <ul style="list-style-type: none"> <li>• the notion of “concession” covers various organisational modes;</li> <li>• the notion of control by the public-sector grantor, which should be better characterised, requires the recognition of a concession asset in its financial statements, as proposed by the IPSAS Board;</li> <li>• the question of the initial measurement methods applied to concession assets needs to be discussed;</li> <li>• the notion of performance obligation needs to be clarified.</li> </ul>
11	Cour des comptes	<p>The IPSAS Board exposure draft, which is centred on the issue of recognition of concession assets in the financial statements of the grantor, in France concerns the concession-arrangement and PPP contracts. The lease (<i>affermage</i>) or private management of public property (<i>régie intéressée</i>) contracts are part of a different economy; the recognition of the risks and benefits that pertain thereto, both for the public entity and for the third-parties involved is governed by other accounting standards than those addressed by the consultation or by IFRIC 12. They have therefore been excluded from the <i>Cour des comptes</i>’ comments listed below in response to the exposure draft. <b>[Staff note:</b> The response included detailed descriptions of the various types of arrangements in France, along with €values. No specific comment was made as to the appropriateness of the approach/scope.]</p>

#	Respondent	Overall Comments – Qualified Support for ED
30	MAZARS	<p>We welcome the Board’s proposal to set out the accounting requirements of the grantor in a service concession arrangement (SCA). We believe this should enable public sector entities to have consistent accounting practices on the subject and thus strengthen the comparability of their financial statements.</p> <p>We generally agree with the main principles set out in the Exposure Draft. However the approach proposed by the Board raises some concerns developed below.</p>
31	GASB	<p>We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board’s (IPSASB or the Board) Exposure Draft 43 (ED) entitled <i>Service Concession Arrangements: Grantor</i>. This response was prepared by the Governmental Accounting Standards Board’s (GASB) staff. A draft of this response was provided to individual GASB members for their input. Official positions of the GASB are determined only after extensive due process and deliberation.</p> <p>As you know, the GASB has a project on its current technical agenda on Service Concession Arrangements (SCA). The GASB recently issued a revised Exposure Draft for comment and anticipates issuing a final standard by the end of the year. Therefore, we believe that both Boards may benefit from the due process feedback and deliberations related to both documents. Although we support the IPSASB’s efforts to address accounting and financial reporting for service concession arrangements by public sector grantors, we have several major concerns about the document as currently drafted. These concerns are highlighted in the specific matter for comment identified in the ED, as well as certain other aspects of the ED. Our comments are provided below.</p>
33	KPMG	<p>We support the IPSASB’s issuance of an International Public Sector Accounting Standard (IPSAS) addressing accounting and financial reporting for service concession arrangements by public sector grantors. We believe that the proposed IPSAS will enhance the consistency of reporting about these arrangements among public sector entities around the world, and between public sector grantors and private sector operators. However, we do have a number of comments on the proposals in the ED. These comments address the specific matter for comment identified in the ED, as well as certain other aspects of the ED. Our comments are provided below.</p>

### Key Issue #1a – “Mirror” IFRIC 12 – Appropriateness of Approach

#	Respondent	Key Issue #1a – “Mirror” IFRIC 12 – Appropriateness of Approach
1	HoTARAC	<p>The Exposure Draft proposes to adopt an accounting approach for grantors which mirrors that adopted for operators under IFRIC Interpretation 12 <i>Service Concession Arrangements</i> issued by the International Financial Reporting Interpretations Committee.</p> <p>HoTARAC considers the proposed approach, based on IFRIC 12, to be problematic as:</p> <ul style="list-style-type: none"> <li>• ... the ED does not articulate a clear conceptual basis for its proposals and the consequent accounting treatments;</li> <li>• both IFRIC 12 and the ED are inconsistent with existing authoritative guidance on control of an asset;</li> <li>• they adopt a rule-based approach;</li> </ul>



#	Respondent	Key Issue #1a – “Mirror” IFRIC 12 – Appropriateness of Approach
		<ul style="list-style-type: none"> <li>... neither IFRIC 12 nor the ED define Service Concession Arrangements or Control of an Asset which are arguably their core terms.</li> </ul> <p>In addition, the ED does not exactly mirror IFRIC 12 despite claiming to do so.</p> <p>...</p> <p>HoTARAC also notes the widespread criticism of the IFRIC 12 model by respondents during its exposure period.</p>
1	HoTARAC	<p>The approach proposed by the ED is based on an unsatisfactory model. The control criteria purports to be grantor-based, however, is developed from the operator's viewpoint, without considering the grantor's perspective.</p> <p>...</p> <p>Given that IFRIC 12 does not consider the grantor's perspective, it seems inappropriate to use it as a basis for specifying grantor accounting.</p> <p>...</p> <p>HoTARAC considers that the disadvantages of adopting an approach based on IFRIC 12 greatly outweigh any perceived advantages.</p>
1	HoTARAC	<p><i>The IPSASB believes that the ED will promote consistency and comparability in the reporting of service concession arrangements by public sector entities (Paragraph BCI).</i></p> <p>HoTARAC observes that, in some cases, the ED may result in diverse accounting for substantively similar arrangements. For example, one Australian grantor has 14 service concession arrangements where a service concession is given in exchange for each operator building and operating the service concession property and transferring it to the grantor at the end of the concession period. All of the operators finance the arrangements solely from user charges collected from the public.</p> <p>All of these arrangements are substantively similar and are presently accounted for consistently, as emerging assets. However, because of the specific terms of the contracts, just over one-third of them will fail the grantor control criteria. Those within the scope of the ED will be recognised as the grantor's physical asset at the start of the concession period. Arrangements not controlled by the grantor during the concession period in terms of the ED will be recognised as the grantor's physical asset only at the conclusion of the concession period. The grantor's interest in the latter group will be residual. In these arrangements, the accounting treatment will depend on whether the contract specifies the pricing; or that the services are to be provided to the public. If it does so specify, the grantor can demonstrate its ability to control or regulate the pricing and to whom the services are provided. Where the operator has an unrestricted choice as to pricing and to whom the services are provided, and the grantor has no contractual right to intervene, the property is not recognisable as a service concession asset under the ED.</p> <p>Consider two service concession arrangements that only differ in their pricing terms. One specifies a cap on the prices the operator can charge the public for the services. The other does not specify any pricing restrictions but instead implicitly relies on market forces to keep the prices at a reasonable level. Under the ED, the grantor would control or regulate the prices in the first case but not the second. Therefore, the second arrangement would not be within the scope of the ED.</p> <p>Also consider two service concession arrangements that only differ in their specification of the intended customers. One contemplates that the operator is to</p>

#	Respondent	Key Issue #1a – “Mirror” IFRIC 12 – Appropriateness of Approach
		<p>provide services to the public. The other does not specify any customers but instead implicitly relies on market forces to encourage the operator to provide services to any interested member of the public who is prepared to pay for the service. Under the ED, the grantor would probably be held to control or regulate to whom the services are provided in the first case but not in the second. Therefore, the second arrangement would not be within the scope of the ED.</p> <p>HoTARAC considers it unfortunate that the ED is likely, in some cases, to introduce inconsistent accounting for substantively similar service concession arrangements and that it will not provide accounting guidance for the arrangements that fail its grantor control criteria. HoTARAC also considers it undesirable that different accounting outcomes could arise from the inclusion of an otherwise inconsequential phrase in a service concession arrangement.</p>
4	Joint Accounting Bodies (Aus)	Accordingly, we consider it appropriate that the [proposed] Standard: • addresses service concession arrangements from the grantor’s perspective; and • mirrors the principles set out in IFRIC 12 Service Concession Arrangements for accounting by the operator.
6	CIPFA	CIPFA strongly supports IPSASB’s project to develop and maintain converged IPSASs on matters where IASB guidance is relevant, closely reflecting IFRS and related SICs and IFRICs where possible, and providing interpretation or additional guidance where this is necessary. We therefore agree with the approach in the Exposure Draft.
9	NZ Treasury	<p>We note the ED proposes to adopt an accounting approach for grantors which mirrors that adopted for operators under IFRIC Interpretation 12 <i>Service Concession Arrangements</i> (IFRIC 12) issued by the International Financial Reporting Interpretations Committee. We consider such an approach to be appropriate as it should result in a symmetrical treatment of transactions between counterparties. Further, Treasury considers that a control-based approach to the recognition of service concession assets will produce more consistent reporting than a risks/benefits approach.</p> <p>However, we note that this is not the approach taken in the current leasing standards, although this is likely to be addressed by the IASB in their current project on leasing. We would therefore urge IPSASB to give priority attention to the IASB development of its leasing standard, with a view to quick adoption of any new standard, if it reduces the inconsistency of approaches, both between service concession and leasing arrangements, but also so that new gaps do not open up between lessor and lessee accounting when one of those parties is in the public sector.</p>
13	ICAS	We agree with the overall approach towards accounting for service concession arrangements by the grantor, which is to mirror the principles in IFRIC 12 for accounting by the operator. The basis of conclusions clearly sets out how and why the proposed standard has been developed and we welcome the inclusion of application guidance, implementation guidance and illustrative examples to accompany the standard. However, there is no explicit reference within the Exposure Draft to the performance of a regulatory impact assessment which examines both the costs and benefits of a standard to reporting entities. We recommend that in updating its strategy, IPSASB considers how to address this aspect of standard setting more explicitly, including the potential for undertaking post-implementation reviews.

#	Respondent	Key Issue #1a – “Mirror” IFRIC 12 – Appropriateness of Approach
16	ACCA (UK)	<p>We are pleased to see that ED 43 mirrors IFRIC12 from the grantors perspective - the latter being already used by the private sector and recently adopted by the European Union.</p> <p>We agree with this approach. Given the alignment of IPSASs with IFRS and adoption of IFRIC 12 by the EU we believe that this will help to provide a consistent approach to accounting for service concession arrangements.</p>
18	Wales Audit Office	<p>We consider that it is helpful for the public sector to adopt an approach that mirrors that of IFRIC 12, as this will facilitate consistent and complementary accounting treatments with their private sector counterparties.</p> <p>IPSASB’s proposals reflect the approach already adopted in the United Kingdom, where HM Treasury, the Chartered Institute of Public Finance and Accountancy, and the Local Authority (Scotland) Accounts Advisory Committee, have all adopted a similar ‘mirror image’ approach when applying the principles of IFRIC 12 to the public sector.</p>
19	FEE	<p>As IFRIC 12 is being used by the private sector and has been adopted by the European Union, and given the more general alignment of IPSASs with IFRS, there is a strong case for adopting a consistent approach. We therefore agree with the approach adopted in the Exposure Draft. We think it may also be useful if IPSASB would consider whether there are any taxation issues that need to be considered as part of the standard.</p>
21	Far	<p>As IFRIC 12 is being used by the private sector and given the more general alignment of IPSASs with IFRS, there is a strong case for adopting a consistent approach even though this is not a pure conversion project. However, the guidance is a mirror of IFRIC 12 and will therefore probably lead to a consistent accounting between the private and public sector. Far therefore agrees with the approach adopted in the exposure draft.</p>
25	Direction Générale des Finances Publiques (France)	<p>We do not support the accounting treatment based on a “mirror” approach of principles set out in IFRIC 12 as this principle is not an acknowledged accounting principle. Thus, the “mirror” approach encompasses drawbacks. ...</p> <p>The advantage of the “mirror” approach is to ensure that the service concession asset is not recognised twice, by the grantor and by the operator. Indeed, the recognition of the controlled service concession asset by the grantor mirrors the recognition of an intangible asset by the operator when the grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset.</p> <p>Nevertheless, the “mirror” effect seems to be limited as the grantor and the operator do not retire the same resource from the service concession asset: from the grantor’s perspective, the service concession asset provides a potential service; from the operator’s perspective, the service concession asset provides economic benefits.</p> <p>Furthermore, since the “symmetry” accounting principle is not an acknowledged accounting principle, it should be more justified. In the case of this principle were adopted, it should be considered in the current works of the IPSAS Board on the conceptual framework.</p>
31	GASB	<p>Although we support several of the basic proposals of the ED, we do not support the “mirror image” approach in adopting the principles set forth in IFRIC 12. Although the mirrored approaches will result in consistency in the financial reporting of the</p>

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		public sector grantor and private sector operator to an individual service concession arrangement, particularly the recognition of the infrastructure assets underlying the arrangement, the adoption of what we believed are fatally flawed provisions in IFRIC 12 outweighs any of the advantages that consistent reporting would bring. Our concern is with the proposal are discussed below in the Other Comments section of this response.
32	OCG BC (Canada)	No. The Province of BC does not believe that the IPSASB GAAP for service concession agreements should mirror the principles set out in IFRIC 12.
33	KPMG	Given the IPSASB’s “rules of the road” for developing its standards, we agree with the basic approach for the proposals of the ED to mirror the principles set out in IFRIC 12 for accounting by the operator. We do not believe that the public sector environment necessitates differences in the approach to the financial reporting of service concession arrangements from private sector standards. Further, we expect that mirrored approaches will result in consistency in the financial reporting of the public sector grantor and private sector operator to an individual service concession arrangement, particularly the recognition of the infrastructure assets underlying the arrangement. Currently, the lack of consistency in financial reporting between these parties has resulted in infrastructure assets going unrecognized by either the public sector grantor or the private sector operator in a number of arrangements.

#### Key Issue #1b – “Mirror” IFRIC 12 – Control-based Approach

#	Respondent	Key Issue #1b – “Mirror” IFRIC 12 – Control-based approach
1	HoTARAC	<p>The Exposure Draft proposes to adopt an accounting approach for grantors which mirrors that adopted for operators under IFRIC Interpretation 12 <i>Service Concession Arrangements</i> issued by the International Financial Reporting Interpretations Committee.</p> <p>HoTARAC considers the proposed approach, based on IFRIC 12, to be problematic as:</p> <ul style="list-style-type: none"> <li>• ...</li> <li>• the control criteria is not neutral and it presupposes grantor control of service concession property; and ...The control criteria purports to be grantor-based, however, is developed from the operator’s viewpoint, without considering the grantor’s perspective.</li> </ul>
1	HoTARAC	<p>The ED’s Basis for Conclusions dismisses the risks and rewards approach, in a cursory (single-paragraph) analysis. It asserts that:</p> <ul style="list-style-type: none"> <li>• the primary purpose of a service concession arrangement is to provide service potential rather than economic benefits;</li> <li>• a control approach focuses on service potential rather than economic benefits;</li> <li>• the risks and rewards approach focuses only on economic factors; and</li> <li>• therefore, the risks and rewards approach cannot be used to determine control (Paragraph BC 11). HoTARAC disagrees with these assertions, and considers that both economic benefits and the risks and rewards approach are relevant when assessing which party controls service concession property. In addition, the concepts of control and risks and rewards are complementary not competitive. The ED has not adequately justified the reasons for rejecting a risks and rewards approach in favour of the proposed approach based on IFRIC 12.</li> </ul>

#	Respondent	Key Issue #1b – “Mirror” IFRIC 12 – Control-based approach
		<p>The ED does not consider the merits of using the existing definition of control of an asset in IPSAS 23. Further, the ED’s Basis for Conclusions considers and dismisses the rights and obligations approach.</p> <p>HoTARAC is concerned that the ED has not offered a conceptual basis for adopting its preferred model. The ED does not articulate any underlying principle for determining control.</p> <p>In light of its concerns with IFRIC 12, HoTARAC considers that there is merit in considering approaches based on other existing authoritative guidance.</p> <p>HoTARAC also suggests that, given that the IPSASB is seeking greater alignment between accounting and statistical frameworks, there is merit in considering the statistical framework before concluding on this project. Chapter 22 of the <i>System of National Accounts</i> 2008 refers to service concession arrangements, control and risks and rewards.</p>
1	HoTARAC	<p><b>Inconsistent with existing Standards</b></p> <p>The ED’s Basis for Conclusions notes that the main accounting issue in service concession arrangements is whether the grantor should recognise a service concession asset and a related liability (Paragraph BC 10). HoTARAC agrees that determining which party controls, and should therefore recognise the service concession property, is the fundamental accounting question.</p> <p>It is noted that, although the ED (like IFRIC 12) does not define it, control of an asset is defined or described elsewhere in Accounting Standards. IPSAS 23 Paragraph 7 states that “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”. IAS 38 and AASB 138 <i>Intangible Assets</i> also contain similar guidance.</p> <p>This definition of control is based on the benefits from, and access to, an asset. However, the grantor control criteria employed in the ED is focused on access rather than benefits. It is not clear whether this was intentional. Nevertheless, HoTARAC is concerned that the ED ignores the existing authoritative guidance on control without giving any reason. Using the IPSAS 23 definition may give different outcomes. HoTARAC urges the Board to explain the reasons for departing from existing guidelines.</p>
1	HoTARAC	<p><b>Rule-based</b></p> <p>In accordance with Paragraph 10, the ED proposes several criteria for determining whether a grantor should recognise service concession property as its asset:</p> <p>The grantor shall recognise a service concession asset ... if:</p> <ul style="list-style-type: none"> <li>(a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and</li> <li>(b) The grantor controls ... any significant residual interest in the asset at the end of the term of the arrangement.</li> </ul> <p>This Standard applies to an asset used in a service concession arrangement for its entire useful life (a whole-of-life asset) if the condition in Paragraph 10(a) is met (Paragraph 11).</p> <p>A grantor would recognise a service concession asset if it controls: the services provided with; the customers served by; the prices charged for use of; and (if not a whole-of-life asset) the residual interest in the service concession property.</p> <p>These control criteria operate as a set of rules to determine whether the grantor</p>

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		<p>controls the service concession property. As mentioned above, the proposal does not articulate any underlying principle. HoTARAC has a number of concerns with the proposed criteria.</p> <p>In the absence of a clearly articulated underlying principle, rules can take a form over substance approach. Rules can be circumvented by structuring arrangements to achieve particular accounting outcomes. Principles are less susceptible to circumvention in this way.</p> <p>Without any underlying conceptual basis for the control criteria, it may be difficult to determine whether a particular arrangement is within the scope of the ED. Could an arrangement be considered to be substantively within the scope of the ED even if it does not strictly satisfy all of the criteria? Would the mere inclusion of a recital clause in the preamble to a contract (mentioning that services are to be provided to the public) be sufficient as evidence that the grantor controls or regulates to whom the services are provided?</p> <p>Further, the proposed rules may be difficult to apply in practice. It is unclear how strictly these rules should be applied. Where market forces rather than contractual specifications determine the extent of the service concession property’s use, at least some of the grantor control criteria appear to be irrelevant. In HoTARAC’s experience, some service concession arrangements do not specify which party controls or regulates the pricing of services. Such arrangements would arguably fail to meet the grantor control criteria and would be outside the scope of the ED.</p> <p>While HoTARAC acknowledges that the ED’s Basis for Conclusions (Paragraph BC 14) states that asset recognition is to be determined on all the facts and circumstances of the arrangement, the ED itself relies on rules for determining grantor control. It is difficult to take account of other facts and circumstances if an arrangement does not satisfy all of the prescribed rules.</p>
1	HoTARAC	<p><b>Not neutral</b></p> <p>Paragraph 10 of the ED proposes several control criteria to determine whether a grantor has a service concession asset.</p> <p>HoTARAC is concerned that the criteria has a grantor focus rather than a property focus.</p> <p>To assess control on the basis of whether the grantor meets the criteria appears to assume grantor control. The proposed criteria can never demonstrate operator control. The criteria can only indicate the presence or absence of grantor control.</p> <p>HoTARAC also considers it inappropriate that the ED’s proposed approach is based on IFRIC 12, which specifies operator accounting based, not on whether the operator itself controls the service concession property, but on whether the grantor (not subject to IFRIC 12) controls it.</p> <p>HoTARAC suggests that a more neutral and straightforward approach should be used. The control criteria should determine which party controls the service concession property rather than focusing on whether a particular party has such control.</p>
1	HoTARAC	<p>The first instance of asymmetry with IFRIC 12 relates to the meaning of the word “regulates”. Both the ED and IFRIC 12 indicate that grantor-control of a service concession asset would occur where the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what</p>

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		<p>price (ED 48 Paragraph 10).</p> <p>In the ED, “the term ‘regulate’ is not intended to convey the broad sense of ... sovereign or legislative powers ... Rather, it is intended to be applied in the context of the specific terms of the service concession arrangement” (Paragraph AG8).</p> <p>This contrasts with IFRIC 12 that regulation “could be by contract or otherwise (such as through a regulator). ... the grantor and any related parties shall be considered together.</p> <p>the public sector as a whole, together with any regulators acting in the public interest, shall be regarded as related to the grantor . . .” (IFRIC 12, Paragraph AG2)</p> <p>The meaning of the term “regulates” is narrower in the ED than it is in IFRIC 12. HoTARAC considers that IFRIC 12 is too broad and needs to be narrowed. The power of government to establish the regulatory environment within which entities operate and to impose conditions or sanctions on their operations does not itself constitute control of the assets deployed by those entities (AASB 127, Paragraph Aus 17.9(d) and IPSAS 6, Paragraph 37(a)).</p> <p>However, this creates an inconsistency. The ED does not consistently mirror IFRIC 12. This inconsistency could result in neither party recognising the service concession property.</p> <p>For example, an operator applying IFRIC 12 may conclude that service concession property is grantor-controlled by virtue of the grantor’s regulatory power arising from legislation, or through an independent price regulator established by legislation. However, a grantor applying the ED’s proposals may conclude that the same service concession property is not grantor-controlled because the grantor has no regulatory power under the specific terms of the service concession agreement. Thus, the property would not be recognised by each party.</p> <p>HoTARAC considers that this outcome primarily arises from the failure of IFRIC 12 to consider the public sector grantor’s perspective.</p>
2	ACAG	<p><b>Recording of a Service Concession Asset</b></p> <p>The Exposure Draft requires recognition of a service concession asset depending on control criteria related to the service provision rather than being tied to the physical or intangible asset. This is not consistent with the control criteria discussed in IPSAS 23. ACAG considers that the concepts used in the Exposure Draft should fit with the concepts applied across the suite of standards.</p> <p>ACAG considers that control is the most appropriate and objective basis for determining whether the service concession asset should be recorded.</p>
5	Prof. Hodges	<p>I support the proposal that recognition of SCA assets be based upon the control-based approach rather than the risk-and-rewards approach. Experience in the UK in the application of the risks-and-rewards approach is that it has led to different interpretations of the appropriate balance of risks in determining the accounting treatment by both accounting preparers and audit firms; this is a major cause of the inconsistencies between sectors mentioned above. I make a simple point here: if the (private sector) contractor and the (public sector) grantor both believe that they do not carry the principle risks in the contract, then someone has got it wrong. Our recent experience of mismanagement in the banking sector suggests that, if in doubt, residual risk will land with the public sector and require taxpayers to pay the cost. An accounting approach which recognises that the public sector grantor both controls the strategic use of the asset and will foot the bill for its use is more likely to achieve</p>

#	Respondent	Key Issue #1b – “Mirror” IFRIC 12 – Control-based approach
		<p>consistency between sectors and reflect the inherent risk that the public sector bears in entering into these arrangements.</p> <p>I support the recognition criteria in paragraph 10 and its consistency with IFRIC12. It is pleasing to see that the residual interest test in the Discussion Paper has been amended to refer to interests which are significant. I suspect that the interpretation of ‘control’ is one area which IPSASB (and the IASB) will need to return in the future. It will be this interpretation which will be used by those promoting SCA to seek to move assets and obligations on or off balance sheets in ways which will meet the letter of the standard without always reflecting the substance of underlying schemes.</p>
9	NZ Treasury	<p>Treasury notes that the term <i>regulate</i> has a broad meaning in IFRIC 12 [IFRIC 12, paragraph AG2] and a narrower interpretation in the ED [ED, paragraph AG8]. Treasury strongly supports the narrower meaning, but notes that this inconsistency may result in some service concession property being recognised by neither party to the arrangement. Because Treasury considers that such an outcome primarily arises from a failure in IFRIC 12 we suggest that this be brought to the IASB’s attention, noting the strong support for the IPSASB position by respondents to the consultation paper that addressed this issue.</p>
11	Cour des comptes	<p>The IPSAS Board proposes to apply the criterion of asset control to determine whether concession assets should be recognised in the financial statements of the grantor. This criterion does seem relevant in the case at hand. It is consistent with the conceptual framework of the regulatory standards of the Central Government applied in France, based on which highway, railway and port concession arrangements were recognised in the Central Government financial statements for the first time in 2009.</p> <p>The objective of those contracts is indeed to provide a potential of services rather than to provide the grantor revenues originating from the users of the concession assets.</p> <p>The <i>Cour des comptes</i> considers that the existence of control should be assessed with respect to the following three factors: the return to the grantor of all or part of the assets mobilised for the performance of the service, the terms for the performance of the service, and the grantor’s control over the rates applied.</p> <p>Defining control may nevertheless prove to be a delicate matter, notably in the cases in which the authority-grantor only partially regulates the rate or the service which would be insufficient to establish clearly the level of control or in the cases in which rate regulation is determined through a concession arrangement contract, but is also first and foremost done by a public authority in a sector that is different from that of the grantor.</p> <p>Thus, in France, water dams are not recognised in the financial statements of the Central Government, but are recognised in the financial statements of the operator (<i>Electricité de France, EdF</i>).</p> <p>The analysis of control must be done in-depth with respect to all the building blocks comprising the delegation and oversight of the service.</p>
16	ACCA (UK)	<p>Also, as set out on page 28 we strongly support the ‘controls based approach’ opposed to the ‘risk and rewards’ approach to assessing whether the grantor should recognise the assets. We have found that in the UK the adoption of the latter approach has led to inconsistent reporting in the public sector. However, this is now being rectified.</p>



#	Respondent	Key Issue #1b – “Mirror” IFRIC 12 – Control-based approach
25	Direction Générale des Finances Publiques (France)	<p>We believe that the control-based approach, as set out in IFRIC interpretation 12, is appropriate to determine the accounting treatment for the service concession asset even though it doesn’t consider all the existing contracts.</p> <p>We believe that control-based approach is more relevance than the “risks and rewards” approach, as the main goal of the grantor using a service concession arrangement is to get a potential service from the associated concession asset but not future economic benefits.</p> <p>Indeed, criterion linked to potential service is the main characteristic that distinguish tangible assets of public sector from tangible asset of the private sector. Thus, IPSAS 1 defines assets as “<i>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</i>”.</p> <p>Nevertheless, we question about the relevance to use the construction risk criteria for the timing of initial recognition of a service concession asset as the control-based approach is preferred.</p> <p>We recommend the standard setter to specify the accounting method of the service concession asset (the percentage of completion method or another method) during the construction period.</p>
26	AASB (Aus)	<p><b>Residual Interest in Service Concession Assets/Whole-of-life assets</b></p> <p>The grantor control criterion specified in paragraph 10(b) of the ED addresses grantor control of ‘any significant residual interest’ in the asset at the end of the term of the service concession asset. This is a change from the preceding Consultation Paper, which referred instead to ‘the residual interest’. The approach in the ED is consistent with IFRIC 12.</p> <p>In responding to the Consultation Paper, the AASB supported such a change to ensure that insignificant residual interests could not affect the assessment of control over service concession assets, and also that assets used in a service concession arrangement for their entire useful lives would be appropriately covered by the proposals. Accordingly, the AASB welcomes and supports the IPSASB’s reference to ‘any significant residual interest’ in paragraph 10(b) of the ED and the coverage of whole-of-life service concession arrangements.</p>
27	Contrôleur des finances du Québec (Canada)	<p>We disagree with the approach based solely on “control” as described in the exposure draft.</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"> <li>▶ it represents a future benefit in that it may contribute to future cash flows or the supply of goods or services;</li> <li>▶ the government is in a position to control access to this benefit;</li> <li>▶ the transaction or fact at the source of the government’s control over such benefit has already occurred.</li> </ul> <p>Therefore, to recognize an asset, the government must also assume the risks and receive the benefits inherent in ownership of the good.</p> <p>We believe that the approach should be based both on control and on the risks and benefits assumed by each party.</p> <ul style="list-style-type: none"> <li>▶ In a service concession arrangement agreement, the government, in the public interest, generally retains a certain degree of control regarding the use of the</li> </ul>

#	Respondent	Key Issue #1b – “Mirror” IFRIC 12 – Control-based approach
		<p>asset. 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> <p>We are of the view that, in substance, service concession arrangements 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>
30	MAZARS	<p>In the introduction of ED 43, it is clearly specified that this Standard is intended to “mirror” Interpretation 12 of the International Financial Reporting Interpretation Committee, “<i>Service Concession Arrangements</i>” (IFRIC 12). It is assumed that the grantor controls the concession asset when IFRIC 12 criteria are met (see ED 43 § 10). Though we believe this analysis may be retained and acknowledge the control approach, we believe IFRIC 12 states that the operator does not control the Service Concession Asset (SCA) as the arrangement does not convey the right to control the use of the SCA to the operator (see IFRIC 12 § 11). But IFRIC 12 does not explicitly state, in our view, that the grantor is the entity that controls the SCA. Furthermore, we consider that the “mirror principle” is not an accurate principle. Therefore we would recommend the Board to develop this standard according to IPSAB generally accepted accounting principles.</p>
31	GASB	<p><b>Whole-of-life assets</b></p> <p>We agree with the concept of the control-based criteria detailed in paragraph 10; however, we do not agree that that the provisions of this Standard should apply to “whole-of-life” assets as discussed in paragraph 11. We question the appropriateness of the accounting treatment of these “whole-of-life” assets because we believe that the government has taken on a regulatory role in directing the activities of the operator that is much more akin to a privatization. The government has no significant residual interest in the property at the end of the arrangement; and therefore, it will not effectively operate the capital asset in the future. We recommend that paragraph 11 of the Standard be removed, as well as all references throughout the Standard to paragraph 11 and “whole-of-life” assets.</p>
33	KPMG	<p>We agree with the concept of the control-based criteria detailed in paragraphs 10 and 11 of the ED. We do suggest clarification of certain of the terms in the criteria. As one of the control-based criteria for recognizing the infrastructure underlying a service concession arrangement as an asset, paragraph 10(a) of the ED states the following:</p> <p><i>The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price...</i></p> <p>Paragraphs AG6 through AG8 of the ED provide guidance as to the application of the terms “control” and “regulate.” Both paragraphs AG6 and AG7 indicate that the criterion indicated above is met if the control over the specified aspects of the infrastructure and its use is possessed by “a third party regulator that regulates other entities that operate in the same industry or sector as the grantor.” Similar guidance is provided for in IFRIC 12. While we believe this guidance is appropriate from the perspective of the private sector operator, we believe that it is problematic as far as determining recognition of the infrastructure as an asset by the grantor. From the perspective of the private sector operator, in either the case in which control of the</p>

#	Respondent	Key Issue #1b – “Mirror” IFRIC 12 – Control-based approach
		<p>specific aspects of the infrastructure and its use is possessed by the grantor or another third-party regulator, the operator does not control the asset and, therefore, it is appropriate that the operator not recognize the infrastructure as an asset as provided for in IFRIC 12. However, from the perspective of the grantor, if control over the specific aspects of the infrastructure and its use is possessed by another public sector entity, there may be insufficient evidence of control of the infrastructure supporting the recognition of the asset by the grantor. Requiring a grantor to recognize assets on the basis of control exercised by a third party could have wide-ranging implications in other aspects of public sector accounting and financial reporting. We believe that the Board should explore this further in the Application Guidance section and consider limiting the scope of the ED to service concession arrangements for which the aspects of the infrastructure and its use detailed in paragraph 10(a) are controlled exclusively by the grantor or by the grantor and other public sector entities within the same reporting entity as the grantor.</p> <p>Further, the notion of a “third-party regulator” possessing control of the specific aspects of the infrastructure and its use resulting in the control criterion in paragraph 10(a) of the ED being met appears to be in conflict with the application guidance in paragraph AG8 which states that the terms “control” and “regulate” are “intended to be applied in the context of the specific terms of the service concession arrangement” instead of the broad regulatory powers of government entities. The “third-party regulators” referred to in paragraphs AG6 and AG7 are often not a party to the service concession arrangement and, therefore, by definition, their “control” or ability to “regulate” the infrastructure often would not be in the context of the service concession arrangement. We believe that the Board should resolve this apparent conflict in the Application Guidance section or provide clarification in paragraphs AG6 and AG7 of the role of the “third-party regulator” and how such a regulator would impact the assessment of the criterion in paragraph 10(a).</p>

#### Key Issue #1c – “Mirror” IFRIC 12 – Scope

#	Respondent	Key Issue #1c – “Mirror” IFRIC 12 – Scope
1	HoTARAC	<p>The Exposure Draft proposes to adopt an accounting approach for grantors which mirrors that adopted for operators under IFRIC Interpretation 12 <i>Service Concession Arrangements</i> issued by the International Financial Reporting Interpretations Committee.</p> <p>HoTARAC considers the proposed approach, based on IFRIC 12, to be problematic as:</p> <ul style="list-style-type: none"> <li>• both IFRIC 12 and the ED are narrow in scope, only addressing arrangements involving property that is grantor-controlled (in accordance with the criteria in IFRIC 12 and the ED);</li> <li>• ...</li> </ul> <p>These matters are discussed below.</p>
1	HoTARAC	<p>HoTARAC observes that some existing service concession arrangements would fall outside the scope of the ED because, despite it having a residual interest in the service concession property, the grantor does not control or regulate the operator’s pricing or to whom the operator must provide services. According to the criteria in the ED, the grantor would not control or regulate the service concession property during the concession period.</p>

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		<p>The proposal will effectively scope out service concession arrangements where the property is not grantor controlled during the concession period. This will leave a number of existing arrangements without authoritative accounting guidance. It is also likely to introduce divergent accounting for economically similar arrangements which does not seem to be a sensible outcome.</p> <p>HoTARAC is aware of three service concession arrangements where the grantor refrained from stepping in when the operators ran into financial difficulty and had to sell their interests in the arrangements. The grantor’s lack of exposure and obligation in such circumstances suggests an absence of grantor control. However, under the proposals in the ED, two of these arrangements would meet the criteria for grantor-recognition, while the other arrangement would not. This also seems to be a questionable outcome.</p> <p>HoTARAC encourages the Board to continue its deliberations on this important topic and urges the Board to consider the issues provided Attachment 1.</p>
1	HoTARAC	<p><b>Too Narrow in Scope</b></p> <p>HoTARAC considers that, despite its title and objective, the proposals only deal with service concession arrangements where property is grantor-controlled during and after the concession period. The service concession property could include:</p> <ul style="list-style-type: none"> <li>(a) grantor-controlled during and after the concession period;</li> <li>(b) operator-controlled during the concession period and grantor-controlled thereafter;</li> <li>(c) grantor-controlled during the concession period and operator-controlled thereafter; or</li> <li>(d) operator-controlled during and after the concession period.</li> </ul> <p>It is disappointing that the ED only considers one of these cases. This is unhelpful to grantors involved in other forms of service concession arrangement. For example, HoTARAC is aware of several service concession arrangements in category (b).</p> <p>HoTARAC suggests that, if the Standard resulting from the ED only deals with service concession arrangements where the property is grantor-controlled, its title and objective should be modified to make this limitation clear.</p>
1	HoTARAC	<p><b>Some arrangements are not contemplated</b></p> <p>The Implementation Guidance accompanying the ED provides a Table of references to Standards that apply to typical types of arrangements involving an asset combined with the provision of a service (Implementation Guidance and Paragraph BC3). However, the Table does not relate the arrangements classification to the presence or absence of the grantor-control criteria in the ED. Nor does it deal with some common forms of service concession arrangement.</p> <p>The Table does not deal with Build-Operate-Transfer arrangements that do not meet the grantor-control criteria in the ED. While the table suggests that BOT arrangements would normally be within the scope of the ED, the absence of grantor-control would place them outside the scope.</p> <p>What Standard would apply in this case?</p> <p>Also, the Table does not deal with operator-owned property that transfers to the grantor at the end of the concession period. While the Table suggests that arrangements involving operator-owned infrastructure would be outside the scope of</p>

#	Respondent	Key Issue #1c – “Mirror” IFRIC 12 – Scope
		<p>the ED, it does not contemplate Build-Own-Operate-Transfer arrangements, where operator-owned property ultimately transfers to the grantor. These arrangements are common in Australia. Are BOOT arrangements also meant to be outside scope because the operator owns the underlying property? Would it make a difference if the property was constructed on land leased from the grantor?</p> <p>Guidance on accounting for these forms of service concession arrangement would be helpful.</p>
1	HoTARAC	<p>HoTARAC appreciates the difficulty in trying to address the accounting for the various forms of service concession arrangement that exist. However, HOTARAC has concerns with the proposed approach to grantor accounting as the proposal</p> <ul style="list-style-type: none"> <li>• ...does not deal with service concession arrangements that fail the proposed grantor control criteria.</li> </ul>
1	HoTARAC	<p><b>What if the grantor does not control the service concession property?</b></p> <p>...</p> <p>The ED notes that, in exchange for obtaining a service concession asset, a grantor may give an operator one or more of the following:</p> <ul style="list-style-type: none"> <li>• a right to use the service concession asset (Paragraphs 23, AG38, AG42, AG43, BC 17);</li> <li>• a predetermined series of payments (Paragraphs 21, AG31);</li> <li>• a right to earn revenues (Paragraphs 22, AG29, AG38, AG41, AG44, BCI7); and</li> <li>• access to another revenue-generating asset (Paragraphs 22, AG4O, AG44, BC17).</li> </ul> <p>HoTARAC agrees that a service concession arrangement is an exchange transaction, and that these are the typical types of consideration given by a grantor. Further, HoTARAC considers the fundamental consideration is the right to use the service concession property. This is the essence of a service concession. The other types of consideration, though often found, are not essential. Moreover, alt of these types of consideration can occur regardless of which party controls the service concession property.</p> <p>The ED’s approach is premised on the grantor’s liability arising in exchange for receiving the service concession asset at the start of the concession period, and the grantor gaining control of the asset at that time. The grantor receives a service concession asset as consideration for, and in advance of, providing access or another asset to the operator (Paragraph BC17).</p> <p>However, HoTARAC has found that service concession arrangements can also take other forms and give rise to accounting issues not addressed in the ED. For example, in a Build-Own-Operate-Transfer arrangement, a grantor might only control the service concession property from the end rather than the start of the concession period. If the grantor does not control the service concession property during the concession period, the nature of the initial transaction might be an exchange of one right (service concession) for another (right to receive control of the service concession asset at the end of the service concession). An example of this is the exchange of rights with deferred settlement by one party.</p> <p>HoTARAC has identified several examples of service concession arrangements in which the grantor does not control or regulate the pricing of services and/or to whom the operator must provide them. In such cases, the grantor controls a residual interest</p>

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		<p>at the end of the concession period but, applying the ED’s proposed grantor control criteria, does not control the use of the property during the concession period. Such arrangements would be outside the scope of the ED.</p> <p>HoTARAC considers that the Standard arising from the ED should give specific guidance on how a grantor should account for arrangements where the grantor only has a residual interest in the service concession property. The Consultation Paper that preceded the ED proposed different accounting treatments, which depended on whether the grantor had full control, part control or no control during or after the concession period. The absence of such guidance in the ED is not helpful.</p> <p>HoTARAC considers that arrangements giving rights to use service concession property or to earn revenue from such property are in the nature of licensing agreements. The grantor effectively licenses the operator to operate the service concession property to provide public services, or collect revenue from the public, or both. IFRIC 12 also acknowledges that a right to charge users is a licence (IFRIC 12, Paragraph 17). However, HoTARAC notes that the Standards on Leases (IPSAS 13, IAS 17 and AASB 117) all scope out licensing arrangements.</p> <p>When determining how a grantor should grantor account for the giving of the service concession in exchange for receiving a right to receive the service concession property at the end of the concession period, the Emerging Asset approach should be considered.</p> <p>Under this approach, the grantor recognises both an asset and revenue that accrues over the concession period. This approach also reflects revenue arising from the granting of the concession on a systematic basis over the concession period and also the accruing right to receive the property over the same period. This approach is used in Application Note F <i>Private Finance Initiative and Similar Contracts</i> which forms part of the United Kingdom Accounting Standards Board’s Financial Reporting Standard 5 <i>Reporting the Substance of Transactions</i>. The Emerging Asset approach has been used in Australia to account for the emerging value of the right. HoTARAC considers that this approach has merit and has previously endorsed it for use by Australian grantors.</p> <p>It would be helpful if the Standard resulting from the ED addressed the accounting for service concession arrangements where the grantor’s control of the underlying property is deferred until the end of the concession period.</p>
1	HoTARAC	<p><b>Scope clarifications</b></p> <p>HoTARAC generally supports the scope of the term “service concession arrangement” as described in the ED (Paragraphs 2, 7 and AG 1).</p> <p>However, HoTARAC observes that service concession arrangements do not always set the initial prices to be levied by the operator or mechanisms for adjusting such prices. There are several examples of Australian service concession arrangements which do not deal with pricing or whether the operator may set and vary the fees it charges its customers. Some arrangements go further and exempt the operator from regulation by the government’s independent pricing regulator. HoTARAC considers these to be service concession arrangements even though their features may be atypical.</p> <p>Further, HoTARAC suggests that for clarity, arrangements where the grantor is the primary operator should be explicitly scoped out of the description in Paragraph 7.</p> <p>Under some public-private partnerships in Australia, the public sector party controls</p>

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		<p>the property (for example a hospital or school) as purchaser or lessee and is the primary provider of services using the property. The for-profit sector designs, finances and constructs the property and provides ancillary services (such as property maintenance), for an extended period. HoTARAC considers that such arrangements would be outside the scope of the ED because the public sector is the primary operator of the asset. However, it could be also argued that the for-profit sector is providing some level of indirect service to the public on behalf of the grantor by servicing the buildings, and that this aspect is a service concession arrangement.</p> <p>HoTARAC suggests that the description of a service concession arrangement should explicitly exclude arrangements where the public sector party is the primary operator of the property, notwithstanding that the for-profit sector may provide some secondary services. The proposal might also specifically exclude arrangements where the public sector party purchases or leases the property. Such arrangements would be covered by existing standards on property, plant and equipment or leases.</p>
2	ACAG	<p><b>Accounting by the grantor and operator</b></p> <p>ACAG considers that it would make for a more efficient process if both the grantor and operator accounting treatments were considered simultaneously.</p> <p>Application of IFRIC 12 and the Exposure Draft could potentially see there being no asset recorded to reflect relevant property (real or otherwise) by either party or, potentially, assets being recorded by both the operator and grantor.</p>
2	ACAG	<p><b>Scope of the Exposure Draft</b></p> <p>ACAG encourages the IPSASB to adopt a more conceptual approach in identifying the types of arrangements to be captured by the Exposure Draft.</p> <p>Many forms of service concession arrangements exist. The Exposure Draft captures a narrow form of these. In Australia, service concession arrangements can relate to both government business enterprises and non-government business enterprises. As such, ACAG would prefer any service concession arrangement standards to extend to cover all types of government entities.</p> <p>In addition, the rules-based nature of the Exposure Draft poses a risk that the wording in contracts determines the applicability of the standard, rather than the substance of the agreement. For example, if a contractual arrangement were silent on pricing or customers, it may not meet the criteria of paragraph 10. Alternatively, an identical arrangement with a more explicit contract may be captured by the Exposure Draft.</p>
2	ACAG	<p>The extent to which the scope paragraphs limit the application of the Exposure Draft is also unclear. For example, does the reference to the service concession asset providing services “to the public on behalf of the grantor” in paragraph 7 narrow the scope of the Exposure Draft to exclude service concession arrangements where the services are provided directly to the government?</p>
8	PSAB	<p>Paragraph IN4 provides a listing of assets used for public services that may meet the requirements of a service concession arrangement. The listing is largely consistent with paragraph 1 of the Background to IFRIC 12 although one exception is the inclusion of “intangible assets used for administrative purposes”. In addition to not being consistent with IFRIC 12, no examples of “intangible assets used for administrative purposes” are provided.</p> <p>The standard is appropriately directed at ensuring large-scale infrastructure projects</p>

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		involving private public partnerships are properly recorded in the financial statements of the operator or grantor. It is unclear what type of projects are intended to be captured by the inclusion of “intangible assets used for administrative purposes” and why the scope of ED 43 has been expanded to address such assets.
12	Ernst & Young	Although we agree in general that it is preferable to achieve consistency with the principles already established in IFRIC 12, we would like to mention some reservations regarding the scope of the proposed standard. In some countries relatively comprehensive guidance exists on how to account for SCA. These countries are concerned that the very narrow scope of the proposed standard is likely to detract from the value provided currently by the broader guidelines and practices that are available and may create new uncertainties in dealing with particular aspects of these arrangements. Some respondents believe that a more comprehensive and robust guidance than IFRIC 12 is required in the public sector environment, in this context it is remarkable that the Exposure Draft has been issued as a proposed standard rather than an interpretation as the IASB did with IFRIC 12. The conversion of an Interpretation into a standard (by mirroring only the principles and not the format) therefore seems to be inconsequential. We suggest discussing the need of a scope enlargement after the approval of the proposed standard.
12	Ernst & Young	ED 43.IN4 provides some background in respect of the types of assets involved in service concession arrangements, and lists a number of examples of assets in this regard. Although the Exposure Draft does not specifically refer to these assets as Infrastructure, IFRIC 12 upon which this is based refers to the term “infrastructure” a number of times. Some respondents noted that it is not entirely clear whether non-infrastructure assets such as movables, computer equipment, motor-vehicles, and land and buildings are intended to be covered in this standard. Clarification within the introduction or in the scope paragraph on precisely the types of assets included in the scope of this standard may be useful.
15	ASB (South Africa)	In addition, we recommend that the proposed IPSAS should be expanded to provide guidance to a grantor where it transfers the right to use a specified asset to the operator for a specific period. In these types of service concession arrangements, the operator is not required to render a service on behalf of the grantor, as in the scope of IFRIC 12, but is rather granted the right to use an existing asset of the grantor for its own commercial purposes. In these types of arrangements, the grantor does not have any obligation towards the operator, but rather share a percentage of the revenue generated by the operator for the duration of the service concession arrangement. If the service concession arrangement allows the operator to construct or develop an immovable asset on, for example land that belongs to the grantor, the grantor may, at the end of the service concession arrangement receive the constructed asset. Currently, there is no guidance to the grantor on how to account for assets that will be received at the end of the service concession arrangement, without having a performance obligation during the arrangement. However, because the asset is constructed on government owned land, the grantor may, at the commencement of the agreement, need to account and recognise the existence of such an asset.
15	ASB (South Africa)	We recommend that paragraph IN8 should be further elaborated to clarify the type of assets that falls within the scope of this Standard. IN8 currently explains that the scope of this Standard is not just limited to infrastructure assets as in IFRIC 12, but collectively refers to the assets within the scope of this proposed IPSAS as “service concession assets”. Even though AG2 clarifies that non-current tangible or intangible



#	Respondent	Key Issue #1c – “Mirror” IFRIC 12 – Scope
		<p>assets fall within the scope of the proposed IPSAS, the explanation in IN8 is however not indicative of whether immovable and/or movable assets are also within the scope of the proposed IPSAS. For example, if the operator is required to construct, for example a prison in terms of a service concession arrangement, should the principles in this proposed IPSAS be applied to the building constructed and to the equipment to be used within the building, or does the principles only apply to the constructed asset?</p> <p>In order to clarify the type of assets that falls within the scope of the proposed IPSAS, we recommend that paragraph IN8, as well as the scope paragraph in the proposed IPSAS should be elaborated to clearly state whether immovable and/or movable assets falls within the scope of the IPSAS.</p> <p>If the proposed IPSAS applies to all movable and immovable assets, we further recommend the inclusion of a reference to the IPSAS dealing with agriculture as part of the list in IN2.</p>
15	ASB (South Africa)	<p>We recommend that the application guidance should be elaborated to explain how service concession assets are to be distinguished from other assets used in, for example, service agreements.</p>
15	ASB (South Africa)	<p>In terms of the private sector pronouncements applied by operators in service concession arrangements, an operator should consider whether an arrangement contains a lease if it does not fall within the scope of IFRIC 12, and specifically the guidance in IFRIC 4 <i>Determining Whether an Arrangement Contains a Lease</i>, is to be considered. If the grantor concludes that an arrangement falls outside the scope of this proposed IPSAS, no further public sector guidance is currently available to assist the grantor in accounting for such an arrangement.</p> <p>We therefore recommend that the proposed IPSAS, as part of the application guidance, should direct the grantor to other pronouncements that should be considered if it is concluded that an arrangement does not fall within the scope of this proposed IPSAS.</p> <p>The scope of this Standard also excludes leases, and we therefore also recommend that the reference to IPSAS 13 <i>Leases</i> should be deleted in paragraph IN2.</p>
15	ASB (South Africa)	<p>As the proposed IPSAS intends to provide guidance on assets used for public services such as roads, bridges, tunnels prisons, hospital etc. (as noted in IN4), we question the inclusion of the reference to IPSAS 12 Inventories in paragraph IN2. As inventories is not included within the scope of IFRIC 12 on which this proposed IPSAS is based, we are of the view that the reference to IPSAS 12 should be deleted as it is inappropriate.</p>
16	ACCA (UK)	<p>Overall, we believe that the ED43 covers the main issues that grantors need to address when accounting for service concession arrangements.</p> <p>In particular we agree with the scope for service concession arrangements, asset and liability recognition and measurement, recognition and measurement of related expenses and revenues and presentation and disclosure. In terms of practical guidance for accountants the ‘accounting framework for service concession arrangements’ set out on page 31 is a useful framework for assessing what is in and outside of the scope of the standard.</p>
18	Wales Audit Office	<p>Paragraph 8 (c) and (d) provide a slightly wider definition of relevant assets than IFRIC12 to include:</p>

#	Respondent	Key Issue #1c – “Mirror” IFRIC 12 – Scope
		<ul style="list-style-type: none"> <li>Existing assets of the grantor which the operator upgrades for the purpose of the SCA. Only the cost of the upgrade is recognised under the standard; and</li> <li>Existing assets of the grantor to which the grantor gives access to the operator for the purpose of the SCA and of which, the grantor retains control. These assets are to be reclassified as service concession assets.</li> </ul> <p>We consider that this extension in the definition of relevant assets will be useful for concessions where existing assets are used to provide the services linked to the concession.</p>
24	Auditor General of Quebec	In our opinion, the IPSAS standard should deal with recognition by the two parties in this type of transaction. Although the government will be the grantor in the majority of these arrangements, it is possible that a government or a public body may act as an operator in dealings with another government.
24	Auditor General of Quebec	<p><i>Arrangements not involving the supply of public services</i></p> <p>Paragraph 7 specifies that the standard does not cover arrangements that do not involve the supply of public services. In our opinion, all "service concession" type arrangements should be recognized based on the guidelines of this exposure draft. For example, an arrangement by virtue of which the operator would provide services directly to the government rather than to the general public should also be subject to this standard.</p>
25	Direction Générale des Finances Publiques (France)	<p>We believe that the control-based approach, as set out in IFRIC interpretation 12, is appropriate to determine the accounting treatment for the service concession asset even though it doesn't consider all the existing contracts.</p> <p><b>The case of service concession arrangements that do not satisfy to all the control criteria</b></p> <p>It should be useful that the IPSAS Board addresses the accounting treatment for service concession arrangements that do not satisfy all the control criteria and in particular criteria the linked to the price.</p>
26	AASB	<p><b>Scope of the Proposed Standard</b></p> <p>The scope of the Standard proposed in the Exposure Draft reflects the requirements of IFRIC Interpretation 12 <i>Service Concession Arrangements</i>. Therefore, the scope of the proposals are effectively limited to service concession arrangements where the underlying service concession assets are controlled by the grantor during and after the concession period (or just during the concession period, in respect of 'whole-of-life' service concession assets) in accordance with the grantor control criteria set out in paragraph 10. The AASB believes that there should be consistency across the accounting by operators and by grantors, and is keen to see the project progress on a timely basis, and therefore agrees with the limited scope of the proposals.</p> <p>However, the degree of consistency achieved in practice may depend upon the assessment of regulatory arrangements by grantors in applying the grantor control criteria.</p> <p><i>Scope of Regulation</i></p> <p>Paragraph AG6 indicates that the regulation contemplated by those criteria could be through a third-party regulator. Paragraph AG8 states that the term 'regulate' is not intended to convey the broad sense of the power of government to regulate the behaviour of entities. It is uncertain, therefore, whether the reference to 'regulate' is intended to cover regulators that have been established by a government as</p>

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		<p>independent regulators (i.e. independent of direct government administration). The government may be able to apply its legislative powers to change the parameters within which an ‘independent’ regulator works, but unless and until it does just that, it is not clear whether such powers should be ignored as merely part of the broad sense of government power referred to in paragraph AG8.</p> <p>The AASB considers that governments are likely to conclude that independent regulators should not be factored into assessing the control or regulation specified in the grantor control criteria. This potentially will result in inconsistent accounting between grantor and operator, since from the operator’s perspective the nature of the source of regulation is irrelevant. This may result in significant service concession assets not being recognised by either the operator or the grantor.</p>
26	AASB (Aus)	<p><i>BOOT Arrangements</i></p> <p>The AASB notes that some concerns have been expressed in Australia as to whether BOOT (build-own-operate-transfer) arrangements would be covered by the proposed Standard. In its view, the reference to ownership is not a substantive matter. For example, paragraph 8(b) states that a grantor may have access to existing assets of the operator (which may or may not be owned by the operator) for the purposes of a service concession arrangement, and that the grantor therefore would recognise the assets if the grantor control criteria in paragraph 10 are satisfied. The Standard could usefully make the point that control of an asset is the critical factor, not ownership.</p> <p>The AASB considers that BOOT arrangements should be identified in the proposed Standard or its Basis for Conclusions as a type of BOT (build-operate-transfer) arrangement and thus covered by the requirements. The Implementation Guidance table of typical types of arrangements and the relevant Standards (see page 32 of the ED) refers to BOT and BOO (build-own-operate) arrangements, but not BOOT arrangements, which don’t fall neatly into any of the columns due to asset ownership by the operator but the residual interest being held by the grantor.</p>
30	MAZARS	<p>An arrangement is within the scope of the present Standard if it is binding on the parties and obliges the operator to provide the public services related to the service concession asset on behalf of the grantor (see ED 43 § 7). We understand that SCA in which the operator is not directly providing public services (such as SCA for prisons and hospitals where the operator has an obligation of construction, financing and maintenance) are in the scope of the ED because the asset is used to provide a public service. But we wonder whether SCA for ski resorts or amusement parks are in the scope of ED 43. We believe this Standard should give a definition or provide guidance on the notion of “<i>public services</i>”, even if different visions of public services exist in different jurisdiction.</p>
33	KPMG	<p>It is unclear whether service concession arrangements for which both the grantor and operator are public sector entities (“public-to-public arrangements”) are within the scope of the proposed IPSAS. We believe that these arrangements should be within the scope of the final standard. It appears, however, that potentially unique aspects of public-to-public arrangements, through which the provision of services remains with a government entity, were not expressly considered as part of the ED. If public-to-public arrangements are to be within the scope of the final standard, then we suggest that the Board specifically deliberate these arrangements and consider the possibility of circumstances unique to them that may require additional or modified accounting and financial reporting guidance. If public-to-public arrangements are excluded from the scope of the final standard, such a fact should be stated explicitly.</p>

Key Issue #1d – “Mirror” IFRIC 12 – Is it achieved?

#	Respondent	Key Issue #1d – “Mirror” IFRIC 12 – Is it achieved?
1	HoTARAC	<p>In addition, the ED does not exactly mirror IFRIC 12 despite claiming to do so.</p> <p>The ED’s proposals are intended to mirror the IFRIC 12 approach (Paragraphs 1N2 and AG3 and Specific Matter for Comment). However, in at least two instances, the ED does not exactly mirror IFRIC 12 despite claiming to do so. Consequently, some service concession property might be recognised by neither party to the arrangement.</p> <p>The first instance of asymmetry with IFRIC 12 relates to the meaning of the word “regulates”. (see <b>issue 1b</b>)</p> <p>The second instance of asymmetry relates to capital work-in-progress. (see <b>AP 7.3, Recognition and measurement of service concession assets</b>)</p>
7	ESV	<p>Despite the proposed standard there may be difficulties to determine if a PPP contract is a service concession arrangement. That is the case, for example when an asset is a service concession asset or a finance lease arrangement that should be disclosed as Property plant and equipment. It might also be difficult for the grantor to subdivide for example roads into components in a fair way, which could have the effect that service concession arrangement assets are not comparable to owned assets of the same kind.</p>
15	ASB (South Africa)	<p>We are of the view that the proposed IPSAS does not mirror the principles set out in IFRIC 12 in all instances. For example, under IFRIC 12.27, the operator is required to recognise an asset and corresponding liability in a service concession arrangement where the grantor provides other items to the operator that it can keep or deal with as it wishes. The proposed IPSAS does not include accounting requirements to the grantor to “mirror” the principles in IFRS 12.27, i.e. accounting requirements where the grantor is required to de-recognise existing assets and to recognise its right to receive future services from the operator.</p> <p>Another example is the requirement in AG20 that requires that where the operator bears the construction risk, the timing of the initial recognition of the service concession asset will be when the asset is placed in use. This requirement will result in neither the grantor nor the operator recognising the asset under construction, as in terms of IFRIC 12, the operator will recognise a growing receivable, as oppose to an asset. In this regard, the accounting in the proposed IPSAS does not mirror IFRIC 12. If the grantor is not required to recognise the asset under construction, the grantor can also not recognise a corresponding liability until the construction of the asset is complete. The grantor will however have a liability in terms of the principles in other IPSAS (i.e. the IPSASs dealing with financial liabilities and provisions) when the construction commences, but which will not be recognised as the corresponding asset is not accounted for as required by paragraph .19 of the proposed IPSAS. We therefore do not support the approach outlined in AG 20.</p>

Key Issue #2 – Performance Obligation

#	Respondent	Key Issue #2 – Performance Obligation
1	HoTARAC	<p><b>Performance obligations exist independently of payment obligations</b></p> <p>The ED proposes that when a grantor recognises a service concession asset it should also recognise a corresponding liability for its payment obligation and/or performance obligation to the operator (Paragraphs 19, 21 and 22). The liability is initially measured at the fair value of the asset (Paragraphs 15 and 20). The payment</p>

#	Respondent	Key Issue #2 – Performance Obligation
		<p>obligation represents amounts payable to the operator for the asset. The performance obligation represents the right granted to the operator to earn revenue from the service concession asset or from another revenue-generating asset (Paragraphs 22 and AG4I).</p> <p>Because the payment and/or performance obligations must initially equate to the value of the asset, it appears that the performance obligation is the difference between the value of the service concession asset and the value of any payment obligation. In effect, the ED proposes that a performance obligation is recognised only to the extent that the payment obligation falls short of the fair value of the service concession asset.</p> <p>HoTARAC considers that the proposed recognition of a grantor's performance obligation is unclear and irregular.</p> <p>Under most, if not all service concession arrangements, the grantor would have a performance obligation to the operator to continue to provide the granted concession rights during the concession period. If such an obligation is to be recognised, it would not make sense to only recognise it to the extent that the grantor does not have a payment obligation.</p> <p>Consider two service concession arrangements where the operator constructs a service concession asset and operates it on behalf of the grantor, in exchange for the right to collect user charges. In Arrangement A, the operator recovers construction and operating costs solely from user charges. In Arrangement B, the operator recovers operating costs from user charges and construction costs from the grantor via a series of predetermined payments. The grantor would have an identical performance obligation under each arrangement, regardless of it having an additional payment obligation under Arrangement B. However, the ED would only recognise a performance obligation in Arrangement A. The liability under Arrangement B would be a payment obligation.</p> <p>HoTARAC considers that, if the performance obligation exists, it should be treated similarly in all cases, regardless of whether the grantor has a payment obligation. The performance obligation should be recognised in full or not at all, not just sometimes.</p> <p>Further, the proposal could benefit from a more comprehensive explanation of the nature of a grantor's performance obligation and how it relates to revenue recognition.</p>
1	HoTARAC	<p><b>A grantor's performance obligation is not a provision</b></p> <p>The ED requires the grantor to account for a performance obligation, where it is recognised, in accordance with Paragraph 22, <i>IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets</i>. The ED notes that, "when the operator is compensated by being granted a right to earn revenues from either the service concession asset or another asset provided by the grantor, the [grantor's] liability is a performance obligation because the grantor is obligated to provide the asset to the [operator]. IPSAS 19 provides guidance for such circumstances" (Paragraph AG29).</p> <p>HoTARAC finds this requirement and guidance to be problematic for the following reasons:</p> <ul style="list-style-type: none"> <li>• it is unclear whether the performance obligation relates to the right to earn revenues (a licence) or the service concession asset or other asset provided by the grantor for the operator to use (a physical asset), or both;</li> <li>• IPSAS 19 does not provide any specific guidance on performance obligations;</li> </ul>

#	Respondent	Key Issue #2 – Performance Obligation
		<ul style="list-style-type: none"> <li>IPSAS 19 Paragraph 18 defines liabilities as “present obligations of the entity resulting from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying future economic benefits or service potential”. Given this, it is questionable whether the grantor in the contemplated arrangement would have any continuing liability as both the licence and the physical asset given to the operator at the start of the concession period would settle any present obligation of the grantor. Further, once the licence has been granted or the physical asset transferred to the operator, no further economic benefits or service potential would be required to flow from the grantor; and</li> <li>IPSAS 19 defines a provision as “a liability of uncertain timing or amount”. In the contemplated arrangement, the ED would require the performance obligation to be initially measured at fair value (Paragraph AG41) and reduced as access to the asset is provided over the term of the arrangement (Paragraphs AG38, AG40). As the timing and amount of the performance obligation are determinable there does not appear to be any requirement for a provision.</li> </ul> <p>HoTARAC suggests that Paragraphs 22 and AG29 be reconsidered and the basis for recognising a performance obligation be explained and justified. The US GASB has tentatively decided that a grantor (which it calls a transferor) should recognise a deferred inflow rather than a performance obligation (outflow) in the circumstances described above.</p> <p>HoTARAC is also aware that the IASB is considering the nature and measurement of performance obligations as part of its Projects on Leases and Revenue Recognition. It may be prudent for IPSASB to await the outcome of those Projects before issuing a Standard in this area.</p>
2	ACAG	<p><b>Definition and measurement of a Performance Obligation</b></p> <p>The Exposure Draft requires a liability to be initially recognised at equal value to the fair value of the asset recognised. This liability comprises any financial liability stipulated, with the remainder made up by a performance obligation.</p> <p>No definition of performance obligation has been provided, although it is discussed in paragraphs 22-23. In ACAG’s view, the Exposure Draft’s proposal to use performance obligation as a ‘balancing item’ is not conceptually sound. In substance, any performance obligation to the operator should not change depending on the value of related financial liabilities. Without a definition and explicit expression as to why this is a liability, it is difficult to link with IPSAS 19 ‘Provisions, Contingent Liabilities and Contingent Assets’.</p> <p>In addition, it would provide more clarity as to the intention of paragraph 23 if such a definition were provided. Currently, the intention of paragraph 23 is somewhat ambiguous as to whether the asset which would be recognised as being of equal value to the performance obligation would be the tangible or intangible service concession asset (e.g. Property, Plant and Equipment) or an asset related to future payments from the operator.</p> <p>The Application Guidance could be clearer as to the nature of the performance obligation. For example, paragraph AG3(b) could read ‘The grantor recognises a performance obligation when, as compensation to the operator for providing the service concession asset, it grants the operator access...’</p>

#	Respondent	Key Issue #2 – Performance Obligation
3	UK ASB	<p>We agree the liability recognised may be a performance obligation, but would suggest this is not a straightforward issue. It might therefore be helpful to provide more explanation of the accounting for such obligations, perhaps in the Application Guidance or the Basis for Conclusions.</p>
11	Cour des comptes	<p>According to the IPSAS Board proposal, the concession assets recorded under assets in the grantor's balance sheet would be offset by the recognition of a liability in the same amount.</p> <p>Such debt would be a “classic” financial liability if the contract provides for payments corresponding in part to the payment for the concession of an existing asset, which is the case of most PPP contracts.</p> <p>On this point, the IPSAS Board proposal does not raise any problem.</p> <p>Conversely, this debt would be representative of a “performance obligation” when there is no payment. The “performance obligation” recognised under liabilities, would represent the fact that the grantor compensates the operator by transferring thereto the right to receive revenues from the operation of the asset. The performance obligation would be amortised through profit and loss over the term of the concession contract.</p> <p>In France, a different solution has been applied. It impacts the financial statements in the same direction, but it is based on a different concept: as a conservative measure -.- pending regulatory clarification — an offsetting entry for property, plant and equipment is recognised under “other non-financial debt”. These non-financial liabilities translate the residual obligation for the grantor to afford the grantor the possibility to enjoy the profits from the management of the public service over a given period of time. In other words, this is an “intangible liability” which materialises the restrictions that the grantor imposes on the enjoyment of the asset it controls. These other non-financial debts are written-back on a straight-line basis over the term of the concession arrangement.</p> <p>The question raised however is what is the nature of such liability: Unlike debts, be they financial or not, this liability does not result in a final outflow of funds; it is instead extinguished by a straight-line amortisation and is of a particular nature. According to the IPSAS Board, such liability must be recognised in accordance with the terms of IPSAS 19 “Provisions, contingent liabilities and contingent assets” (which is itself based on IAS 37, currently undergoing a complete overhaul), which however does not explicitly recognise as liabilities any obligations which would not be subsequently extinguished by an outflow of fluids.</p> <p>The value of these intangible liabilities is represented, absent any special and explicit standards, by the original value of the concession assets. On this point, the <i>Cour des comptes</i> agrees with the IPSAS Board proposal.</p> <p>This overall mechanism retraces for the grantor the diverging development paths of assets and liabilities recorded in concession-arrangement and PPP contracts.</p> <p>Nevertheless, the content of the notion of performance obligation proposed in the exposure draft should be clarified, certainly for the purpose of reconsidering its name, which fails to properly reflect the reality of an obligation that weighs on the grantor and likewise to thaw the corresponding consequences within the conceptual framework and the regulatory mechanism of the IPSAS, which are in the process of being defined.</p>

#	Respondent	Key Issue #2 – Performance Obligation
14	JICPA	<p>Paragraph 19 of the ED states that when the grantor recognizes a service concession asset, the grantor shall also recognize a liability and the liability recognized may be any combination of a financial liability and a performance obligation.</p> <p>Also, paragraph 22 of the ED states that when the grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use, the liability recognized in accordance with paragraph 19 is a performance obligation.</p> <p>Paragraph 7 in IPSAS 1 states that liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. In our view, the relationship between the definition of “a performance obligation” in the ED and the definition of “the liability” in IPSAS 1 is unclear and, therefore, it is necessary to explain the relationship between these definitions in the standard.</p>
18	Wales Audit Office	<p>Paragraph 19 requires that when recognising a service concession, a grantor must also recognise a liability and under paragraph 20, this liability shall initially be measured at the same amount as the asset recognised.</p> <p>Paragraph 22 states that when the grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use, the liability recognised is a performance obligation. The grantor shall subsequently account for the performance obligation in accordance with IPSAS 19.</p> <p>The ED contains no explanation as to what is meant by ‘a performance obligation’ or how it meets the definition of a provision as defined in IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets).</p> <p>Our understanding is that the liability reflects the grantor’s obligation to allow the operator to provide the service concession. This should be made explicit in the standard.</p>
19	FEE	<p><b>Inconsistency of “Performance obligation” with definition of a liability</b></p> <p>We approve the recognition of a financial liability when the grantor compensates the operator for the service concession asset by making payments but the recognition of a “performance obligation» when the grantor compensates the operator by granting the right to charge users gives rise to question.</p> <p>The notion of “performance obligation is new in the IPSAS accounting standards and so should be clarified. The exposure draft do not precise the exact nature of this notion but indicates that this liability should be accounted in accordance IPSAS 19 “provisions Liabilities and contingent Assets”.</p> <p>According to IPSAS 19, liabilities are “<i>present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential</i>”. “Performance obligation” does not satisfy the definition of a liability when the grantor compensates the operator by granting the right to collect fees from users as there is no outflow of resources embodying economics benefits where as the grantor receive service potential: the delivery of public services.</p> <p>Furthermore, when the grantor compensates the operator by granting the right to charge users, the operator shall recognise an intangible asset in accordance with IFRIC 12 which represents this right but not recognises a account receivable. This</p>



#	Respondent	Key Issue #2 – Performance Obligation
		accounting seems not to be compliant with the “mirror” approach favoured by the Board.
26	AASB	<p>While accepting the IPSASB proceeding with the recognition of performance obligations, the AASB encourages the IPSASB to consider the impact of related research (for example, on leases) by the IASB and FASB as it develops its Standard. There are a number of aspects concerning performance obligations in the ED that need to be clarified.</p> <p>First, it appears that the amount of the performance obligation is the difference between the fair value of the service concession asset and any payment obligations of the grantor because the financial liability and the performance obligations must initially equate to the fair value of the asset. This means that a performance obligation is recognised by the grantor only to the extent that its payment obligation falls short of the fair value of the service concession asset.</p> <p>The AASB expects that in most (if not all) service concession arrangements, the grantor would have a performance obligation to the operator to continue to provide the granted service concession rights during the concession period. Therefore, it does not seem appropriate for the grantor to recognise a performance obligation only to the extent that the grantor does not have a payment obligation to the operator. If the performance obligation exists, it should be treated similarly in all cases, regardless of whether the grantor has a payment obligation. However, if the IPSASB retains its existing proposal, the AASB requests that it clarify why a performance obligation should be recognised only to the extent that the grantor’s payment obligation (financial liability) falls short of the fair value of the service concession assets.</p> <p>Secondly, it is not clear from the ED whether the grantor has a performance obligation in respect of its existing assets that are reclassified as service concession assets in accordance with paragraph 12. Paragraph AG29 (corrected) explains the nature of the obligation as requiring the grantor to ‘provide’ the asset to the operator. This seems equally applicable to existing assets of the grantor to which the grantor gives the operator access for the purpose of a service concession arrangement. The AASB considers that all service concession assets should be treated in the same way in this respect, regardless of whether they are new or existing assets of the grantor.</p> <p>Finally, the AASB questions whether the performance obligation approach is proposed essentially as a means of deferring revenue recognition by the grantor. If this is the case, the IPSASB should address revenue recognition directly instead of via partial application of the notion of performance obligations.</p>
27	Contrôleur des finances du Québec (Canada)	<p>Although the concept of financial instrument is not currently incorporated in Canadian standards, we agree with the proposals of the exposure draft relating to liabilities, apart from the fact of not presenting income and expenditure relating to transactions by the partner. Indeed, although these are of an equivalent amount and the impact on results is zero, we believe that this information is relevant in the government context.</p> <p>Distinguishing among liabilities allows, in particular, non-monetary transactions related to performance obligations to be presented separately from monetary transactions related to the repayment of the financial liability.</p>

#	Respondent	Key Issue #2 – Performance Obligation
29	Treasury Board of Canada Secretariat	The exposure draft requires the recognition of a liability for a “performance obligation” (paragraph 19) which is to be accounted for in accordance with IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> . However, there is no reference in IPSAS 19 to a performance obligation. We suggest that a definition be provided to improve the clarity of this guidance.
30	MAZARS	<p>The grantor recognises a liability described as a performance obligation when the grantor compensates the operator for the service concession asset by granting the operator the right to collect fees from users. According to § 22 of the Exposure Draft, the grantor shall account for this performance obligation in accordance with IPSAS 19 “<i>Provisions, Contingent Liabilities and Contingent Assets</i>”. This would imply that the liability should be revaluated at each closing date (see § 45 of IPSAS 19). We do not believe this reassessment would bring any relevant information to the users of financial statements. Furthermore, we note it would be costly and would impose unnecessary burdens on preparers. We consider this “performance obligation” is no financial liability (as no cash outflow is expected). We believe it is a deferred income and should be accounted in accordance with IPSAS 9 “<i>Revenue from Exchange Transactions</i>”. This treatment is, in our view, in line with the provision described in ED 43 AG. In fact, according to AG38: “As the liability is reduced, revenue is recognized”.</p> <p>We believe § 23 of ED 43 is not clear. When the operator compensates the grantor for the right to use the Service Concession Asset, we believe the grantor should not recognise a liability according to IPSAS 19 “<i>Provisions, Contingent Liabilities and Contingent Assets</i>”. On the contrary, the grantor should recognise revenue according to IPSAS 9 “<i>Revenue from Exchange Transactions</i>” and as stated in ED 43 AG 43.</p>
31	GASB	Paragraph 22 of the ED states that a grantor should report a performance obligation in accordance with paragraph 19 when the grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. The question then becomes, how would a grantor value that liability and what would the grantor debit in that transaction when an upfront payment is not provided by the operator? We do not believe the recognition of the liability by the grantor should result in the recognition of either an asset or an expense. We believe further guidance on accounting for this transaction is needed before the final standard is issued.
33	KPMG	While we do not disagree with the premise in paragraph 19 of the ED that the grantor shall recognize a liability when it recognizes a new service concession asset, such liability representing compensation due to the operator for such asset, we believe that the Board should explain in the basis for conclusions why it considers that the “performance obligation” referred to in paragraph 19 meets the definition of a liability in IPSAS 1, <i>Presentation of Financial Statements</i> . In particular, the Board should explain why it concluded that providing future access to the service concession asset to the operator represents an outflow of resources embodying economic benefits or service potential, such that the obligation to provide future access meets the definition of a liability, notwithstanding that the obligation will not be settled, either directly or indirectly, by the payment of cash or delivery of another asset.

## OTHER ISSUES – CAPITAL WORK IN PROGRESS

### Issue

1. Respondents to ED 43 raised a number of technical issues regarding the recognition and measurement of the service concession asset. One of the more controversial issues relates to whether to recognize the service concession asset during construction.
2. ED 43 contains the following material on this issue:

#### *Constructed or Developed Asset*

AG20. IPSAS 17 or IPSAS 31, as appropriate, set out the criteria for the timing of initial recognition of a service concession asset. In the case of property, plant and equipment, where the operator bears the construction risk, the timing of initial recognition of the service concession asset by the grantor will normally be when the asset is placed into use. Where the grantor bears the construction risk, the recognition criteria may be met during the construction period, and, if so, the grantor will normally recognize the service concession asset (and related liability) during that period. The recognition criteria in IPSAS 31 also require that the initial cost or fair value of the asset can be measured reliably for an intangible asset to be recognized. Accordingly, to meet the recognition criteria in IPSAS 17 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. In some cases, the grantor may incur an obligation during construction or development before the constructed or developed asset meets the conditions in paragraph 10 (or paragraph 11 for a whole-of-life asset) for recognition as a service concession asset.

### What Respondents Said

3. Four respondents commented specifically on this issue (#1, 9, 15, 26, 30, 32).
4. Respondent #1 indicated that “under accrual accounting principles, the grantor should recognise the asset and liability progressively as it is constructed rather than when it is complete.” Respondents #9, 6, 30, and 32 expressed similar concerns.
5. Respondent #15 raised a concern with the reference to construction risk in paragraph AG20, noting that if the criteria in paragraph 10 are met, the asset should be recognized irrespective of who bears construction risk.

### Analysis

6. In developing the ED, the TBG added guidance on who bears construction risk to clarify the underlying recognition principle in paragraph 10. The guidance in paragraph AG20 was drawn from the March 2008 Consultation Paper. The inclusion of that guidance has created some confusion in determining when a constructed service concession asset should be recognized.
7. However, the intent in ED 43 is that the control criteria are used to determine **if** a service concession asset should be recognized. ED 43.13 requires that assets that

- should be recognized as service concession assets should be accounted for under IPSAS 17 or IPSAS 31.<sup>1</sup>
13. **The service concession asset recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset) shall be accounted for in accordance with IPSAS 17 or IPSAS 31, as appropriate.**
8. Thus, IPSAS 17 is used to determine **when** and **at what amount** the service concession asset should be recognized.
9. IPSAS17.19 contains the following guidance pertaining to constructed assets:
- An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it.
10. If the IPSASB considers it necessary to include the guidance from IPSAS 17 in the proposed IPSAS on SCAs, the TBG will need to consider whether the guidance in IPSAS 17.19 is also sufficient for constructed SCA assets, or whether it needs to be expanded on to address any specific issues in SCAs.
11. In addition, IPSAS 17 contains other guidance related to constructed assets (see the Appendix to this paper).

**Questions for the IPSASB:**

1. Should the proposed IPSAS include the same guidance on constructed assets as that in IPSAS 17, or the reference in paragraph 13 of ED 43 sufficient to address SCAs?
2. Should the proposed IPSAS also include the guidance from IPSAS 17 on constructed assets?

<sup>1</sup> The issue of whether to also refer to guidance in IPSAS 31 will depend on future discussions of comments raised on whether intangible assets should be within the scope of the proposed IPSAS on SCAs.

Appendix

Other Guidance on Constructed Assets in IPSAS 17

31. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in the relevant international or national accounting standard dealing with employee benefits) arising directly from the construction or acquisition of the item of property, plant, and equipment;
  - (b) Costs of site preparation;
  - (c) Initial delivery and handling costs;
  - (d) Installation and assembly costs;
  - (e) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
  - (f) Professional fees.
35. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.
36. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, "Borrowing Costs," establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.
89. **The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:**
- (a) **The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;**
  - (b) **The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction; ...**

## **OTHER ISSUES BY RESPONDENTS TO ED 43, “SERVICE CONCESSION ARRANGEMENTS: GRANTOR”**

### **Purpose:**

This paper presents the Task-Based Group’s (TBG) analysis of the other, less significant issues respondents raised to ED 43, “Service Concession Arrangements: Grantor.” These issues are mainly related to specific accounting issues identified in the ED. Responses #1–33 are included in AP 7.1. How these other issues are ultimately addressed depends on the IPSASB’s decisions on the scope of the project based on respondents’ comments in the Analysis of Key Issues (Agenda Paper 7.2). Only one issue identified in this paper is presented for further discussion by the IPSASB at this meeting, if time permits (see Agenda paper 7.4).

### **List of Respondents:**

#	Respondent
1	Head of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)
2	Australasia Council of Auditors General (ACAG)
3	Accounting Standards Board Committee on Accounting for Public-Benefit Entities (UK)
4	Joint Accounting Bodies (Aus)
5	Prof. Keith Glaister (University of Sheffield)
6	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)
7	National Financial Management Authority (ESV) (Sweden)
8	Public Sector Accounting Board (PSAB) (Canada)
9	New Zealand Treasury
10	Audit Commission (UK)
11	Cour des comptes (Comité consultative sur la normalization des comptes publics) (France)
12	Ernst & Young
13	Institute of Chartered Accountants of Scotland (ICAS)
14	Japanese Institute of Certified Public Accountants (JICPA)
15	Accounting Standards Board (ASB South Africa)
16	Association of Chartered Certified Accountants (ACCA) (global body for professional accountants)
17	Dr. Joseph Maresca
18	Wales Audit Office

#	Respondent
19	Fédération des Experts comptables Européens
20	Conseil de normalization des comptes publics (France)
21	Institute for the Accountancy Profession (Far) (Sweden)
22	Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE)
23	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)
24	Auditor General of Quebec (Canada)
25	Direction Générale des Finances Publiques (France)
26	Australian Accounting Standards Board (AASB)
27	Contrôleur des finances du Québec (Canada)
28	Institute of Chartered Accountants of Pakistan
29	Treasury Board of Canada Secretariat
30	MAZARS
31	US Governmental Accounting Standards Board (GASB)
32	Office of the Comptroller General of British Columbia (OCG BC) Canada
33	KPMG

Comments by Issue:

Capital Work-in-Progress

#	Name	Comment - Capital Work-in-Progress
1	HoTARAC	<p>The ED discusses the timing of recognition of a service concession asset constructed by the operator. Paragraph AG2O also notes that where the operator bears the construction risk, the grantor will normally recognise the asset (and by implication the related liability) when the asset is placed into use.</p> <p>HoTARAC considers this to be problematic as the treatment proposed in the ED does not mirror that in IFRIC 12. Under IFRIC 12, the operator recognises an accruing receivable as the service concession asset is constructed. Under ED 43, the grantor's corresponding payable would not be recognised until the asset is used. A further consequence is that neither of the parties would recognise the capital work-in-progress during the construction period.</p>
1	HoTARAC	<p>Paragraph AG2O of the ED discusses the timing of recognition of a service concession asset constructed by the operator. It notes that, where the operator bears the construction risk, the grantor will normally recognise the asset (and by implication the related liability) when the asset is placed into use. H0TARAC considers this to be problematical for the following reasons:</p> <ul style="list-style-type: none"> <li>• Under accrual accounting principles, the grantor should recognise the asset and liability progressively as it is constructed rather than when it is complete, regardless of which party bears construction risk. A service concession asset is, by definition, grantor controlled and it is being constructed for the grantor pursuant to the contractual requirements of the service concession arrangement.</li> <li>• As mentioned earlier, the treatment proposed in the ED does not mirror that in IFRIC 12. Under IFRIC 12, the operator recognises a cumulative receivable as the service concession asset is constructed. Under the ED's proposals, the grantor would not recognise the corresponding payable until the asset is placed into use. A further consequence is that neither of the parties would recognise the capital work-in-progress during the construction period.</li> <li>• The deferred recognition of the liability could inappropriately encourage these types of transactions and provide financial engineering opportunities resulting in governments reporting lower levels of debt compared with more direct financing transactions that have similar economic or present-value impact. The financial implications could be significant given that these are typically high value contracts involving construction over several years.</li> </ul> <p>HOTARAC suggests that, if a grantor is to recognise a service concession asset, the grantor should also recognise the associated work-in-progress and the related liability as they accrue.</p>
9	NZ Treasury	<p>Treasury does not consider that the guidance for the recognition point of the asset is appropriate. AG20 states that the recognition of a constructed asset, (and by implication the corresponding liability), where the construction risk is borne by the operator, will normally be when the asset is placed into use.</p> <ul style="list-style-type: none"> <li>• The asset is being constructed for the grantor pursuant to the contractual requirements of the service concession arrangement. Under accrual accounting principles, the grantor should recognise the asset under construction, (and the associated increasing obligation), as the asset is being constructed in accordance with the contract, rather than when it is complete. Recognition should occur at</li> </ul>

#	Name	Comment - Capital Work-in-Progress
		<p>this point regardless of whether or not the grantor faces the construction risk. Any argument that the cost cannot be reliably measured at an earlier point is not credible. Because the grantor does not bear the construction risk, the cost to the grantor is fixed. Because the likelihood of delivery on time or of any delays will be known, the percentage of completion will be known.</p> <p>Treasury recommends that AG20 be reworded so that costs are normally recognised as they accrue.</p>
15	ASB (South Africa)	We recommend that guidance should be included that clarifies when the criteria specified in paragraph 10 should be considered, i.e. at the commencement of the arrangement, only after the service concession asset was constructed (if appropriate), or only once the operator commences with the provision of the service on behalf of the public sector entity.
15	ASB (South Africa)	We do not support the principle in AG20 that requires that when the operator bears the construction risk, the timing of the initial recognition of the service concession asset will be when the asset is placed in use, for the reasons outlined in a previous comment above. We recommend that the grantor should be required to recognise the service concession asset under construction to the extent that the requirements in paragraph 10 have been met, irrespective of who bears the constructions risk.
26	AASB	<p>The ED (paragraph AG20) proposes requirements for the timing of initial recognition by grantors of assets constructed or developed by the operator for the purpose of a service concession arrangement. The proposed requirements distinguish the timing according to whether the operator or the grantor bears the construction risk. In the former case, recognition by the grantor would occur when the asset is placed into service, and in the latter case, as the construction takes place – provided the grantor has reliable cost information.</p> <p>The AASB believes that the grantor should recognise a service concession asset being constructed by the operator as construction takes place, irrespective of whether the construction risk is apparently borne by the grantor or by the operator. In the context of significant, long-term service concession arrangements, it is normally unreasonable for the grantor to hold out that it has no obligation to the operator for its construction services until the grantor has accepted the constructed asset as suitable for its intended purpose or even until the asset is placed into use. An operator is unlikely to enter into a service concession arrangement if the grantor can simply refuse to pay for the construction work where there is some defect in the constructed asset – or else defer payment until some minor aspect has been resolved. Therefore, the reliance upon construction risk does not seem to be justified for service concession arrangements.</p> <p>Indeed, the last sentence in paragraph AG20 seems somewhat at odds with the rest of the paragraph. It is not clear what cases are being referred to. In any case, the grantor's obligation for construction costs prior to completion of construction should give rise to an asset for the grantor, and it is not clear why this could not be a service concession asset. The control criteria in paragraph 10 do not apply explicitly only to service concession assets that are presently operating: the grantor's control of the services, recipients and pricing might only be <i>exercised</i> in the future, from when the assets are placed into use, but the grantor already controls the assets in the requisite manner in that case.</p>



#	Name	Comment - Capital Work-in-Progress
30	MAZARS	<p>Where the operator bears the construction risk, the timing of initial recognition of the service concession asset by the grantor will correspond to the end of the construction period, that is to say when the asset is placed into use (cf. ED 43 — AG20). We believe that, even if the operator bears the construction risk, the analysis of control criteria may lead to the conclusion that control is transferred to the grantor <u>continuously</u> during the construction period. Indeed, the arrangement may stipulate that the operator bears the construction risk and at the same time that ownership of the service concession asset is transferred to the grantor continuously during the construction period. Furthermore, in case of breach of the contract during the construction period, the arrangement may stipulate that the operator shall be compensated from the grantor for an amount corresponding to the financial investment in the service concession asset incurred by the operator. We believe all those elements constitute indicators that control of the asset may be transferred continuously during the construction period to the grantor (even if the operator still bears the construction risk).</p> <p>Therefore, we consider it would be helpful to develop further guidance on the timing of initial recognition of the service concession asset in the grantor's accounts.</p>
32	OCG BC (Canada)	<p>Section 10-14 of the exposure draft deals with the recognition and measurement of service concession assets. These sections provide no guidance on whether the service concession asset is recognized throughout the construction period or at the completion of the construction period. The Province of BC believes the guidance would be enhanced if an additional section was added that clarifies that the service concession asset and the related liability should be accrued throughout the construction period. This clarification is paramount for those service concessions arrangements that include either an acceptance clause at construction completion or title to the asset remains with the operator until the completion of the service period. The province's experience with service concession arrangements implemented in BC is that the lack of guidance related to service concession assets and related liabilities during the construction period will lead to theoretical discussions as to whether the service concession asset and related liability should be accrued throughout the construction period or recognized only when construction has been completed and service has commenced. The guidance in the service concession agreement IPSAS should complement the guidance in IPSAS 19 – provisions, Contingent Liabilities and Contingent Assets, which requires that a liability be accrued throughout the construction period.</p>

### Recognition and Measurement of Service Concession Assets

#	Name	Comment - Recognition and Measurement of Service Concession Assets
3	UK ASB	<p>We are, however, concerned by the requirement in paragraph 15 of the draft standard to measure the service concession asset at its 'fair value' which might be interpreted as a market-based exit value. We do not consider this to be appropriate in the public sector context, where service concession assets are often highly specialised and will not be traded on a market. We would suggest the measurement requirement should specifically refer to replacement cost.</p>
9	NZ Treasury	<p>Treasury notes that the ED proposes that when a grantor recognises a service concession asset it should also recognise a corresponding liability, initially measured</p>

#	Name	Comment - Recognition and Measurement of Service Concession Assets
		<p>at the fair value of the asset.</p> <p>The fair value of the asset is determined to be the fair value of the asset portion of the payments if the asset and service portions are separable, and by estimation if they are not (refer paragraphs 15 to 17). These paragraphs make no reference to the inclusion of any performance obligation in determining the fair value of the asset. The paragraphs do however suggest that the fair value should be determined from the future payment stream. From the future payment stream a liability is calculated, and from that the fair value of the asset is determined.</p> <p>However the implementation guidance takes a different approach. It works in the opposite direction. In the implementation guidance, the fair value of the asset is determined by reference to its construction costs, separating out base layers and surface layers for the road it uses as an example. Such components of the road do not have separate fair values. The impact of taking the approach set out in the implementation guidance seems to be to assume that fair value is equivalent to initial construction cost.</p> <p>The implementation guidance in the first example then compares this initial construction cost or “fair value” to the future payment stream and derives a finance cost that will convert the payment stream into an equivalent value liability. The second example uses the initial construction cost or “fair value” to determine the equivalent value performance obligation. In the third example, of a combined payment stream and performance obligation, a judgement is required as to how much of the operator’s compensation comes from the grantor payment stream and how much from the toll revenue. Once that is done, similar comparisons as in the first two examples are carried out to derive “equivalent value” liabilities.</p> <p>Treasury has two main comments to make on this:</p> <ul style="list-style-type: none"> <li>• It is confusing. The logic in the implementation guidance does not follow the logic in the standard. In particular: <ul style="list-style-type: none"> <li>○ if the fair value is to be determined from the cost of its components, the standard should state that a cost base is being used. This is Treasury’s preference. It would be helpful to have guidance as to whether public sector comparators may be used as a replacement cost valuations, or whether efforts should be made to determine the private sector costs.</li> <li>○ if the fair value is to be determined from the compensation provided, the standard needs to explicitly state this. Treasury considers this approach less preferable because although it is in accordance with the IASB’s developing fair value measurement guidance, there would be less comparable results given the judgements necessary. To overcome this, guidance would be necessary as to how to determine the liability, including how to determine the finance rate to bring the compensation (payment streams, and right to charge over a period) to a present value, and the implementation guidance needs to be adjusted accordingly.</li> </ul> </li> <li>• It ignores the possibilities of subsidies. For example, consider the situation if the value of the tolls in Example 3 was twice as large (i.e. CU200 in each of years 3-10 rather than CU100 in each of years 3-10). The value foregone by providing the access to that asset, and presumably the performance obligation is therefore much more significant than in the example. The accounting would be either: <ul style="list-style-type: none"> <li>○ exactly the same as currently in Example 3 if the same judgement was made as to the payment stream/performance obligation ratio. The change in</li> </ul> </li> </ul>

#	Name	Comment - Recognition and Measurement of Service Concession Assets
		<p>economic substance would not be reflected in the accounting; or</p> <ul style="list-style-type: none"> <li>○ if a different ratio was applied, a higher finance cost would be applied to the payment stream. The larger foregone value is reflected in a higher interest cost.</li> </ul> <p>Neither approach would reflect the economic substance that half the toll revenue reflects an effective subsidy the grantor is making to the provider. Treasury suggests that the standard needs to recognise such eventualities. Guidance similar to that provided in AG-82-83 of IPSAS 29 or paragraphs 27-29 of IPSAS 17 need to be inserted.</p>
11	Cour des comptes	<p>The IPSAS Board proposes to measure concession assets at fair value at the time of their initial recognition. Then, at period-end, the existing IPSAS would apply, i.e., primarily measurement at historic cost.</p> <p>In the case at hand, the term “fair value” needs to be clarified: If it refers to the cost of concession assets, such measurement is not generally a problem, but if fair value is understood as market value, then it seems to contradict the provisions of IPSAS 17 according to which “<i>an item of property, plant and equipment which qualifies for recognition as an assets should initially be measured at its cost</i>”.</p> <p>Incidentally, the market value of concession assets is not always known, considering that for this type of property (highways, ports, airports, water-supply systems, etc.) market value is rarely revealed through transactions on active markets.</p> <p>In France, the concession arrangement contracts awarded by the Central Government are measured at replacement cost under assets, or failing that, at their net book value. Ports are valued at historical cost and airport concessions in 2009 were valued, as an exception, on the basis of the net book values of those assets. In 2010, airport concessions may however very well be measured at market value.</p> <p>The <i>Cour des comptes</i>, at the regulatory level, considers two types of measurement methods to be the most well-founded: replacement cost, and when possible, market value. It does however favour the first one, which corresponds closely to the concept of replenishment of the potential of a service which is why concession arrangements exist in the first place.</p> <p>It is therefore preferable to leave certain flexibility on this point in the future IPSAS.</p>
12	Ernst & Young	<p>The Exposure Draft Is unclear on when precisely the assessment of whether a service concession asset should be recognised should occur. Since the ED is dealing with contractual arrangements (in some cases quite similar to lease agreements), it may be useful to provide explicit guidance on whether the assessment of the recognition criteria is to be performed on inception of the agreement, or continuously throughout the term of the arrangement (at each reporting period end), or at the termination/expiry of the arrangement.</p>
12	Ernst & Young	<p>There are some reservations that the original service concession asset should be measured only at fair value as required by ED 43.15. This is a deviation from existing IPSAS, for example IPSAS 16 and 17, which allow the assets to be recognised at cost. The cost can also be determined using discounted cash flows to recognise any deferred payments.</p>
13	ICAS	<p>Page 11, paragraph 17. Paragraph 17 makes a passing reference to using ‘estimation techniques’ to determine the fair value of elements of the unitary charge when a contract is not separable. We believe that the proposed standard should provide additional material on appropriate estimation techniques. Paragraph 18 refers to the</p>

#	Name	Comment - Recognition and Measurement of Service Concession Assets
		application of IPSAS 17 “Property, plant and equipment” and IPSAS 31 “Intangible assets” to the subsequent recognition and measurement of service concession assets and we would welcome an approach to the initial recognition and measurement of assets which utilised IPSAS 17 and IPSAS 31, when a contract is not separable.
15	ASB (South Africa)	Paragraph 15 requires that the service concession asset should be recognised at fair value. This principle, however, contradicts the principles included in existing IPSASs that requires the recognition of assets at cost, and only when the asset is acquired at no or nominal value, should it be recognised at fair value. As AG24 as AG25 provides some clarification on the amount at which the service concession asset should be recognised, we propose that the guidance in AG24 and AG25 should be included as part of the text of the proposed IPSAS.
18	Wales Audit Office	The ED requires recognition of an asset based on control over service provision and residual interest. These criteria are not consistent with the criteria specified in IPSAS1, Presentation of financial statements. IPSAS 1 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 to the entity.
29	Treasury Board of Canada Secretariat	Determination of separable payments We believe that the guidance on determination of “separable” payments, between the asset and service portions of the arrangement, needs to be strengthened. Although the examples provided in the application guidance, in paragraph AG23, appropriately demonstrate situations where the asset portion of the payments may be derived from the agreement, the provision of criteria to assess whether payments are separable would help to ensure that non-substantive contract terms are not applied in such a way that the economic substance of the arrangement is improperly reflected.
30	MAZARS	We note that ED 43 does not foresee the case when part of the financing of the Service Concession Asset comes from government grants (and not from the grantor). We believe it could be interesting to develop guidance on this issue.
31	GASB	We believe that the guidance in paragraph 15 of the ED should be amended as follows to address the measurement of both new and existing assets subject to a service concession arrangement:  The grantor shall initially measure <u>the original a new</u> service concession asset at its fair value. <u>Existing service concession assets as described in paragraph 8(d) should continue to be measured based on the guidance in IPSAS 17.</u>
32	OCG BC (Canada)	The Province of BC disagrees with service concession arrangement assets being recognized at their fair value, Recognition at fair value is inconsistent with IPSAS 17, Property Plant and Equipment section 26, which requires that “An item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at its cost.” It is also inconsistent with Canadian Public Sector GAAP which requires that tangible capital assets should be recorded at cost. IPSAS 17 only allows property plant and equipment to be recognized at fair value when an asset is acquired through a non- exchange transaction. Clearly, a service concession arrangement is not a non-exchange transaction. The Province of BC requests that IPSASB reconsider the recognition basis of service concession arrangement assets and ensure that they are recognized on the basis of cost, which is consistent with the existing IPSAS GAAP on property plant and equipment. The service concession asset should only be recognized at fair value when cost is not readily determinable from the service concession arrangement’s concession agreement. The Province of

#	Name	Comment - Recognition and Measurement of Service Concession Assets
		BC has implemented several service concession arrangements. In all of these instances, the service concession assets were recognized at cost with cost being determined from the concessionaire's model of the project, which was included with the service concession arrangement's concession agreement. The service concession arrangements were undertaken after a competitive process, thus the service concession arrangement assets' costs were also equal to their fair value.
32	OCG BC (Canada)	As noted in the letter above, the Province of BC disagrees with service concession arrangement assets being recognized at their fair value, Recognition at fair value is inconsistent with IPSAS 17, <i>Property Plant and Equipment</i> section 26, which requires that "An item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at its cost." It is also inconsistent with Canadian public sector GAAP which requires that tangible capital assets should be recorded at cost. IPSAS 17 only allows property, plant and equipment to be recognized at fair value when an asset is acquired through a non-exchange transaction. Clearly, a service concession arrangement is not a non-exchange transaction. The Province of BC requests that IPSASB reconsider the recognition basis of service concession arrangement assets and ensure that they are recognized on the basis of cost, which is consistent with the existing IPSAS GAAP on property, plant and equipment. The service concession asset should only be recognized at fair value when cost is not readily determinable from the service concession arrangement's concession agreement. The Province of BC has implemented several service concession arrangements. In all of these instances, the service concession assets were recognized at cost, with cost being determined from the concessionaire's model of the project which was included with the service concession arrangement's concession agreement. The service concession arrangements were undertaken after a competitive process, thus the service concession arrangement assets' costs were also equal to their fair value.
32	OCG BC (Canada)	The Province of BC disagrees with the re-valuation method described in section 44 of IPSAS 17, <i>Property Plant and Equipment</i> . The Canadian public sector conceptual framework requires recognition based primarily on the historical cost basis of accounting. Other recognition methods are allowed, but only in limited circumstances. If fair value is used as the basis of recognition for service concession assets, it is possible that these assets would be re-measured using the re-valuation model which would result in a distortion of the entity's operating results.
33	KPMG	<p>Paragraph 12 of the ED states the following:</p> <p><i>Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph JO (or paragraph 1] for a whole-of-life asset), the grantor shall not recognize the asset as a service concession asset in accordance with this Standard. The grantor shall reclassify the existing asset as a service concession asset for reporting purposes and disclose the reclassification in accordance with paragraph 27. (Emphasis added)</i></p> <p>Because in the circumstances described in paragraph 8(d), the grantor already should report the underlying infrastructure as an asset, we found the emphasized phrase in the citation above confusing. We believe one could infer from this phrase that the infrastructure asset previously reported by the grantor should be <i>derecognized</i>. We suggest that this phrase be deleted from the final standard or language similar to that in paragraph AG15 be incorporated into paragraph 12.</p> <ul style="list-style-type: none"> <li>• The above citation from paragraph 12 and other paragraphs in the ED refer to the</li> </ul>

#	Name	Comment - Recognition and Measurement of Service Concession Assets
		classification (or reclassification) of the infrastructure underlying a service concession arrangement as a “service concession asset.” We are unclear as to the benefit of such a classification separate from property, plant and equipment, or intangible assets, as applicable, particularly as these “service concession assets” are to be accounted for in accordance with IPSAS 17, <i>Property, Plant and Equipment</i> , or IPSAS 31, <i>Intangible Assets</i> , as appropriate. Although subject to a service concession arrangement, the underlying character of the infrastructure asset remains consistent with other property, plant and equipment or intangible assets. We believe that the disclosures proposed in the ED are sufficient to indicate the assets involved in service concession arrangements to users of financial statements without separate classification. Reporting the infrastructure asset based on its nature is consistent with the guidance in IPSAS 13, <i>Leases</i> , for lessors of operating leases.
33	KPMG	<p>We believe that the guidance in paragraph 15 of the ED should be amended as follows to address measurement of both new and existing assets subject to a service concession arrangement:</p> <p><i>The grantor shall initially measure the original a new service concession asset at its fair value. Existing service concession assets as described in paragraph 8(d) should continue to be measured based on the guidance in IPSAS 17.</i></p> <p>If the final standard retains the apparent requirement to remeasure existing service concession assets at fair value, then we believe that additional guidance is required on the presentation of the remeasurement gain or loss.</p>
33	KPMG	<p>We believe that the guidance at the end of paragraph 16 of the ED should be amended as follows to reflect more accurately the appropriate fair value of the service concession asset when payments from the grantor are separable and to be consistent with the guidance in AG24:</p> <p><i>Where the grantor compensates the operator for the service concession asset by making payments, and the asset and service portions of the payments by the grantor to the operator are separable, the fair value in paragraph 15 ( the asset is the present value of the asset portion of the payments; however, if the present value of the asset portion of the payments is greater than fair value, then the service concession asset initially is measured at fair value.</i></p>
33	KPMG	<p>We believe that the guidance in paragraph 17 of the ED should be amended as follows to address the measurement of assets subject to a service concession arrangement for which the grantor compensates the operator by means other than cash payments:</p> <p><i>Where the asset and service portions of payments by the grantor to the operator are not separable, or the operator is compensated by means other than cash payments, the fair value of the service concession asset is determined using estimation techniques.</i></p>
33	KPMG	<p>Paragraph AG26 of the ED notes that service concession arrangements for which the grantor compensates the operator by means other than cash payments (described in paragraph 14(b)) are non-monetary exchange transactions and refers to guidance on non-monetary transactions in IPSAS 17 and IPSAS 31. However, service concession arrangements with these circumstances are not necessarily non-monetary transactions because the operator may make cash payments to the grantor for the right to use the service concession asset. Further, the guidance in IPSAS 17 and</p>

#	Name	Comment - Recognition and Measurement of Service Concession Assets
		<p>IPSAS 31 on non-monetary transactions relates to the measurement of the involved assets, which would appear to be addressed specifically in the final standard for service concession assets. Accordingly, we suggest the deletion of paragraph AG26.</p> <p>We do believe, however, that commentary would be useful identifying the arrangements referred to in paragraph 14(b) as exchange transactions and explaining the nature of the components of the exchange. We suggest that this be provided immediately following paragraph 14 or as part of a new paragraph AG 26.</p>
33	KPMG	<p>Paragraph AG27 states that the forms of non-cash compensation from the grantor to the operator described in paragraph 14(b) of the ED are intended to compensate the operator both for the cost of the facility and for operating the facility during the term of the service concession arrangement. We believe, however, that in this case, the non-cash compensation provided by the grantor is only to compensate the operator for the provision of the service concession asset. The fees collected from third-party users of the asset (or from the government if they are paying on behalf of third-party users) are the operator's compensation for the operation of the asset. If the right to access the service concession asset was compensation for both the provision and the operation of the asset, it would appear that the performance obligation would exceed the value of the asset or there would be an imputed cost of service in future periods for the operation component. We also believe that the term "facility" used in this paragraph should be replaced with "service concession asset" to be consistent with the rest of the ED.</p>

## Definitions

#	Name	Comment - Definitions
2	ACAG	As discussed above, ACAG believes the performance obligation should be defined.
2	ACAG	<p>A service concession asset is defined in paragraph 3(c) as one recognised in accordance with paragraphs 10 or 11. However, paragraph 10 also includes an existing asset of the grantor which is <i>reclassified</i> as a service concession asset. Paragraph 3(c) should therefore read "...conditions for recognition or reclassification set out in...".</p>
12	Ernst & Young	2. ED 43.2 and 3 deal with the terminology used in the standard. It is not clear why these terms are not formally defined in the standard, since defining them may significantly reduce uncertainty in practice.
15	ASB (South Africa)	<p>Consistent with other IPSASs, we recommend that the heading should be amended to "definitions". The terms used within this section should be drafted as definitions, and any additional explanatory guidance could be included after the "definitions".</p> <p>The section dealing with definitions should be included after the "scope".</p>
23	Swiss PS FRAC	<p>The AG IPSAS understands the reluctance of the IPSAS Board to create differences to IFRIC 12. However, the following expressions that are considered important should be listed and defined in the section Terminology or Definitions. This especially because it cannot be estimated how long would have to be waited for corresponding definitions in IFRIC 12.</p> <ul style="list-style-type: none"> <li>- Public service: where is the border, what is understood under this expression?</li> <li>- Operator</li> <li>- Key expressions, such as constructing/developing, operating, maintaining,</li> </ul>

#	Name	Comment - Definitions
		<p>because they are useful in determining whether it is a service concession arrangement.</p> <ul style="list-style-type: none"> <li>- For the purpose of the service concession arrangement: what is understood by the purpose of the service concession? What does it include and what not (narrow or broad interpretation)?</li> <li>- Time perspective: in the Implementation Guidance a medium or long term period is posited. This requirement is lacking in the classification of a service concession arrangement in ED 43.</li> </ul>
26	AASB	<p>The AASB notes that there is no explicit definition of ‘service concession arrangement’ in the proposed Standard. However, the AASB considers that the description of typical service concession arrangements in paragraph 2, combined with the requirements in paragraph 7, will be sufficient to ensure that the appropriate arrangements are captured. For example, the references in paragraph 7 to the operator being obliged to provide the public services and to arrangements not involving the delivery of public services being outside the scope of the Standard will appropriately mean that arrangements that result only indirectly in the provision of public services would not be covered by the Standard.</p>
26	AASB	<p>Paragraph BC7 – the explanation for the lack of formal definitions seems weak: different nature of the Standard? A Standard is a Standard, whatever its provenance. Best to delete the first sentence and commence the paragraph simply by stating that although the Standard does not include formal definitions, the IPSASB has instead provided guidance on terminology, etc. In substance, some of the guidance amounts to definitions anyway.</p>

### Application Guidance to be Moved to Standard

#	Name	Comment - Application Guidance To Be Moved To Standard
10	UK Audit Commission	<p>We note that the proposed standard does not explicitly state that guarantees made by the grantor as part of the arrangement should be accounted for as financial liabilities in accordance with IPSAS 29 or IPSAS 19 but instead refers to such matters in paragraphs AG56 to AG59 of the Application Guidance. We believe that, for completeness, the recognition and measurement arrangements for guarantees should be referred to in the main body of the standard, with further detail included in the Application Guidance as appropriate.</p>
12	Ernst & Young	<p><b>Whole-of-life assets</b></p> <p>There is some uncertainty about the meaning of ED 43.11, which states that the Standard applies to an asset used in a service concession arrangement for its entire useful life (a whole-of-life-asset) if the condition in paragraph 10(a) is met” We presume the term “whole of life-asset” would be consistent with the concept of “economic life rather than a subjective determination of the useful life of the asset, and that the reference to useful life” is either incorrect or has a different intended meaning. It is our understanding that the second recognition criteria paragraph 10(b), (control of any residual interest in the asset) would not apply to a whole-of-life asset since the residual value of such an asset is likely to be insignificant, but this is not entirely clear from the current wording of the Exposure Draft.</p>
15	ASB (South Africa)	<p><b>Whole-of-life assets</b></p> <p>Paragraph 11 determines that only the condition in paragraph 10(a) applies to</p>



#	Name	Comment - Application Guidance To Be Moved To Standard
		<p>whole-of-life assets. Even though IFRIC 12 also explains “whole-of-life-assets” as assets that are used for its entire useful life, we question whether “useful life” should not refer to “economic life”. In our view, the “useful life” of a service concession asset should be based on the terms of the service concession arrangement, which may be different to other assets.</p> <p>As an alternative, a definition could be included for “whole-of-life assets” as part of the definition section of this proposed IPSAS.</p>
15	ASB (South Africa)	The second recognition requirement in paragraph 10(b) introduces the concept of “significant residual interest”. We recommend that the proposed IPSAS provides explanatory guidance on this concept as part of the text of the IPSAS, to assist in understanding and clarifying the concept. The guidance in AG9 could, for example, be useful for inclusion in the proposed IPSAS.
15	ASB (South Africa)	Even though guidance on the timing of the recognition of the service concession asset is included in AG20, we recommend that such guidance should be included in the text of the proposed IPSAS to explain black letter paragraph 15.
15	ASB (South Africa)	Even though guidance on the use of estimation techniques is included as part of the application guidance (AG25), we recommend that such guidance should be included in the text of the proposed IPSAS to explain the principle paragraph 17.
15	ASB (South Africa)	We are of the view that some of the guidance in AG5, AG6, AG 10 and AG 11 should be added to the text of the proposed IPSAS as it is useful in understanding and clarifying the principles in black letter paragraphs 10 and 11.
15	ASB (South Africa)	AG30 determines that the accounting for guarantees provided by the grantor is included in AG56 to AG58. We recommend that the principle for the accounting of guarantees and contingencies should rather be included as part of the text of the proposed IPSAS. The application guidance could then further clarify the principles in this regard.
15	ASB (South Africa)	AG32 requires the recognition of advance payments as prepayments. The proposed IPSAS should, as part of the text of the proposed Standard, explain the recognition principles for advance or pre-payments. Guidance should also be provided on how and when such advance or pre-payments should be reduced by the grantor.
24	Auditor General of Quebec	We agree with the proposed standards. However, the text of the exposure draft refers to several other IPSAS standards with the end result that it becomes hard to consult. Indeed, the user will constantly have to refer to another standard to make sure that the transactions are suitably recognized. We would like to see the inclusion directly in this standard of further clarifications regarding the recognition of transactions in order to avoid, wherever possible, different interpretations and, in so doing, to ensure a better uniformity in their recognition.
26	AASB	The AASB considers that the structure of the proposed Standard could be improved. At present, there is considerable detail and cross-referencing in the Application Guidance, which is an integral part of the Standard. The complicated cross-referencing interferes with reading and understanding the requirements, and consolidation of the text into the main part of the Standard could improve the flow. Some paragraphs such as paragraph AG19 merely duplicate the requirements in the main part of the Standard and should be deleted.

## Existing Assets

#	Name	Comment - Existing Assets
8	PSAB	<p>Paragraph 8 (c) indicates “Existing assets of the grantor which the operator upgrades for the purpose of the service concession arrangement. Only the cost of the upgrade is recognized as a service concession asset in accordance with paragraph 10, or paragraph 11 for a whole-of-life asset”, while paragraph 8 (d) indicates “Existing assets of the grantor to which the grantor gives the operator access for the purpose of the service concession arrangement and of which the grantor retains control, as specified in paragraph 10 (or paragraph 11 for a whole-of-life asset). Such assets are reclassified as service concession assets in accordance with paragraph 12.”</p> <p>In accordance with paragraph 8 (c), the cost of the upgrade is subject to the recognition and measurement requirements of ED 43 however paragraph 8 (c) is silent on the presentation of the remaining (pre-upgrade) asset balance. A suggestion is to include similar to the last sentence in paragraph 8 (d), clarification that the remaining asset balance is to be reclassified as a service concession asset in accordance with paragraph 12.</p>
13	ICAS	Page 10, paragraph 12. The material on how to account for an existing asset of the grantor which becomes a service concession asset is unclear.
15	ASB (South Africa)	<p>Paragraph 8 clarifies the scope of the proposed IPSAS. We are of the view that the circumstances in paragraph 8(d) are not dealt with appropriately in the proposed IPSAS. In this scenario, the grantor will not be required to recognise an asset, as the asset that is to be used in the service concession arrangement is already recognised by the grantor in its financial statements. Paragraph .12 requires that such an asset be re-classified as a service concession asset. As a result, the principles in paragraphs .10 to .18, and specifically paragraphs .13 and .15 that requires the recognition of the asset, will not be applied. Even though the grantor may have an obligation towards the operator in this type of service concession arrangement, the principles in paragraph .19 cannot be applied as the grantor did not recognise an asset (i.e. because the existing asset is already recognised by the grantor and paragraph .13 could not be applied). The application guidance in AG14 also does not provide clarification on the recognition of the corresponding obligation under these circumstances.</p> <p>We are of the view that guidance on the recognition of the obligation should be provided to the grantor in the circumstances described in paragraph 8(d). Currently the proposed IPSAS lacks such guidance.</p>
15	ASB (South Africa)	<p>The second part of paragraph 8(c) determines that only the cost of the upgrade should be recognised as a service concession asset. We are of the view that this explanation deals with recognition principles and should rather be included in the section dealing with recognition.</p> <p>In addition, it seems as if this paragraph requires that the existing asset and the cost towards the upgrade of that asset should be separated. If this is the expectation, we question the application of the principles in other IPSAS to the separated asset, for example testing the asset for impairment, determining the depreciation method, useful life and residual value, etc. We recommend that further explanatory guidance should be included to clarify the intention of the requirement in this paragraph.</p>
15	ASB (South Africa)	The proposed IPSAS requires the classification, or re-classification of existing assets, as service concession assets. We recommend that the guidance in the

#	Name	Comment - Existing Assets
		proposed IPSAS should be elaborated to explain when such assets should be reclassified to existing assets, for example to property, plant and equipment or intangible assets.
18	Wales Audit Office	Where an existing asset of the grantor is upgraded, the upgrade is recognised as a service concession asset at fair value (paragraph 8(c)). The original asset may be valued on a different basis. To ensure consistency of valuation for the existing and upgraded elements, we consider that the whole asset should be revalued and disclosed as a service concession asset.
18	Wales Audit Office	<p>Paragraph 12 refers to the reclassification of an existing asset of the grantor as a service concession asset. The paragraph states:</p> <p><i>“Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), the grantor shall not recognize the asset as a service concession asset in accordance with this Standard. The grantor shall reclassify the existing asset as a service concession asset for reporting purposes and disclose the reclassification in accordance with paragraph 27. The reclassified service concession asset shall continue to be accounted for in accordance with IPSAS 17, —Property, Plant and Equipment or IPSAS 31, —Intangible Assets, as appropriate.”</i></p> <p>The phrasing of the requirement appears to be overcomplicated. The accounting treatment for all assets recognised as service concession assets is the same. That is, they are accounted for under IPSAS 17 or IPSAS 31. We would therefore suggest the following simplified wording for paragraph 12:</p> <p><i>“Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset for reporting purposes and disclose the reclassification in accordance with paragraph 27. The reclassified service concession asset shall continue to be accounted for in accordance with IPSAS 17, (Property, Plant and Equipment) or IPSAS 31 (Intangible Assets), as appropriate.”</i></p>
22	FACPE	<p>Paragraph Comments</p> <p>Para 8. It is considered that “the existing assets of the grantor”, referred to in this paragraph, should be in the grantor's patrimony without any limitation.</p> <p>Para 12. Similar considerations to those mentioned in paragraph 8: the grantor's assets should never be part of the arrangement's asset and continue being reclassified as “Property, Plant and Equipment”.</p>
24	Auditor General of Quebec	<p><i>Existing assets of the grantor</i></p> <p>Under paragraph 8. (d), this standard applies to the existing assets of the grantor which are put at the disposal of the operator. According to paragraph 12., such an asset is reclassified as a "service concession asset". However, the standard provides no other guidelines regarding the recognition of arrangements that concern existing assets.</p> <p>Is making a reclassification for the purposes of disclosure on the balance sheet the only measure to be taken? Must assets be posted at their fair value as in the case of other types of assets used in these arrangements? Must a liability be recognized under these circumstances and, if so, in what manner? The standard should provide</p>

#	Name	Comment - Existing Assets
		guidelines in this respect and should include an example of the recommended treatment or clearly stipulate that for this type of arrangement only a reclassification and the disclosure of information are necessary.
24	Auditor General of Quebec	<p><i>Improvements to an existing asset of the grantor</i></p> <p>The exposure draft proposes that only the cost of the improvements to an existing asset be recognized as a "service concession asset". That means that the same asset will be divided into two components for which the accounting treatment will differ. Improvements would be recorded at their fair value whereas the current component would be recorded at its historical cost. In our opinion, it would be preferable to use the same basis of measurement and to entirely record the asset as a "service concession asset" at its fair value.</p>

### Residual Interest

#	Name	Comment - Residual Interest
1	HoTARAC	<p>The ED notes that for the purpose of Paragraph 10(b), "the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset and give the grantor a continuing right of use throughout the period of the arrangement" (Paragraph AG9).</p> <p>In other words, a grantor will not control a significant residual interest unless it also has a continuing right of use throughout the concession period.</p> <p>HoTARAC considers that a fundamental feature of service concession arrangements is that they require the operator to use the service concession property to provide services to the public. It is hard to see how a grantor has a continuing right of use throughout the concession period if the operator has use of the property under a binding arrangement with the grantor. Instead of a right of use, the grantor may have a right to receive the service concession property at the end of the concession period.</p> <p>HoTARAC suggests that this be explained in the resulting Standard.</p>

### Future Economic Benefits

#	Name	Comment - Future Economic Benefits
1	HoTARAC	<p>The ED's Basis for Conclusions, in discussing the rationale for adopting a control-based approach, notes that "the primary purpose of a service concession asset is to provide service potential on behalf of the public sector entity, and not to provide economic benefits such as revenue generated by these assets from user fees" (Paragraph BC11).</p> <p>While HoTARAC acknowledges the importance of the concept of control in relation to asset recognition, it does not necessarily agree that service potential, rather than economic benefit, is the primary reason for undertaking service concession arrangements. Most service concession arrangements would not proceed without the assurance of a flow of future economic benefits. This is typically how service concession property is funded.</p> <p>A control model based solely on a consideration of service potential without having regard to economic benefits may produce inappropriate outcomes. In many service</p>

#	Name	Comment - Future Economic Benefits
		<p>concession arrangements, the operator has economic control, is exposed to most of the economic risks, and enjoys the majority of the economic benefits. There are several Australian cases of the grantor refraining from stepping in when the operator ran into financial difficulty and had to sell its interests in the arrangement. Arguably, these examples suggest operator control and the operator's exposure to the risks and rewards inherent in the service concession property.</p> <p>Further, HoTARAC considers that both future economic benefits and service potential are relevant. The definition of assets encompasses both. H0TARAC therefore recommends that the conceptual rationale for preferring service potential over economic benefits be reconsidered.</p>
26	AASB	<p>Paragraph BC11 – the correlation of risks and rewards with economic benefits and of control with service potential is too stark. In Australian Accounting Standards, economic benefits and service potential are inseparable aspects of assets. A different justification for choosing the control basis should be identified.</p>

### Recognition and Measurement of Liabilities

#	Name	Comment - Recognition And Measurement Of Liabilities
7	ESV	<p>The compensation from service concession arrangement contracts are often tied to indexes, for example changes in interest rates or traffic intensity. It may therefore be difficult to make reliable measurements of the liabilities. Even minimal changes in the estimations may affect the liability significantly as the contracts often are valid for 20-30 years. It is therefore extremely important to disclose information that explains the content of the arrangement.</p>
9	NZ Treasury	<ul style="list-style-type: none"> <li>The treatment in AG20 does not mirror the treatment in IFRIC 12, the basis on which the Board agreed to prepare this standard. Under IFRIC 12 the operator recognises a growing receivable as the service concession asset is constructed. Under AG20 the "mirror" payable will not be recognised until the asset is placed into use. A further consequence is that the capital work-in-progress is not recognised by any party while the asset is being constructed.</li> <li>The deferral of recognition of the liability will inappropriately incentivise these types of transactions and provide financial engineering opportunities for Governments to report lower levels of debt in comparison to more direct financing transactions that have similar economic or present-value impact. The financial implications can be significant as these arrangements are for large amounts and often involve construction period covering a number of years.</li> </ul>
15	ASB (South Africa)	<p>We recommend that more explanatory guidance be included on the recognition and measurement of the financial liability and the performance obligation to be recognised in accordance with black letter paragraphs 21 and .22. The guidance in AG31, AG38, AG40 and AG41 could, for example, be useful for inclusion in the proposed IPSAS.</p> <p>We also recommend that guidance should be provided to explain how the contra entry should be recognised in the statement of financial performance when the performance obligation is reduced, as such guidance is not included in IPSAS 19.</p> <p>The scenario dealt with in paragraph .23 is not included as an option in paragraph 14. We recommend that the paragraph should be elaborated to explain how:</p> <ul style="list-style-type: none"> <li>the performance obligation, that was recognised as a result of the receipt of the</li> </ul>

#	Name	Comment - Recognition And Measurement Of Liabilities
		<p>service concession asset and as a result of the right to receive payments, should be reduced by the grantor; and</p> <ul style="list-style-type: none"> <li>the contra entry should be recognised in the statement of financial performance under each of these circumstances.</li> </ul> <p>Examples of these scenarios should also be included as part of the illustrative examples for further clarification.</p>
31	GASB	<p>We do not agree with the premise in paragraph 19 of the ED that the grantor shall recognize a liability at the same amount that it recognizes a new service concession asset. As noted in paragraph 48 of the GASB Revised Exposure Draft, “The amount of consideration is not an obligation that is expected to be settled through repayment, and the Board is concerned that including the entirety of the amount as a liability may confuse readers who are trying to assess the magnitude of claims against the government’s financial resources. While a transferor has an obligation to provide an operator with access to the facility, the <i>value</i> of the transferor’s obligation to allow access does not vary according to the amount of consideration received. Therefore, the fair value of a contributed asset or the present value of consideration received would not properly measure this obligation. The Board is not aware of a reasonable, practical proxy that would reliably measure the obligation to <i>allow access</i>. To the extent that the agreement does not impose upon the transferor an obligation to sacrifice financial resources, the Board believes that a transferor’s receipt of an up-front payment or the present value of installment payments is more faithfully represented as an acquisition of net assets applicable to a future reporting period.”</p>
32	OCG BC (Canada)	<p>The exposure draft in paragraph 20 requires a liability to be recognized in the same amount as the service concession asset. The Province of BC agrees with recognizing a liability in the same amount of the service concession asset unless the service concession asset is being paid for by a combination of up-front payments and payments over the term of the concession agreement. The province suggests that the wording be changed to so that up-front payments are not recognized as part of the service concession liability as follows:</p> <p>The liability recognized in accordance with paragraph 19 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraphs 15-17 unless the granter makes payments during the construction period in which case, the liability shall be initially measured at the same amount as the service concession asset less payment made during the construction period.</p>
33	KPMG	<p>We do agree that the liability reported by the grantor initially should be measured at the same amount as the value reported for the service concession asset.</p> <p>We believe the guidance related to the classification of the liability reported by the grantor when it recognizes a new service concession asset as a financial liability as considered in IPSAS 28, <i>Financial Instruments: Presentation</i>, IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i>, and IPSAS 30, <i>Financial Instruments: Disclosures</i>, or a performance obligation requires additional clarification.</p> <p>In the ED, the decisive factor in the classification of the grantor’s liability for compensation due to the operator for the service concession asset is the identity of the party making cash payments to the operator. For example, paragraph 21 of the ED states that when the grantor compensates the operator for the service concession asset by making payments, the liability shall be classified as a financial liability; paragraph 22 of the ED states that when the operator receives the right to collect fees from third-party users of the service concession asset, the grantor’s liability is</p>

#	Name	Comment - Recognition And Measurement Of Liabilities
		<p>classified as a performance obligation. This approach is similar to that proposed by the IFRIC to determine the nature of the asset to be recognized by the operator in draft interpretations that preceded IFRIC 12. However, the IFRIC ultimately rejected this approach in its redeliberations as respondents argued that this approach “would result in an accounting treatment that did not reflect the economic substance of the arrangement.” (IFRIC 12, BC 38)</p> <p>We believe that a more appropriate basis for classification of the grantor’s liability is the bearing of demand risk. This basis results in reporting that is more consistent with the definition of a financial liability in IPSAS 28. A grantor only has a contractual obligation to deliver cash or another financial asset to the operator for the acquisition of the service concession asset if the payments to be made to the operator are contractually predetermined or if the grantor contractually guarantees to pay the shortfall, if any, between amounts received from third-party users and contractually determinable minimum amounts. In both of these cases, demand risk lies with the grantor, even though some of the actual payments to the operator may come from third-party users.</p> <p>In the case in which the operator bears demand risk, meaning its compensation is determined based on the volume of usage of the service concession asset, the grantor’s liability to the operator is solely to provide exclusive access to the service concession asset so that the operator can earn revenue from the service provided to third parties. Even in the case of a shadow toll in which the grantor will pay the operator for the usage of the service concession asset by third parties, such payment is compensation in exchange for the usage of the service concession asset, not for the acquisition of the service concession asset. Further, the grantor is obligated to make payments to the operator only to the extent of the usage of the service concession asset.</p> <p>We also believe that basing the classification of the grantor’s liability to the operator for the acquisition of the service concession asset on demand risk better mirrors the final guidance on classification of the operator’s asset as provided in IFRIC 12. Paragraphs 16 and 17 of IFRIC 12 provide the following guidance regarding classification of the operator’s asset as a financial asset or intangible asset:</p> <p>16. <i>The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.</i></p> <p>17. <i>The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.</i></p> <p>This is further described in paragraph BC4O of IFRIC 12 in terms of the operator’s cash flows being guaranteed by the grantor or being conditional on usage of the service concession asset:</p>

#	Name	Comment - Recognition And Measurement Of Liabilities
		<p><i>The IFRIC noted that the operator's cash flows are guaranteed when (a) the grantor agrees to pay the operator specified or determinable amounts whether or not the public service is used (sometimes known as take-or-pay arrangements) or (b) the grantor grants a right to the operator to charge users of the public service and the grantor guarantees the operator's cash flows by way of a shortfall guarantee described in paragraph 16. The operator's cash flows are conditional on usage when it has no such guarantee but must obtain its revenue either directly from users of the public service or from the grantor in proportion to public usage of the service (road tolls or shadow tolls for example).</i></p> <p>Paragraph 23 of the ED further discusses the classification of the grantor's liability for providing the operator the right to use the service concession asset as consideration for the operator providing the service concession asset and/or the operator making payments to the grantor. We do not believe paragraph 23 needs to address the grantor's liability for the operator's provision of the service concession asset as that is the subject of paragraphs 19 through 22 of the ED. Further, we believe that any payments made by the operator to the grantor for the right to use the service concession asset impacts the measurement of the grantor's liability to the operator, not its classification. Therefore, we believe that guidance on such payments from the operator to the grantor should be incorporated into the guidance in paragraph 19 of the ED.</p>
33	KPMG	<p>Paragraph AG38 of the ED states the following in the context of recording the satisfaction of the grantor's performance obligation to the operator when the operator's compensation for the provision of the service concession asset is the right to collect revenue from third- party users of the asset:</p> <p><i>If the operator 's collection of third-party revenues significantly reduces or eliminates the grantor 's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g. the term over which the grantor 's future predetermined series of payments are reduced or eliminated).</i></p> <p>Because the grantor's liability in this case is the obligation to provide the operator access to the property, it is unclear how such liability would be reduced over any period shorter than the life of the arrangement. We acknowledge that depending on the nature of the asset and the length of the arrangement, the most appropriate reduction of the liability may take a pattern other than a straight-line basis. However, we believe that a portion of the grantor's liability should exist over the entire period during which the operator has access to the service concession asset We also believe that the guidance in the citation above is inconsistent with the guidance on revenue recognition in paragraphs AG42 through AG5 1 of the ED which states that revenue should be recognized and the grantor's liability reduced as revenue is earned, which is presumably as access to the service concession asset is provided to the operator, resulting in straight-line recognition in most cases.</p>

#### Finance Charge/Discount Rate

#	Name	Comment - Finance Charge/Discount Rate
3	UK ASB	<p>We disagree with paragraph AG 33 of the standard which requires the finance charge to be determined based on the operator's cost of capital specific to the service concession asset (if it is practicable to determine it). We do not consider this is relevant and would suggest the grantor's borrowing rate provides a more appropriate</p>



#	Name	Comment - Finance Charge/Discount Rate
		interest rate. The standard should, in our view, explain the rationale for the selection of the required rate.
27	Contrôleur des finances du Québec (Canada)	<p>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>The associated costs for the government to carry out its projects, whether under the traditional or the "service concession arrangements" mode, the same rate should be used to calculate the theoretical interest charge, i.e. the financing rate the government assumes on long-term borrowings. In fact, the "service concession arrangements" 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 exposure draft does not specify the discount rate that should be applied to determine the value of the asset to record in governments' books. In this regard, we are of the view that the discount rate 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.</p>
29	Treasury Board of Canada Secretariat	<p>The exposure draft requires that, when the grantor compensates the operator by a predetermined series of payments, the portion of the payments that pertain to the asset are recognized as a liability, and the remainder as a finance charge and a service charge. The finance charge is to be determined using the operator's cost of capital, if practicable.</p> <p>When the payments are separable between the asset and service portions, paragraph AG24 states that the cash price equivalent for the asset is equal to the present value of the service concession asset portion of the predetermined series of payments, unless the fair value is lower. Although not specifically stated, we assume that the discount rate used to calculate this present value would be the same as that applied to determine the finance charge, as would be the case in lease accounting.</p> <p>The International Public Sector Accounting Standards Board's (IPSASB) consultation paper on Service Concession Arrangements, paragraph 122, indicates that the operator's cost of capital reflects the transfer of financing risk to the operator, and should be used to determine the finance charge because the grantor is subjecting itself to the operator's cost of raising capital.</p> <p>However, we believe that this does not reflect the economic substance of the transaction from the grantor's perspective and would produce a result that is inconsistent with a conventional purchase or lease of the asset. In addition, when the payments are separable and the operator's cost of capital is higher than the interest rate implicit in the arrangement and/or the grantor's incremental borrowing rate, using the operator's cost of capital as the discount rate would result in an initial</p>

#	Name	Comment - Finance Charge/Discount Rate
		<p>measurement of the service concession asset that is understated.</p> <p>When it is not practicable to determine the operator's cost of capital, the application guidance (paragraph AG34) permits a choice between: the interest rate implicit in the arrangement specific to the asset, the grantor's incremental borrowing rate or another rate appropriate to the terms and conditions of the arrangement. Each of these is likely to give different results.</p> <p>We recommend that the discount rate proposed is consistent with that used in applying IPSAS 13, <i>Leases</i>, which requires the use of the rate implicit in the arrangement, if practicable to determine, or, if not, the grantor's incremental cost of borrowing. In addition, we suggest that IPSASB clarifies that the discount rate to be applied to determine the present value of separable payments in the initial measurement of the asset is the same as that used to determine the finance charge.</p>
32	OCG BC (Canada)	<p>The Province of BC agrees with the proposed guidance requiring the use of the effective interest rate with respect to the service concession liability's finance expense. The province suggests that the service concession accounting standard should include application guidance and/or examples on calculating the effective interest rate and the periodic amounts of finance expense. The province has used the information contained in the concessionaire's model as the basis of determining the amount of the finance expense and the effective interest rate. The province, using its experience with implementing service concession arrangements, would be willing to work with IPSAS staff in preparing both application guidance and examples of determining the effective interest rate and the application of the effective interest rate to the periodic accounting of the arrangement's finance expense.</p>
33	KPMG	<p>Paragraph AG33 of the ED states that when allocating predetermined payments made by the grantor to the operator as part of the service concession arrangement between a reduction in the reported liability to the operator, the finance charge on such liability and the expense associated with the service portion of the arrangement, the operator's cost of capital specific to the service concession arrangement should be used to determine the finance charge. We believe that the rate used to determine the finance charge should be the rate implicit in the arrangement specific to the service concession asset, if determinable, or instead, the grantor's incremental borrowing rate. We believe that using either of these rates is more reflective of the economic substance of the finance charge implicit in the payment arrangement, which is that the operator has provided services or goods to the grantor on deferred payment terms, and, as a practical matter, either rate is likely to be more readily determinable than the operator's cost of capital.</p>

## Depreciation

#	Name	Comment - Depreciation
3	UK ASB	<p>The Illustrative Examples charge depreciation on the service concession asset on a straight-line basis. This will not always be appropriate and it would be helpful to refer to alternative depreciation methods. This would emphasise that a method should be selected that reflects the pattern of the consumption of economic benefits or service potential, as required by IPSAS 17 <i>'Property, Plant and Equipment'</i>.</p>
30	MAZARS	<p>Even, if the ED states that the SCA should be accounted according to IPSAS 17 "Property, Plant and Equipment" or IPSAS 31 "Intangible asset" as appropriate, we</p>

#	Name	Comment - Depreciation
		believe the ED could provide more guidance on how the SCA should be amortized. Indeed, according to the illustrative examples developed in ED 43, we understand that even if the upkeeping and maintenance of the concession asset are in charge of the operator and financed by the operator, the grantor accounts for different components regarding the concession asset. We believe the Grantor could account for the concession asset as a whole without accounting its components if the upkeeping and maintenance of the asset are financed by and in charge of the operator. Thus, the asset as a whole would be depreciated in the grantor's accounts.

## Impairment

#	Name	Comment - Impairment
15	ASB (South Africa)	In addition, we propose the inclusion of references to IPSAS 21 <i>Impairment of Non-cash-generating Assets</i> and IPSAS 26 <i>Impairment of Cash-generating Assets</i> in paragraph IN2.
15	ASB (South Africa)	The reference to IPSAS 21 <i>Impairment of Non-cash-generating Assets</i> and IPSAS 26 <i>Impairment of Cash-generating Assets</i> should be added to paragraph 18.
15	ASB (South Africa)	Furthermore, if reference is made to depreciation of service concession assets, we recommend that reference should also be made to the impairment of such an asset. An additional paragraph could be included after AG55 as a reference to impairment in IPSAS 21 and IPSAS 26.

## Recognition and Measurement of Revenues

#	Name	Comment - Recognition and Measurement of Revenues
15	ASB (South Africa)	We recommend that paragraph 24 should be elaborated to explain under what circumstances the grantor will receive revenue, and how such revenue should be accounted for before the reference to the applicable IPSAS is included. The guidance in AG42 to AG31, AG38, AG40 and AG41 could for example, be useful for inclusion in the proposed IPSAS.
32	OCG BC (Canada)	The exposure draft in paragraph 22 refers to the operator being compensated by being granted the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. In paragraph 24, the exposure draft states that grantor shall account for revenue from a service concession arrangement in accordance with IPSAS 9, <i>Revenue from Exchange Transactions</i> . The exposure draft fails to provide any guidance on whether the revenue from the fees collected from users of the service concession asset or the revenue received from the grant of another revenue generating asset are the revenue of the grantor or the operator. The IPSAS on service concession agreements should provide guidance stating when the grantor controls the amount of revenue that the operator can charge users, then the fees collected from users are the revenue of the grantor, and that the full amount of fees collected should be accounted for according to IPSAS 9. Likewise, when the grantor grants the operator another revenue-generating asset to compensate the operator for the service concession arrangement and the grantor controls the fees that the operator collects from the revenue-generating asset, that the full amount of the fees collected should be accounted for by the grantor according to IPSAS 9. The IPSAS on service concession

#	Name	Comment - Recognition and Measurement of Revenues
		arrangements should also make clear that when fees are controlled by the grantor, that the full and entire amount of the fees are the revenue of the grantor, and that the amount of the fees retained by the operator are an expense of the grantor.
33	KPMG	<p>We believe that an explicit statement regarding the approach to recognizing revenue in cases in which the grantor reports a performance obligation as part of the service concession arrangement would clarify the guidance in the Application Guidance section for revenue recognition. Such a statement should indicate that when the grantor recognizes a performance obligation, it should recognize revenue as the performance obligation is discharged, normally on a straight-line basis, over the life of the arrangement. This explicit guidance, in lieu of solely referring to IPSAS 9, would clarify the Application Guidance section related to revenue recognition and place the remainder of the paragraphs in the section in better context.</p> <p>It is unclear what “revenue” is being referred to in the first sentence of paragraph AG48. We do not believe that it should refer to the grantor’s revenue under the circumstances described because the grantor would not earn revenue as the operator provides services to third-party users. However, the reference to the reduction of the grantor’s liability implies that the revenue being referred to is that of the grantor.</p> <p>We do not agree with the guidance provided in paragraph AG50. We do not believe that the reduction in future predetermined payments to be made by the grantor is non-cash compensation for the grantor. The compensation for the grantor in this case is the value of the service concession asset provided by the operator in exchange for the provision of the right to access the asset provided to the operator. We also do not agree with the guidance in paragraph AG51. While the rent being paid by the operator is less than market value, the rental transaction is a component of the broader service concession arrangement which is an exchange transaction. Therefore, we do not believe the guidance in IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> should be applied.</p> <p>We believe that the requirements in the Application Guidance section of the ED related to revenue recognition go beyond a routine application of IPSAS 9, <i>Revenue from Exchange Transactions</i>. The guidance in this section addresses conventions that are unique to service concession arrangements, such as revenue-sharing arrangements. We believe that certain salient aspects of revenue recognition addressed solely in the Application Guidance section should be moved forward to the body of the final IPSAS.</p>

### Recognition And Measurement Of Expenses

#	Name	Comment - Recognition And Measurement Of Expenses
15	ASB (South Africa)	<p>This section should be elaborated with guidance on the calculation and recognition of the finance charge, as included in AG33 to AG35 and AG52. We recommend that the guidance as currently included in the application guidance should rather be included as part of the text of the proposed IPSAS.</p> <p>Similarly, principles for the recognition of the service portion, as included in AG53, should also be included as part of the text of the proposed IPSAS.</p>
15	ASB (South Africa)	<p>Paragraph 16 makes reference to the “service portion of the payment”. Prior to this reference, no explanation or guidance is provided on what a service portion entails and how it should be calculated. We therefore recommend that explanatory guidance should be included in the proposed IPSAS prior to, or as part of this paragraph. The</p>

#	Name	Comment - Recognition And Measurement Of Expenses
		guidance included in AG25 could, for example, be useful for inclusion in the proposed IPSAS.

### Presentation and Disclosure

#	Name	Comment - Presentation And Disclosure
4	Prof. Hodges	I support the proposals for the recognition of revenues and expenses in paragraphs 24 and 25. The allocation of SCA payments between capital repayment, service costs and finance charges is critical to the application of this proposed standard. The experience in the UK in developing accounting for PFI was that many argued that such allocation of payments was infeasible or inappropriate <sup>1</sup> . I do not support that view but it may indicate that a number of different approaches may be adopted in the allocation of expenses so that details of the approach taken would be a useful addition to the disclosure requirements in paragraph 27.
7	ESV	The need of information in the public sector usually differs from the need of information in the private sector. ESV is normally of the opinion that many IPSASs – when it comes to demand for presentation and particularly disclosure – are too demanding compared to information needs to be disclosed in the Swedish central government. PPP-contracts however are often extensive and difficult to interpret. An extensive presentation and disclosure of service concession arrangements is therefore of utmost importance when it comes to understand the implications of the arrangements. In particular there are often obligations that are difficult to interpret and that extend over decades. We therefore strongly support that the entity shall disclose information in respect of service concession arrangements according to paragraph 27.
15	ASB (South Africa)	<p>Paragraph 26 should be elaborated to clarify whether a separate line item should be included for such assets on the face of the statement of financial position. If service concession assets are to be disclosed as such, consequential amendments should be included to IPSAS 1 <i>Presentation of Financial Statements</i>.</p> <p>A paragraph should be included to refer grantors to the disclosure requirements in other IPSAS, for example IPSAS 9 <i>Revenue from Exchange Transactions</i>, IPSAS 17 <i>Property, Plant and Equipment</i>, IPSAS 31 <i>Intangible Assets</i>, etc.</p> <p>Additional disclosure requirements that could be required include:</p> <ul style="list-style-type: none"> <li>• Disclosure of the risks that the grantor are exposed to as a result of the service concession arrangement, for example construction risk;</li> <li>• Finance costs relating to the service concession arrangement; and</li> <li>• Circumstances or events that will result in step-in arrangements.</li> </ul>
23	Swiss PS FRAC	The SRS-CSPCP considers the disclosure requirements of Clause 27 (pages 12 and 13) to be extensive, but useful. There was a discussion as to whether certain items should be omitted, but there was no majority for this. As service concession arrangements are complex constructs and significant infrastructure assets, this should be disclosed to the addressees with comprehensive reporting.

<sup>1</sup> For example: see Hodges, R. and Mellett, H. (2002), 'Investigating Standard Setting: Accounting for the United Kingdom's Private Finance Initiative', *Accounting Forum*, vol. 26, no. 2 pp. 126-151.

#	Name	Comment - Presentation And Disclosure
26	AASB	<p>While supporting the disclosure requirements proposed in the ED, the AASB thinks that it would also be useful to require separate (rather than combined) disclosure of:</p> <ul style="list-style-type: none"> <li>(a) service concession assets recognised during the period; and</li> <li>(b) existing assets of the grantor that have been reclassified as service concession assets during the period.</li> </ul> <p>As presently drafted, paragraph 27(c)(iii) of the ED does not require separate disclosure of these amounts, even though paragraph 12 appears to suggest that that is intended.</p>
32	OCG BC (Canada)	<p>The Province of BC disagrees with the disclosure provisions in paragraphs 26-28 of the exposure draft. The disclosure provisions of paragraph 26-28 will result in very detailed disclosures about each service concession arrangement that an entity enters into and the resulting detail will detract from the usefulness of the financial statement notes. The province suggests that IPSAS consider simplifying the service concession agreement disclosure requirements so that they are consistent with the Canadian public sector section 3390, which provides guidance on the disclosure of contractual obligations. This section requires the following disclosure about all contractual obligations, whether or not they are part of a service concession arrangement:</p> <p>Information about a governments contractual obligations that are significant in relation to the current financial position or future operations should be disclosed in notes or schedules to the financial statements and should include descriptions of their nature and extent and the timing of the related expenditures.</p> <p>Contractual obligations that would be disclosed include, but are not limited to, the following types:</p> <ul style="list-style-type: none"> <li>(a) contractual obligations that involve a high degree of speculative risk;</li> <li>(b) contractual obligations to make expenditures that are abnormal in relation to the financial position or usual business operations; and</li> <li>(c) contractual obligations that will govern the level of a certain type of expenditure for a considerable period into the future.</li> </ul>

#### Transitional Provisions/Effective Date

#	Name	Comment - Transitional Provisions/Effective Date
5	Prof. Hodges	<p>I do not support the transition arrangements in paragraph 30. If I understand this correctly, the proposals would allow those organisations which have not capitalised SCA assets previously to continue to do so for existing schemes. In the UK there are PFI schemes that run for 30 or more years; so the implication of paragraph 30 is that such organisations may continue to use inadequate accounting for many years ahead. The default position in paragraph 30 should be for public sector organisations to apply the new standard retrospectively from the effective date. Prospective application should only be allowed in very limited circumstances (e.g. of extreme cost or impracticality) and, in such circumstances, there should be detailed disclosures of those schemes which are not being accounted for retrospectively under the standard.</p>
8	PSAB	<p>Paragraph 29 indicates “An entity that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, —Accounting Policies, Changes in Accounting Estimates and Errors.”,</p>

#	Name	Comment - Transitional Provisions/Effective Date
		<p>while paragraph 30 indicates “<i>An entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting shall apply this Standard prospectively. However, retrospective application is permitted.</i>”</p> <p>As indicated in the Basis of Conclusion, the general requirement of IPSAS 3 is that changes be accounted for retrospectively, except to the extent that retrospective application would be impracticable.</p> <p>It is unclear why the general requirements in IPSAS 3 are not appropriate for an entity that has not previously recognized service concession arrangements in adopting ED 43. Paragraph 30 appears also to be inconsistent with BC 20 to BC 22 from the Basis of Conclusion. It is suggested that paragraphs 29 and 30 be combined and the general requirements in IPSAS 3 be applied in adopting ED 43.</p>
13	ICAS	<p>The effective date of the proposed standard has still to be announced. We believe that entities which are required to, or choose to, restate their prior year comparatives would probably need at least two years from the date of issue to implement the proposed standard. Also on first-time adoption of the standard, there could, in some jurisdictions, be a mismatch between public sector entities’ funding arrangements and their annual accounts. Each jurisdiction in this position will need sufficient time to implement its own arrangements to facilitate the adoption of the standard by its public sector entities.</p>
13	ICAS	<p>Page 13, paragraphs 29 and 30. While it seems contrary to good practice to permit entities to apply standards prospectively, we accept this approach if it encourages the adoption of IPSASs. However, with regard to this standard specifically, it seems relatively harsh to permit an entity which has not taken steps to bring service concession arrangements on balance sheet to avoid restating its accounts while requiring an entity which has done so to restate its accounts, if necessary to comply with IPSAS 3 “Accounting policies, changes in accounting estimates and errors”.</p>
15	ASB (South Africa)	<p>Consistent with other IPSASs, we recommend that the heading should be amended to “transitional provisions”.</p> <p>To ensure comparability of financial results, we recommend that the transitional provisions should be applied retrospectively in both scenarios, i.e. where entities have previously recognised service concession assets, and where entities have not previously recognised service concession assets. If it is impracticable for entities to apply the principles in the proposed IPSAS retrospectively, they could still apply the requirements in IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> under such circumstances.</p>
18	Wales Audit Office	<p>Paragraph 30 notes that where an entity has not previously recognised service concession assets and uses the accruals method of accounting, the standard must be applied prospectively. “However, retrospective application is permitted.” Paragraph 29 states that where the assets have been previously recognised, retrospective application is required. Therefore, if previously treated as off-balance sheet, full restatement to the start of the contract would not be required.</p> <p>Further clarification of this point would be useful to ensure that the requirements of the standard are clearly understood.</p>
26	AASB	<p>ED 43 proposes prospective application when an entity has not previously recognised service concession arrangements. However, the AASB recommends retrospective application of the Standard when first applied by any entity, not just</p>



#	Name	Comment - Transitional Provisions/Effective Date
		<p>those that have previously recognised service concession arrangements. Such an approach would also be consistent with the transitional requirements in IFRIC Interpretation 12.</p> <p>Allowing prospective application by some entities would permit the continued non-recognition of potentially significant service concession assets for many years into the future, and defer the achievement of comparability between entities in respect of the financial reporting of service concession arrangements.</p>
33	KPMG	<p>We believe that providing different transition guidance regarding retroactive application of the standard for governments that previously have recognized service concession assets and related liabilities, revenues, and expenses and those that have not creates unnecessary inconsistency. The impact of this inconsistency on users of the financial statements is exacerbated by the fact that these service concession arrangements often involve significant infrastructure assets, both from a financial reporting and service delivery perspective, as well as significant cash payments between the grantor and the operator. We believe that retroactive application of the final standard should be required for all entities following the accrual basis of accounting. Should there be practical concerns as to determining the value of the service concession asset or other related assets or liabilities, guidance regarding the use of estimated values could be provided, similar to the transition relief included in IFRIC 12.</p>

#### No Guidance for GBEs

#	Name	Comment - No Guidance For GBEs
1	HoTARAC	<p>The proposals in the ED would not apply to Government Business Enterprises (Paragraph 5). The ED's Basis for Conclusions notes that the operator may be a GBE, that IPSASs are not designed to apply to GBEs and that International Financial Reporting Standards apply to GBE5 (Paragraph BC 6).</p> <p>However, there is no international guidance for a service concession grantor that is a GBE. Such entities are scoped out of IFRIC 12, which only applies to operators, and scoped out of the ED which would only apply to public sector entities that are not GBEs.</p> <p>HoTARAC acknowledges that IPSASs are not normally intended to apply to GBE5. However, H0TARAC encourages the Board to consider making an exception in this case and extend the Standard resulting from the ED to GBEs that are service concession grantors.</p>
4	Joint Accounting Bodies (Aus)	<p>We note that the accounting for service concessions where a GBE is the grantor will remain unclear, since GBEs are rightly never within the scope of IPSAS and the IASB is yet to address the accounting for grantors. We encourage the IPSASB to work together with the IASB to address this anomaly.</p>
26	AASB	<p>As per paragraph 5 of the ED, the proposed Standard would apply to all public sector entities, other than Government Business Enterprises (GBEs). Although GBEs could be grantors in service concession arrangements, the AASB does not support extending the scope of the proposed Standard, given the IPSASB's general exclusion of GBEs from the scope of its Standards.</p> <p>The present scope of the proposed Standard would exclude both GBEs and any private sector grantors. Such grantors would be likely to look to the Standard by</p>



#	Name	Comment - No Guidance For GBEs
		way of analogy under the requirements of international or national Standards corresponding to IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .

### Relationship to IPSAS 13

#	Name	Comment - Relationship To IPSAS 13
9	NZ Treasury	<p>However, we note that this is not the approach taken in the current leasing standards, although this is likely to be addressed by the IASB in their current project on leasing. We would therefore urge IPSASB to give priority attention to the IASB development of its leasing standard, with a view to quick adoption of any new standard, if it reduces the inconsistency of approaches, both between service concession and leasing arrangements, but also so that new gaps do not open up between lessor and lessee accounting when one of those parties is in the public sector.</p> <p>In the interim, we suggest that a consequential amendment is needed to IPSAS 13 <i>Leases</i> to provide a scope exclusion for arrangements covered by this standard in the same way that IFRIC 4 specifically excludes service concession arrangements within the scope of IFRIC 12.</p>

### Other

#	Name	Comment – Other
17	Dr. Joseph Maresca	<p>Increasingly, offshore drilling operations for valuable mineral rights may be subject to State ownership, investment or control, as in China. Although, a public ownership of the mineral resource may apply in some cases, the operator (if outsourced by the government) is the party with the extraction and safety experience involved in developing valuable oil resources.</p> <p>The operator may compensate the grantor up front or share revenues or make rental payments for providing the operator access to a revenue generating asset. pp. 21. Contingent liabilities may apply and the treatment is set forth in IPSAS 19. The best policy is for the grantor and operator to create an agreement where it is absolutely clear what rights, duties, liabilities and recourse which apply in the continuing application of the Agreement.</p>
17	Dr. Joseph Maresca	<p>The operator who builds and operates a major offshore oil platform must meet the conditions for recognition of a service concession asset in Par. 10 pp. 33. Certain basic legal doctrines may apply to transactions transnationally based. 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</p>

#	Name	Comment – Other
		<p>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 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>
27	Contrôleur des finances du Québec (Canada)	<p>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 agreement preclude isolating all possible situations, references to 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 service concession arrangements that ignores this would be incomplete.</p>

## **EDITORIAL COMMENTS BY RESPONDENTS TO ED 43, “SERVICE CONCESSION ARRANGEMENTS: GRANTOR”**

### **Purpose:**

This paper presents the editorial comments respondents raised to ED 43, “Service Concession Arrangements: Grantor.” How these issues are ultimately addressed depends on the IPSASB’s decisions on the scope of the project based on respondents’ comments in the Analysis of Key Issues (Agenda Papers 7.2 and 7.3). Accordingly, no proposals have been made as to their disposition. It is anticipated that comments that are relevant based on the IPSASB’s decisions on the scope/mirroring issues will be brought back to the IPSASB at the next meeting, along with either a proposed final IPSAS or a proposed re-exposure draft.

### **List of Respondents:**

#	Respondent
1	Head of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)
2	Australasia Council of Auditors General (ACAG)
3	Accounting Standards Board Committee on Accounting for Public-Benefit Entities (UK)
4	Joint Accounting Bodies (Aus)
5	Prof. Keith Glaister (University of Sheffield)
6	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)
7	National Financial Management Authority (ESV) (Sweden)
8	Public Sector Accounting Board (PSAB) (Canada)
9	New Zealand Treasury
10	Audit Commission (UK)
11	Cour des comptes (Comité consultative sur la normalization des comptes publics) (France)
12	Ernst & Young
13	Institute of Chartered Accountants of Scotland (ICAS)
14	Japanese Institute of Certified Public Accountants (JICPA)
15	Accounting Standards Board (ASB South Africa)
16	Association of Chartered Certified Accountants (ACCA) (global body for professional accountants)
17	Dr. Joseph Maresca
18	Wales Audit Office

#	Respondent
19	Fédération des Experts comptables Européens
20	Conseil de normalization des comptes publics (France)
21	Institute for the Accountancy Profession (Far) (Sweden)
22	Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE)
23	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)
24	Auditor General of Quebec (Canada)
25	Direction Générale des Finances Publiques (France)
26	Australian Accounting Standards Board (AASB)
27	Contrôleur des finances du Québec (Canada)
28	Institute of Chartered Accountants of Pakistan
29	Treasury Board of Canada Secretariat
30	MAZARS
31	US Governmental Accounting Standards Board (GASB)
32	Office of the Comptroller General of British Columbia (OCG BC) Canada
33	KPMG

Editorial Comments:

#	Name	Comment
1	HoTARAC	In Paragraphs 8(c) and AG 18, it seems illogical to treat parts of an upgraded asset differently; only recognising the upgraded portion as a service concession asset.
1	HoTARAC	The requirement in Paragraph 12 to reclassify but not recognise certain existing grantor assets as service concession assets seems to be internally inconsistent and needs to be clarified. This may also affect Paragraphs 8(d), 12 and the Implementation Guidance on page 31.
1	HoTARAC	It is unclear whether an asset reclassified under Paragraph 12 would also give rise to a corresponding liability under Paragraph 19.
1	HoTARAC	It would be helpful to have an example of when a service concession asset might be intangible, as contemplated by Paragraph 13.
1	HoTARAC	In Paragraphs 14(b) and AG22(b), the expression “Compensating the grantor...” should be “Compensating the operator..”
1	HoTARAC	In Paragraph 30, the intention of the word “prospectively” is unclear. Does it mean the standard would apply to (a) new arrangements commencing after the effective date or (b) existing arrangements but only from that financial year onwards? Paragraph AG12 is ambiguous. The conditions in Paragraph 10(a) could never be met if the asset (being a separate cash generating unit) is used wholly for unregulated purposes.
1	HoTARAC	In Paragraph AG29, the word grantor (where last used) should be operator.
1	HoTARAC	Given the adjacent guidance about the operator’s cost of capital (Paragraph 34) and the grantor’s incremental borrowing rate (Paragraph AG36), the first sentence of Paragraph AG35 might clarify whether it is referring to the grantor or the operator.
1	HoTARAC	Revenue recognition requirements are inconsistent. Paragraph AG38 requires a grantor to recognise revenue as the performance obligation liability is reduced but Paragraph AG39 prohibits a grantor from recognising revenue. Perhaps Paragraph AG39 should state that “The grantor does not recognise revenue that the operator collects, unless . .
1	HoTARAC	Paragraph AG52 might be clarified to read: “The grantor’s finance charge . .
1	HoTARAC	The proposed consequential amendments to Paragraph 27 of IPSAS 13 <i>Leases</i> incorrectly refer to a “service concession arrangement as defined in IPSAS XX (ED 43)” (Appendix B, emphasis added). However, ED 43 does not actually define service concession arrangement. The word “defined” should be replaced with “described”.
1	HoTARAC	In the illustrative examples, it would be helpful to have an example that includes a revenue-sharing arrangement.
2	ACAG	Paragraphs 23 and AG43 refer to the operator’s ‘right to use’ the service concession asset. However, both this term, and the term ‘access’, are used interchangeably. It is suggested that it is more accurate to describe the operator’s ‘access’ to the service concession asset, as in paragraphs AG38 and AG42. ‘Right to use’ might suggest that the grantor passes control to the operator, whereas ‘access’ is more akin to making available for use but not giving control. Consequently, paragraph 8(b)

#	Name	Comment
		would require amending. It reads “...operator gives the grantor access for the purpose of the service concession arrangement.” ‘Access’ in that case should read ‘control’.
2	ACAG	We consider that paragraph 14 does not fit under the heading ‘Recognition and Measurement of a Service Concession Asset’ and would be better suited as part of the ‘Scope’ section.
2	ACAG	ACAG considers that paragraph 28 should be clearer as to whether or not there is a choice to disclose arrangements individually or in the aggregate.
13	ICAS	We recommend that the proposed standard provides a bullet point list which states which IPSAS applies to each of the following: recognition; measurement; presentation; and disclosure.
13	ICAS	Page 41, Table 2.3 (page 41) has errors. The figures in the cumulative surplus/deficit line should not be bracketed and the word ‘deficit’ should be surrounded by brackets.
15	ASB (South Africa)	The guidance in AG3 to AG13 does not provide additional clarification on the scope of the proposed IPSAS, but rather on the principles dealing with recognition and measurement of a service concession asset (paragraphs 10 to 18) and the recognition and measurement of liabilities (paragraphs 19 to 23). We therefore recommend that the current heading to AG3 to AG13 “scope”, should be deleted and a more appropriate heading be included.
15	ASB (South Africa)	We recommend that the term “ordinarily” as used in AG53 should be explained.
15	ASB (South Africa)	In some instances, reference is made to “assets” as opposed to “service concession assets” (as explained in IN8) in the proposed IPSAS, for example paragraphs 2, 7, 8 and 17. We recommend that, after the term “service concession assets” has been defined and/or explained as recommended previously, the phrase “service concession asset” should be used throughout the proposed IPSAS.
15	ASB (South Africa)	We recommend that the first sentence in paragraph 12 be amended as follows .....grantor shall not recognise <del>the</del> <u>an additional</u> asset....
15	ASB (South Africa)	Paragraph 8 describes the kind of assets that could be classified as service concession assets to fall within the scope of this proposed IPSAS. As the service concession arrangement may require the construction or development of new assets, we question the reference to “original” in paragraph 15, and recommend that “original” should be deleted.
15	ASB (South Africa)	We are of the view that the first part of AG48 provides guidance to the operator for the recognition of revenue and therefore recommends that the sentence should be deleted.
15	ASB (South Africa)	We question the usefulness of AG54 and recommend that it should be deleted. The principle dealing with the separate depreciation of service concession assets is dealt with in AG55.
22	FACPE	Para 15. This paragraph could be eliminated.
22	FACPE	Para 16. Contemplate it as follows: “Where the grantor compensates the operator for the service concession asset, by making payments and service portions of

#	Name	Comment
		payments by the grantor to the operator are separable, the asset portion of the payments”.
22	FACPE	Para 17. Contemplate it as follows: “When the asset and service parts of the payments from the grantor to the operator are not separable, the original service concession assets will be measured by technical valuation”.
23	Swiss PS FRAC	The comprehensibility of the flow chart on page 31 could be improved by adding the references to the corresponding sections.
26	AASB	<p>The proposed Standard</p> <p><u>Paragraph 7</u> – the footnote text can be added to the end of the paragraph to simplify the presentation of the paragraph and make it more readable.</p> <p><u>Paragraph 15</u> – the meaning of ‘original’ service concession asset is unclear, and should be clarified by referring instead to an asset recognised in accordance with paragraph 10 or 11.</p> <p><u>Paragraph 18</u> – this is already covered by paragraph 13. Paragraph 12 already covers the subsequent accounting in the case of existing grantor assets reclassified as service concession assets.</p> <p><u>Paragraph 21</u> – the references in the third sentence to ‘allocate the payments to the operator’ and ‘service portions’ are unhelpful, and the sentence should be amended to refer to identifying the components of the payments according to their substance as a reduction of the liability, a finance charge or the cost of services, and accounting for them accordingly.</p> <p><u>Paragraph 23</u> – seems odd here to be referring to the operator compensating the grantor when all the other requirements are in terms of the grantor compensating the operator. It would seem better for the last sentence of paragraph 23 to be simply added to paragraph 19 and the rest of paragraph 23 deleted.</p> <p><u>Paragraph 25</u> – this paragraph should be amended to allow for the possibility of the finance charge being capitalised as a borrowing cost. An amendment of IPSAS 5 <i>Borrowing Costs</i> on this point is proposed in Appendix B on page 25 of the ED.</p>
26	AASB	<p><b>Application Guidance</b></p> <p><u>Paragraph AG3(a)</u> – the relevant description of IFRIC 12 requirements would appear to be the operator’s recognition of a financial asset, rather than the revenue and derecognition aspects noted.</p> <p><u>Paragraph AG6</u> – the last part of the first sentence is not helpful as it refers to circumstances in which the grantor buys all, some or none of the output; there are no other cases.</p> <p><u>Paragraph AG23</u> – it is not the arrangement that may be separable, but the asset and service components can be separately identified.</p> <p><u>Paragraphs AG33-AG36</u> – the requirements for determining the finance charge when the grantor makes payments to the operator seem very permissive, as there is a long list of possible interest rates that might be applied in determining the finance charge. Better to state the principle first, that the interest rate should be appropriate to the terms of the service concession arrangement, and then discuss how that rate might be determined in practice.</p>

#	Name	Comment
26	AASB	<p><b>Amendments to Other IPSASs (Appendix B)</b></p> <p>Three Standards are proposed to be amended: IPSASs 5, 13 and 17. However, only IPSAS 17 is proposed to have a new paragraph identifying the effective date of the amendment and the requirements for early application. This difference in approach between the Standards does not seem justified.</p> <p>IPSAS 13, paragraph 25 – the present last sentence referring to a public sector entity leasing infrastructure from a private sector entity is likely to be confusing in conjunction with the proposed additional sentence regarding service concession arrangements and should be deleted.</p> <p>IPSAS 13, paragraph 27 – a service concession arrangement is ‘described’, not ‘defined’, in ED 43.</p>
26	AASB	<p><b>Implementation Guidance</b></p> <p>Accounting framework flowchart – the third box on the right-hand side of the flowchart refers to the grantor continuing to account for an asset as a leased asset. However, this is not acknowledged in the second point of the last box of the flowchart or indeed in the proposed Standard proper, which refers only to IPSAS 17 and IPSAS 31 in various paragraphs, and never to IPSAS 13.</p>
26	AASB	<p><b>Illustrative Examples</b></p> <p>Table 2.3 in Example 2 – in note 4, ‘CU 135’ is incorrect and should be ‘CU 149’ instead. The other amounts in the note are correct.</p>
31	GASB	<p>We believe that the term “facility” as used in paragraph AG27 should be replaced with “service concession asset” in order to be consistent with the terminology used throughout the ED.</p>

## **OVERVIEW OF RESPONSES – BY GEOGRAPHIC LOCATION, FUNCTION AND LANGUAGE**

### **Purpose of this Paper:**

To provide a profile of respondents in the standard format adopted by IPSASB staff.

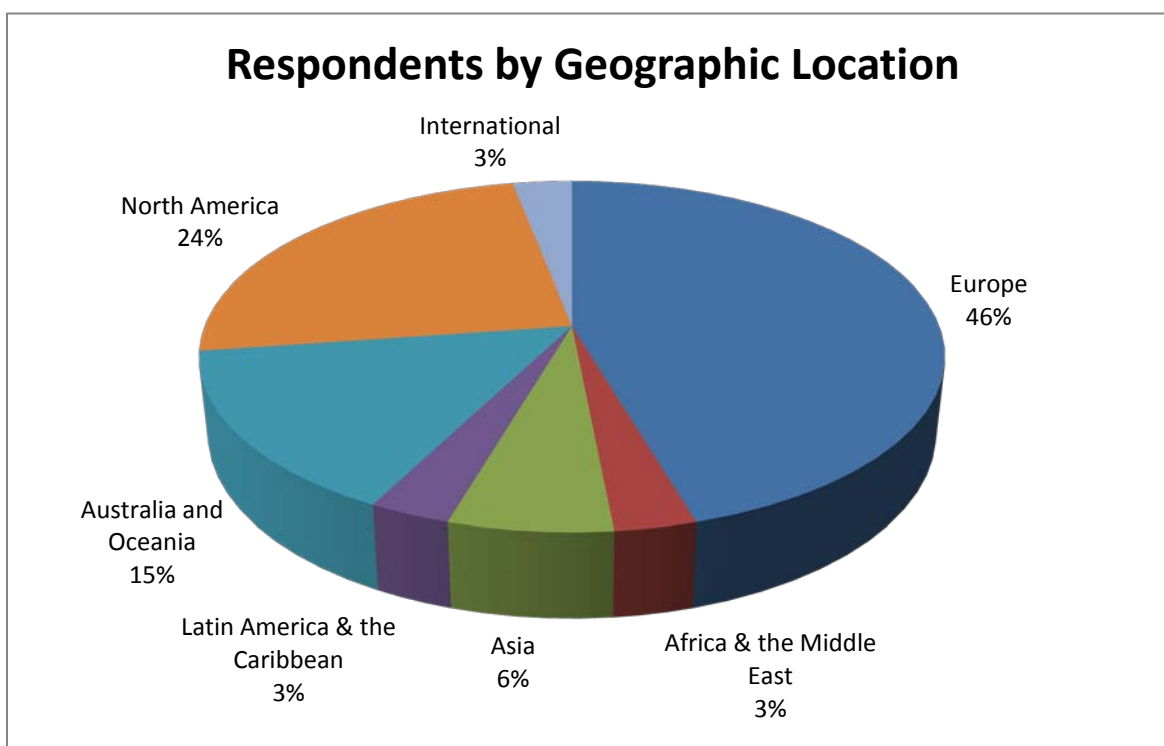
### **List of Respondents:**

#	Respondent	
1	Head of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)	Preparer
2	Australasia Council of Auditors General (ACAG)	Audit (office, accountancy firm, organization)
3	Accounting Standards Board Committee on Accounting for Public-Benefit Entities (UK)	Standard Setter/Standards Advisory Body
4	Joint Accounting Bodies (Aus)	Member or Regional Body
5	Prof. Keith Glaister (University of Sheffield)	Individual
6	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	Member or Regional Body
7	National Financial Management Authority (ESV) (Sweden)	Preparer
8	Public Sector Accounting Board (PSAB) (Canada)	Standard Setter/Standards Advisory Body
9	New Zealand Treasury	Preparer
10	Audit Commission (UK)	Audit (office, accountancy firm, organization)
11	Cour des comptes (Comité consultative sur la normalization des comptes publics) (France)	Standard Setter/Standards Advisory Body
12	Ernst & Young	Audit (office, accountancy firm, organization)
13	Institute of Chartered Accountants of Scotland (ICAS)	Member or Regional Body
14	Japanese Institute of Certified Public Accountants (JICPA)	Member or Regional Body
15	Accounting Standards Board (ASB South Africa)	Standard Setter/Standards Advisory Body
16	Association of Chartered Certified Accountants (ACCA) (global body for professional accountants)	Member or Regional Body
17	Dr. Joseph Maresca	Individual
18	Wales Audit Office	Audit (office, accountancy firm, organization)
19	Fédération des Experts comptables Européens (FEE)	Member or Regional Body
20	Conseil de normalization des comptes publics (CNOCP) (France)	Standard Setter/Standards Advisory Body
21	Institute for the Accountancy Profession (Far) (Sweden)	Member or Regional Body
22	Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE)	Standard Setter/Standards Advisory Body
23	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Standard Setter/Standards Advisory Body
24	Auditor General of Quebec (Canada)	Audit (office, accountancy firm, organization)
25	Direction Générale des Finances Publiques (France)	Preparer
26	Australian Accounting Standards Board (AASB)	Standard Setter/Standards Advisory Body
27	Contrôleur des finances du Québec (Canada)	Preparer
28	Institute of Chartered Accountants of Pakistan	Member or Regional Body
29	Treasury Board of Canada Secretariat	Preparer
30	MAZARS	Audit (office, accountancy firm, organization)
31	US Governmental Accounting Standards Board (GASB)	Standard Setter/Standards Advisory Body
32	Office of the Comptroller General of British Columbia (OCG BC) Canada	Preparer
33	KPMG	Audit (office, accountancy firm, organization)



**Geographic Breakdown:**

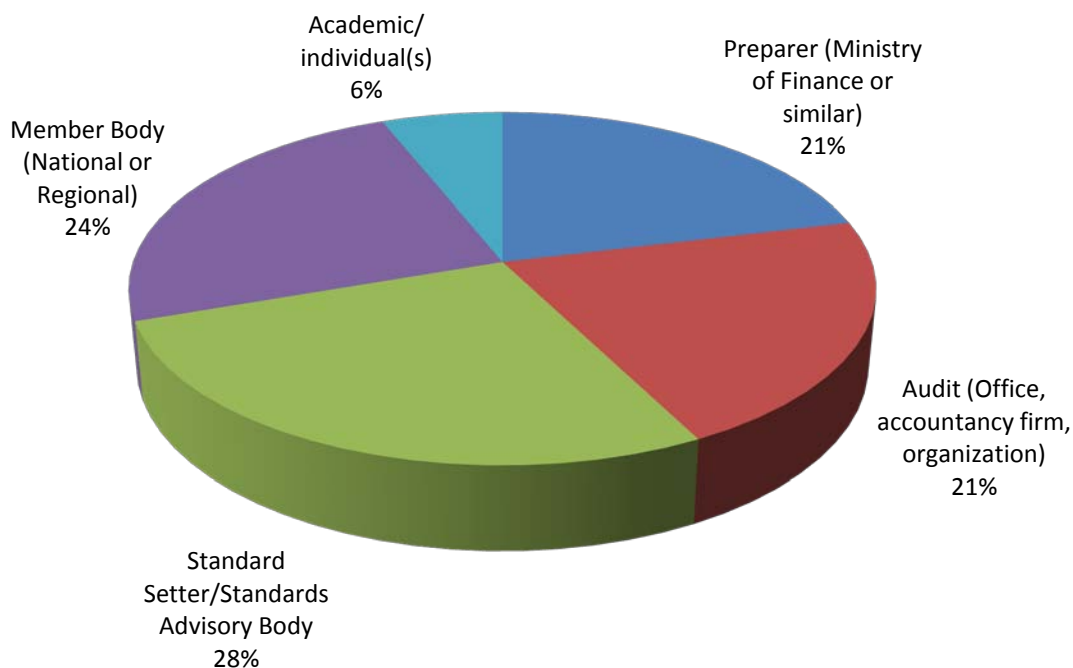
<b>Location</b>	<b>Response number</b>	<b>Total</b>
Africa and the Middle East	15	1
Asia	14,28	2
Australasia and Oceania	1,2,4,9,26	5
Europe	3, 5, 6, 7, 10, 11, 12, 13, 18, 19, 20, 21, 23, 25, 30	15
Latin America and the Caribbean	22	1
North America	8,17,24,27,29,31,32,33	8
International	16	1
<b>Total</b>		<b>33</b>



### Functional Breakdown:

Function	Response Number	Total
Preparer (Ministry of Finance or similar)	1,7,9,25,27,29,32	7
Audit (Office, accountancy firm, organization)	2,10,12,18,24,30,33	7
Standard Setter/Standards Advisory Body	3,8,11,15,20,22,23,26,31	9
Member Body (National or Regional)	4,6,13,14,16,19,21,28	8
Academic/individual(s)	5,17	2
<b>Total</b>		<b>33</b>

### Respondents by Function



### Linguistic Breakdown:

Language	Response #s	Total
Native language is English	1,2,3,4,5,6,8,9,10,13,15,17,18,26,29,31,32,33	18
Native language is not English	7,11,12,14,20,21,22,23, 24,25,27,28,30	13
Combination	16*, 19	2
<b>Total</b>		<b>33</b>

\* International organization

