



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

8

Date: February 22, 2011
Memo to: Members of the IPSASB
From: Joy Keenan
Subject: Service Concession Arrangements – Analysis of Responses to Exposure Draft

Objectives

- To agree on the treatment of the performance obligation (the outstanding key issue arising from respondents' comments to the Exposure Draft (ED)); and
- To consider other technical issues arising from responses.

Agenda Material

- 8.1 Performance Obligation Issue
- 8.2 Proposed Amendments to ED 43 to address the Performance Obligation Issue (only changes to the body of the Standard and the Basis for Conclusions are presented to focus on the IPSASB the proposals; consequential changes to the remainder of ED 43 to reflect the IPSASB's position will be made subsequently)
- 8.3 Key Issue (*Cut and Paste of Responses relevant to Performance Obligation Issue*)
- 8.4 Other Issues (*Cut and Paste of Responses*)

February 2010 ED 43, "Service Concession Arrangements: Grantor" is available on the IPSASB website, for information purposes

Responses #1–33 to ED 43 are available on the IPSASB website, for information purposes

Background

1. The Task-Based Group (TBG) members are:
 - David Bean
 - Ian Carruthers (with support from Paul Mason)
 - Erna Swart (Erna has agreed to continue in this role until the IPSAS is issued)
 - Ken Warren
 - Tim Youngberry
2. Thirty-three (33) responses were received to ED 43.

3. At the November 2010 meeting, the IPSASB focused its discussion on the key issues. Please refer to the excerpt from draft Minutes for the Jakarta meeting in the Appendix to this paper for decisions taken at that meeting.
4. The IPSASB directed staff, with the TBG's assistance, to consider further the issue related to the performance obligation. Agenda Paper 8.1 contains an analysis of this issue.
5. The proposal being put forward in Agenda Paper 8.1 is to delete the term "performance obligation" from the draft Standard and instead use "revenue received in advance". This does not change the grantor's accounting treatment of a service concession arrangement from that proposed in ED 43. Accordingly, the markup of proposed changes to ED 43 (Agenda Paper 8.2) to address this issue is limited to the body of the draft Standard. Other changes will be presented as part of the proposed final Standard, which is currently expected to be presented at the June 2011 meeting.

Other Issues

6. The cut & paste analysis of the other technical accounting issues is presented in Agenda Paper 8.4.
7. Staff's proposals on the accounting various issues raised by respondents is provided for discussion and agreement by the IPSASB as to the changes required to ED 43 to address respondents' comments.
8. Editorial comments will not be discussed at this meeting, unless they pertain to another issue under discussion. Staff will address these, with the TBG, in drafting the proposed final Standard.

Appendix

Excerpts from Minutes

Draft November 2010 minutes

5. SERVICE CONCESSION ARRANGEMENTS

Discuss responses to ED 43 (Agenda Item 7)

Staff provided an overview of the history of the project, including the IPSASB's decision to issue ED 43, *Service Concession Arrangements: Grantor*, which "mirrors" IFRIC 12, *Service Concession Arrangements*. It was noted that 33 responses were received, representing a diversity of views. The purpose of the discussion was to consider the key issues arising from responses. Technical issues raised by respondents would be considered in March 2011.

It was noted that strong support was expressed for the project on SCAs; however, respondents had raised a number of concerns with some aspects of ED 43. In some cases, these issues did not pertain to matters which the IPSASB had not previously considered in developing ED 43.

One Member indicated that the analyses of responses did not reflect the comments of respondent #20, which were consistent with other responses on some key issues. It was noted that the analyses would be amended to include the response in the IPSASB's next discussion of technical issues raised by respondents, in March 2011.

Another respondent reiterated the IPSASB's views expressed at previous meetings, that it is the substance of responses, not overall numbers of comments on an issue that the IPSASB should consider.

A Member pointed out that it was difficult to fully mirror IFRIC 12 because IFRIC 12 also links to IFRIC 4, *Determining whether an Arrangement Contains a Lease*. It was indicated, however, that in practice, it is generally clear whether IFRIC 4 or IFRIC 12 applies.

It was also noted that the IASB's project to update IAS 17, *Leases* could have an impact on IFRIC 12 in the medium term, and thus it may not be appropriate to mirror IFRIC 12 now. Another Member indicated it was important to complete this project on a timely basis given that respondents did not raise any new issues regarding the scope and recognition criteria. It was noted that, in a discussion with an IASB staff member, the view was expressed that it was unlikely that the IASB leases project would have an impact on IFRIC 12 in the medium term.

After discussion, the IPSASB agreed that:

- Whole-of-life assets should remain within the scope of the proposed IPSAS and that additional guidance on the term, "regulate" is required to address the public sector context, which was not necessary in IFRIC 12. The Basis for Conclusions, however,

needs to outline views for and against these decisions and why the IPSASB came to these decisions.

- The scope should not be broadened to include other types of public-private arrangements beyond those meeting the recognition criteria in ED 43; however, the Basis for Conclusions needs to explain clearly that these other types of arrangements are not within the scope of the proposed IPSAS and that the IPSASB may decide to undertake a project to address them in the future.
- Additional guidance is not required for circumstances when arrangements do not meet those recognition criteria;.

The IPSASB considered a technical issue raised by several respondents pertaining to the need for clarity around the definition of a performance obligation and its links to IPSAS 19. One view was that the term should not be used in this document. It was noted that IFRIC 12 refers to an obligation to restore an asset—it does not refer to a performance obligation. The IPSASB agreed that it was necessary to consider this issue further.

The IPSASB agreed to consider the other changes needed to address the respondents' concerns on specific accounting issues at its next meeting.

SERVICE CONCESSION ARRANGEMENTS

Key Issue: ED 43's Proposed use of the term "Performance Obligation"

Background

1. At the November 2010 meeting, Staff presented an initial analysis of comments specifically related to the "performance obligation" issue. The issue relates to the proposal in ED 43, *Service Concession Arrangements: Grantor* that when the grantor recognizes a service concession asset, a liability shall be recognized. The liability may be any combination of a financial liability and a performance obligation.
2. ED 43 described the performance obligation as occurring when the grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. ED 43 proposed that the grantor shall account for the performance obligation in accordance with IPSAS 19.

Overview

3. Table 1 below summarizes the respondents that commented on performance obligation (see Agenda Paper 8.3).

Table 1: Summary of Respondents that Commented on Performance Obligation Issue

Summary	Numbers	Respondents
Commented on performance obligation	16	• R# 1, 2, 3, 11, 14, 15, 18, 20, 25, 26, 27, 29, 30, 31, 32 and 33
Did not comment on performance obligation	17	• R# 4, 5, 6, 7, 8, 9, 10, 12, 13, 16, 17, 19, 21, 22, 23, 24, 28
Total Responses	33	

4. Approximately half of the 33 respondents commented on the performance obligation proposal in ED 43. All of these respondents commented that this aspect of the ED was unclear and needed further explanation.
5. Six respondents (R# 1, 11, 20, 25, 30 and 31) considered that the performance obligation did not meet the definition of a liability in IPSAS 1, *Presentation of Financial Statements*. Three respondents (R# 1, 26 and 31) consider that the grantor's performance obligation to provide access to the service concession asset to the grantor exists independently of any payment obligations. Another two respondents (R# 2 and 29) consider that the term "performance obligation" should be defined.

6. Two respondents (R# 20 and 25) suggest that a different approach could be taken, based on IFRIC 12 and its exchange notion. An extract from respondent 20 is set out below.

“We think, in particular, that an approach based on the fact that the operation between the grantor and the operator is basically an “exchange” might be analysed. In this approach, the exchange is performed between the grantor and the operator, as set out in IFRIC 12 in the “intangible asset model”, which is the model to be used when the operator receives a right to charge user of the public service (vs. right to receive cash or another financial asset) in exchange of its services (e.g. constructing, operating, maintaining,..., an infrastructure). The operator receives from the grantor a right to charge users of the public service which is an intangible asset.”

7. Similarly, respondent 30 considered that the ““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 *Revenue from Exchange Transactions*.”
8. Staff looked the exchange approach and in particular at the requirements of IPSAS 9. The grantor receives a service concession asset in exchange for the operator being given a right to charge third party users of the service concession asset. The operator recognizes this right as an intangible asset. Paragraph 17 of IPSAS 9 states that “when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue.” In this situation, the exchange is of a grant of a right for a service concession asset.
9. Staff considers that this approach more closely mirrors IFRIC 12 than the approach proposed in ED 43 and has amended the draft Standard accordingly. Paragraphs BC19–BC29 of the draft Basis for Conclusions sets out the explanation of this approach and the reasoning for amending ED 43.
10. The change in approach has meant that the comments by respondents (summarized in paragraph 5 above) have been resolved in a different manner to their suggestions regarding the improvement of ED 43.
11. It should be noted that although respondents 20 and 25 considered that an exchange notion could be used, both considered that revenue should not be recognized. As IPSAS 9 requires the recognition of revenue where there is an exchange of dissimilar assets, the draft Standard is consistent with other IPSASs. This does not mean, however, that revenue is recognized in full initially (see “Timing of Revenue Recognition” below).
12. Using the exchange approach also eliminates the potential confusion that could arise from the fact that:
- (a) IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* uses the term “performance obligation” for revenue from non-

exchange transactions, while service concession arrangements as addressed in ED 43 are exchange transactions; and

- (b) The IASB defines the term “performance obligation” in its Exposure Draft (ED/2010/6), *Revenue from Contracts with Customers* as “an enforceable promise (whether explicit or implicit) in a contract with a customer to transfer a good or service to the customer.”
13. The proposal to replace the term “performance obligation” with the term “revenue received in advance” in ED 43 does not change the grantor’s accounting treatment of a service concession arrangement from that proposed in ED 43. It also does not change the grantor’s accounting treatment of the subsequent reduction of the revenue received in advance and related revenue recognition timing.
14. For completeness of analysis, four respondents (R# 3, 14, 15 and 18) that commented on the performance obligation issue, only requested additional explanation, examples or clarification of certain aspects of the performance obligation issue and therefore have not been separately mentioned in this Agenda Paper. The issues raised by the other three respondents (R# 27, 32 and 33) relating to the performance obligation issue are not directly related to the above issues; they are dealt with in the “Proposed IPSASB Response” column in Agenda Paper 8.3, which sets out Respondents’ comments that specifically relate to the performance obligation issue in full and the proposed IPSASB response.

Question 1 for IPSASB:

Do you agree that the nature of the arrangement where a grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use is an exchange of dissimilar assets?

Timing of Revenue Recognition

15. The draft Standard presented in Agenda Paper 8.2 does not contain guidance on the timing of revenue recognition where the grantor recognizes a service concession asset in exchange for the grant of a right to the operator, i.e., revenue received in advance. This is because Staff is unsure as to which category of revenue should be used as guidance. IPSAS 9 classifies revenue into three categories, by its nature:
- (a) sale of goods;
 - (b) rendering of services; or
 - (c) the use by others of the entity’s assets.

Each category has slightly different requirements as to when revenue is recognized which may affect the timing of the revenue recognition.

16. Below is an extract from the draft Basis for Conclusions setting out the three categories and explaining how revenue received in advance could fit into any category. The three categories are:

- (a) **Alternative 1:** Revenue arises from the use by other of the entity's assets (e.g., interest, royalties, and dividends).
- (b) **Alternative 2:** Revenue arises from the rendering of a service.
- (c) **Alternative 3:** Revenue arises from the sale of goods.

Note that, whichever of these alternatives is chosen, the other two will require somewhat modified wording to reflect the reasons why the IPSASB rejected them.

Alternative 1: Revenue Arises from the use by Others of the Entity's Assets

- BC23. The IPSASB considered whether the revenue met the definition of revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. The IPSASB noted that interest received usually arises from the entity loaning cash to a third party and dividends received usually arise from the entity's right as a shareholder of a third party entity. Neither of these situations appears to fit the type of revenue received from an exchange of dissimilar asset in a service concession arrangement.
- BC23A. Royalties received usually arise from the entity permitting one or more of its assets to be used by a third party. Royalties include, but are not limited to, trademarks, copyright and licenses. A service concession arrangement where an exchange of dissimilar assets occurs usually means the grantor receives a service concession asset (the entity's asset) and the operator receives the grant of a right (a license) to use that asset or another of the entity's assets in exchange. The operator uses this license to earn revenue from third party users to provide the return on investment made in the provision of the service concession asset to the grantor and the cost of the ongoing services. The IPSASB considers that the operator is using the grantor's assets. This treatment recognizes that a service concession arrangement requires an asset to be controlled by the grantor and used by the operator to provide services.
- BC23B. Paragraph 34 of IPSAS 9 requires royalties to be recognized as they are earned in accordance with the substance of the relevant agreement. A service concession arrangement usually permits the operator to access the grantor's asset for a specified period, so during that period, the grantor has a continuing obligation to provide access to the service concession asset so that the operator can earn revenue. The question arises as to whether revenue should be recognized at one point in time or over the period of the arrangement. For most arrangements, the terms require that the grantor gives the operator access to the asset for the entire period of the arrangement and so in general, revenue is

recognized on a straight-line basis of the life of the arrangement or another systematic basis that reflects the terms of the arrangement. This will usually be a matter of judgment.

Alternative 2: Revenue Arises from the Rendering of a Service

BC23C. The IPSASB considered whether the revenue met the definition of revenue arising from the rendering of services. Paragraph 7 of IPSAS 9 states that “the rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time.” The IPSASB considers that the “agreed task” or transaction is the grantor allowing the operator access to the service concession asset for the period of the arrangement. Over that period, the operator uses the intangible asset to earn revenue to provide the return on investment made in the provision of the service concession asset to the grantor and the cost of the ongoing services.

BC23D. Paragraph 19 of IPSAS 9 requires that revenue from the rendering of services shall be recognized by reference to the stage of completion of the transaction at the reporting date. The agreed task or transaction by the grantor is the access to the service concession asset, so in most instances revenue will be calculated by reference to the amount of access the operator has received at the reporting date compared to the total amount of access to be received under the arrangement.

Alternative 3: Revenue Arises from the Sale of Goods

BC23E. The IPSASB considered whether the revenue met the definition of revenue arising from the sale of goods. Paragraph 28 of IPSAS 9 requires that the entity (the grantor) has transferred to the purchaser (the operator) the significant risks and rewards of ownership of the goods. The IPSASB noted that in the case of a service concession arrangement, the grantor retains control over the price the operator receives for the services provided by the service concession asset over the period of the arrangement. The IPSASB concluded that the substance of this arrangement is that the grantor retains some of the significant risks and rewards of ownership on the date the assets are exchanged. Thus, revenue recognition will only occur when the grantor ceases to exercise control over the intangible asset.

BC23F. The IPSASB then considered when the grantor would cease to exercise control over the intangible asset. The IPSASB concluded that in most instances control over a past event is not possible; and that control is therefore lost gradually over time. The IPSASB also concluded that this pattern of loss of control requires revenue to be recognized over the period of the arrangement.

17. Staff considers alternative 1 to be the most appropriate for the reasons set out in the draft Basis for conclusions above. Alternative 2 does not explicitly take into account the service concession asset which is used to provide the service. Alternative 3 relates to a sale of goods, which are generally assumed to be items sold in the normal course of operations (e.g., inventories), and not items of property, plant, and equipment (e.g., service concession asset). In addition, alternative 3 reintroduces the notion of “risks and rewards” which may create confusion with the control-based approach to determining whether to recognize the service concession asset (as was reconfirmed by the IPSASB at the November 2010 meeting).

Question 2 for IPSASB:

Do you agree that alternative 1 most closely reflects the nature of the revenue received in advance in a service concession arrangement?

SERVICE CONCESSION ARRANGEMENTS

Draft Standard Paragraphs and Basis for Conclusions

Draft Standard Paragraphs¹

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Comment [ad1]: Based on IFRIC 12.4.

Terminology

2. An ~~service concession~~ arrangement ~~within the scope of this Standard~~ typically involves a private sector entity (an operator) constructing ~~or developing~~ the asset used to provide the public service or upgrading ~~it an existing asset~~ (e.g., by increasing its capacity) and operating and maintaining ~~the that~~ asset for a specified period of time. The operator is ~~compensated paid~~ for its services over the period of the arrangement. The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes. ~~The service concession arrangement is binding on the parties to the arrangement and obliges the operator to provide the public services on behalf of the public sector entity.~~
3. The following terminology is used in this Standard:
 - (a) A binding arrangement describes ~~contracts and other an~~ arrangements that confers similar rights and obligations on the parties to it as if they were in the form of a contract.
 - (b) A grantor is the entity that grants the service concession to the operator.
 - (c) A service concession asset is an asset used to provide public services in a service concession arrangement that meets the conditions for recognition set out in paragraph 10 (or paragraph 11 for a whole-of-life asset) or for reclassification set out in paragraph 13.

Comment [ad2]: Based on IFRIC 12.2.

Comment [ad3]: Based on IPSAS 31.20.

Scope

4. A grantor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.
5. This Standard applies to all public sector entities other than Government Business Enterprises.

Comment [ad4]: IPSASB standard paragraph.

Comment [ad5]: IPSASB standard paragraph.

¹ Numbering of Standard paragraphs has not been updated. This will be done for the June 2011 meeting.

6. ~~The~~ *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.
7. To be within the scope of this Standard,² an arrangement must be binding on the parties to the arrangement and oblige the operator to provide the public services related to the service concession asset to the public on behalf of the grantor. Arrangements that do not involve the delivery of public services fall outside the scope of this Standard, as do arrangements that involve service and management components where the asset is not controlled by the grantor, as specified in paragraph 10, or paragraph 11 for a whole-of-life asset (e.g., outsourcing, service contracts, or privatization).
8. This Standard applies to the following assets, ~~when they meet the conditions for recognition specified in paragraph 10 (or paragraph 11 for a whole of life asset), or for reclassification specified in paragraph 12:~~
- (a) Assets that the operator constructs ~~or develops~~, or acquires from a third party for the purpose of the service concession arrangement;
 - (b) Existing assets of the operator to which the operator ~~uses~~ gives the grantor access for the purpose of the service concession arrangement; ~~and~~
 - (c) Existing assets of the grantor ~~to which the grantor gives the operator is given access by the grantor upgrades~~ for the purpose of the service concession arrangement. ~~The existing asset is reclassified from property, plant and equipment to a service concession asset in accordance with paragraph 12. Only the cost of the any upgrade to the existing asset is recognized as a service concession asset in accordance with paragraph 10, or paragraph 11 for a whole-of-life asset); and,~~
 - (d) ~~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.~~
9. ~~This~~ Standard does not specify the accounting by operators (see the relevant international or national accounting standard dealing with accounting for service concession arrangements by operators).

Comment [ad6]: IPSASB standard paragraph.

Comment [ad7]: Based on IFRIC 12.7(a).

Comment [ad8]: Based on IFRIC 12.27.

Comment [ad9]: This sentence is repeated in paragraph 13 so seems unnecessary here.

Comment [jk10]: After editing this is no longer needed as it is addressed in para 8c.

Comment [ad11]: Based on IFRIC 12.9.

Recognition and Measurement of a Service Concession Asset

10. The grantor shall recognize a service concession asset in respect of an asset specified in paragraphs 8(a), and 8(b) ~~and 8(c)~~; and shall reclassify an asset specified in paragraph 8(~~c~~) 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

Comment [ad12]: Based on IFRIC 12.5(a).

² Paragraphs AG3–AG13 provide guidance on determining whether, and to what extent, service concession arrangements are within the scope of this Standard.

- (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.

Comment [ad13]: Based on IFRIC 12.5(b).

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.

Comment [ad14]: Based on IFRIC 12.6.

- ~~12. 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, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*³ as appropriate.~~

Comment [ad15]: The order of paragraphs 12 and 13 have been changed so that the most common situation is dealt with first.

- ~~13. Where an existing asset of the grantor specified in paragraph 8(dc) 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.~~

- ~~14. 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 31,⁴ as appropriate.~~

- ~~15. The grantor shall initially measure the original service concession asset at its fair value.~~

Comment [jk16]: Moved up from 15

- ~~16. In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:~~

- (a) Making cash payments to the operator (the financial liability model);
- (b) Compensating the operator by other means (the grant of a right to the operator model) such as:
 - (i) Granting the operator the right to collect fees from third-party users of the service concession asset; or
 - (ii) Granting the operator access to another revenue-generating asset for the operator’s use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

- ~~17. The grantor shall initially measure the original service concession asset at its fair value.~~

Comment [jk17]: Moved to 14

- ~~18. Where the grantor compensates the operator in part or in whole for the service concession asset by making cash payments for the service concession asset and the service portions of the service concession arrangement, and the asset and service portions of the payments by the~~

³ Paragraph AG20 provides guidance for cases when the service concession asset is constructed or developed.

⁴ Paragraph AG20 provides guidance for cases when the service concession asset is constructed or developed.

grantor to the operator are separable, the fair value in paragraph 15 ~~14~~ is the fair value of the asset portion of the payments.

~~17. Where the asset and service portions of payments by the grantor to the operator are not separable, the fair value is determined using estimation techniques.~~

~~18. After recognition as a service concession asset, the grantor shall measure the service concession asset in accordance with the requirements in IPSAS 17 or IPSAS 31, as appropriate.~~

Comment [ad18]: This paragraph appears to repeat paragraphs 12 and 13 so the proposal is to delete it.

Financial Liability Model

Recognition and Measurement of Financial Liabilities

19. ~~When~~ Where the grantor recognizes a service concession asset in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset), ~~the and, under the binding arrangement, has an unconditional contractual right to pay cash or another financial asset to the operator, the grantor shall recognize a financial liability.~~

Comment [ad19]: Based on IFRIC 12.15.

~~grantor shall also recognize a liability representing an advance receipt of the service concession asset in exchange for the compensation to be provided to the operator over the term of the service concession arrangement.~~

~~The liability recognized may be any combination of a financial liability and a performance obligation.~~

20. The financial 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 ~~14~~ 15–17.

20A. ~~The~~ grantor has an unconditional right to pay cash if it has contractually guaranteed to pay the operator:

Comment [ad20]: Based on IFRIC 12.16.

(a) Specified or determinable amounts; or

(b) The shortfall, if any, between amounts received by the operator 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.

20B. ~~The~~ nature of the consideration given by the grantor to the operator shall be determined by reference to the terms of the binding arrangement.

Comment [ad21]: Based on IFRIC 12.19.

20C. ~~IPSAS 28, Financial Instruments: Presentation, IPSAS 29, Financial Instruments: Recognition and Measurement, and IPSAS 30, Financial Instruments: Disclosures apply to the financial liability recognized under paragraph 19.~~

Comment [ad22]: Based on IFRIC 12.23.

Recognition and Measurement of Expenses

~~20D²⁵ The finance charge and service components of a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses in accordance with IPSAS 1, Presentation of Financial Statements.~~

20E. The asset and service portions of the arrangement shall be allocated by reference to the relative fair values of the services received, when the amounts are separately identifiable. Where the asset and service portions of the arrangement are not separable, each portion is determined using estimation techniques.

Comment [ad23]: Based on IFRIC 12.13. Made bold as should not be guidance only.

Grant of a Right to the Operator Model

Recognition and Measurement of the Grant of a Right to the Operator

20F. Where the grantor recognizes a service concession asset in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset) and, under the binding arrangement, does not have an unconditional contractual right to pay cash or another financial asset to the operator, the grantor shall recognize revenue received in advance in liabilities and/or revenue in accordance with IPSAS 9, *Revenue from Exchange Transactions*.

20G. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third party users of the public service that it provides on the grantor's behalf. IPSAS 9 applies to the exchange of dissimilar assets. In accordance with IPSAS 9, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. -The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred.

Comment [jk24]: From IPSAS 9.38

20H. The advance receipt recognized in accordance with paragraph 20F shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph 14.

Revenue Recognition

20I. The grantor shall subsequently account for the revenue received in advance recognized in paragraph 20F, in accordance with IPSAS 9, which requires that revenue is recognized... [see Agenda Paper X.X, alternatives 1-3].

Dividing the Arrangement

20J. If the grantor pays for the construction services partly by a financial liability and partly by the grant of a right it is necessary to account separately for each component of the arrangement. The amount for both components shall be recognized initially at the fair value of the service concession asset.

Comment [ad25]: Based on IFRIC 12.18.

20K. The grantor shall subsequently account for each component of the arrangement in accordance with paragraphs 19-20I.

~~20A. The liability initially recognized in accordance with paragraph 19 shall be reduced by any upfront cash payments made to the operator and by the fair value of a predetermined series of cash payments to the operator over the term of the service concession arrangement.~~

- ~~21. When the grantor compensates the operator for the service concession asset by making cash payments, the liability portion of the advance receipt recognized in accordance with paragraph 19 that pertains to such cash payments is accounted for as financial liability. The grantor shall subsequently account for the financial liability in accordance with IPSAS 28, "Financial Instruments: Presentation," IPSAS 29, "Financial Instruments: Recognition and Measurement," and IPSAS 30, "Financial Instruments: Disclosures." The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognized in paragraph 19, a finance charge and service portions.~~
- ~~22. 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 portion of the liability recognized in accordance with paragraph 19 is a performance obligation accounted for as an advance receipt. The grantor shall subsequently account for the performance obligation advance receipt in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets."~~
- ~~23. When the operator compensates the grantor for the right to use the service concession asset, either by provision of the service concession asset or by making cash payments to the grantor in addition to providing the service concession asset, the liability recognized by the grantor in accordance with paragraph 19 is a performance obligation. The grantor shall account for the performance obligation in accordance with IPSAS 19-20B. an additional liability shall be recognized representing the advance receipt of such cash payments, in addition to providing the service concession asset.~~

Recognition and Measurement of Revenues

- ~~24. The grantor shall account for revenue from a service concession arrangement in accordance with IPSAS 9, "Revenue from Exchange Transactions."~~

Recognition and Measurement of Expenses

- ~~25. The finance charge and service components of a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses in accordance with IPSAS 1, "Presentation of Financial Statements."~~

Presentation and Disclosure

- ~~26. The grantor shall classify a service concession asset recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset), or reclassified in accordance with paragraph 12 as a non-current asset.~~
27. All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of service concession arrangements each period:
- (a) A description of the arrangement;

Comment [ad26]: This requirement is in paragraphs 12 and 13 and so this paragraph has been deleted.

Comment [ad27]: Based on SIC-29.6

- (b) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);
 - (c) The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:
 - (i) ~~The Rights to use specified~~ assets which the operator has a right to use;
 - (ii) Rights to expect the operator to provide specified services in relation to the service concession arrangement;
 - (iii) Service concession assets recognized as assets during the period, including existing assets of the grantor reclassified as service concession assets;
 - (iv) Rights to receive specified assets at the end of the service concession arrangement;
 - (v) Renewal and termination options;
 - (vi) Other rights and obligations (e.g., major overhaul of the service concession asset, ~~financial and performance obligations~~); and
 - (vii) Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and
 - (d) Changes in the arrangement occurring during the accounting period.
28. The disclosures required in accordance with paragraph 27 are provided individually for each material service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services).

Comment [ad28]: Based on SIC-29.7.

Transition

- 29. 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*.
- 30. 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.

Effective Date

- 31. An entity shall apply this Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS ~~54~~, Borrowing Costs IPSAS 13, Leases and IPSAS 17, IPSAS 19, IPSAS 28, IPSAS 29, IPSAS 30, and IPSAS 31 at the same time.

Comment [ad29]: IPSASB standard paragraph.

32. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Comment [ad30]: IPSASB standard paragraph.

Draft Basis for Conclusions⁵

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS XX (ED 43).

Objective

BC1. In the absence of an International Public Sector Accounting Standard dealing with service concession arrangements, public sector entities are directed, in IPSAS 1 to look to other international or national accounting standards. In the case of arrangements involving private sector participation, they would try to apply the principles in Interpretation 12 of the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC 12), *Service Concession Arrangements*. However, IFRIC 12 addresses accounting by the operator, and does not, therefore, provide guidance for the grantor. The IPSASB believes this Standard will promote consistency and comparability in how service concession arrangements are reported by public sector entities.

Scope

BC2. After considering the various types of arrangements involving public and private sector entities in the March 2008 Consultation Paper, *Accounting and Financial Reporting for Service Concession Arrangements*, the IPSASB agreed that the scope of this Standard should be the mirror of IFRIC 12, in particular, the circumstances under which the grantor recognizes a service concession asset (see paragraphs BC9–BC13). The rationale for this decision is that this approach would require both parties to the same 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 party.

BC3. However, the IPSASB concluded that the Standard should provide Implementation Guidance on the relevant IPSASs that apply to arrangements outside the scope of the Standard. The Implementation Guidance contains a flowchart illustrating the application of this Standard as well as a table of references to relevant IPSASs for the other types of arrangements that are outside the scope of this Standard.

BC4. The IPSASB concluded that it ~~was~~ is important to provide guidance on accounting for the ~~liability recognized consideration given by the grantor to the operator for related to the~~ service concession asset. ~~The consideration may give the operator rights to because the liability may consist of any combination of a financial liability (for a series of predetermined determinable series of cash payments) and or a right to earn revenue from third-party users of the service concession asset or by granting the operator access to another revenue-generating asset for its use or a combination of both types of consideration a performance obligation (when the operator receives a revenue generating asset).~~ Each type of consideration of these liabilities results in specific accounting issues

⁵ Numbering of Basis for Conclusions paragraphs has not been updated. This will be done for the June 2011 meeting.

on which the IPSASB has provided guidance to facilitate consistent application of the Standard.

~~BC5. The IPSASB also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, “Revenue from Exchange Transactions” to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue sharing provisions, provision of a revenue-generating asset for nominal rent).~~

Comment [ad31]: Also stated in BC29 so have deleted this paragraph.

BC56. This Standard does not specify the accounting by operators, because it is addressed in IFRIC 12. In many cases the operator is a private enterprise, and IPSASs are not designed to apply to private sector entities. The operator may also be a Government Business Enterprise (GBE). IPSASs are not designed to apply to GBEs. International Financial Reporting Standards (IFRSs) apply to private sector entities and GBEs.

Terminology

BC67. The IPSASB agreed that it was not necessary to provide definitions in this Standard in light of the different nature of this Standard (i.e., it is intended to “mirror” the IFRIC 12 requirements) and the fact that IFRIC 12 does not specifically define terms. The IPSASB has instead provided guidance on certain terminology used in this Standard. In particular, the main term in this Standard is “service concession arrangement,” which is not defined in IFRIC 12. The guidance in IFRIC 12 on characteristics of service concession arrangements has been adapted for this Standard.

BC78. The IPSASB agreed not to use the term “infrastructure” to refer to the asset used in a service concession arrangement, even though IFRIC 12 uses the term. The IPSASB noted that the term is used in IPSASs in ways that may not be fully compatible with this Standard. Further, the term has a prescribed meaning in some jurisdictions that differs from that used in IFRIC 12. To ensure clarity that the asset referred to is the one recognized on the basis of the conditions for recognition in paragraph 10 of this Standard (or paragraph 11 for a whole-of-life asset), the asset in this Standard is referred to as the “service concession asset.” This term is intended to cover the same types of assets as envisaged in IFRIC 12.

BC89. The term “binding arrangement” has not been defined, but has been used in other IPSASs to describe arrangements that that confer similar rights and obligations on the parties to it as if it were in the form of a contract. The IPSASB concluded that this term is required to address the circumstances addressed in this Standard, and has provided guidance in paragraph 3(a) on circumstances that give rise to binding arrangements, consistent with other IPSASs.

Recognition of a Service Concession Asset ~~and a Liability~~

BC94. The main accounting issue in service concession arrangements is whether the grantor should recognize a service concession asset ~~and a related liability~~.

BC104. The IPSASB considered the merits of the control-based approach and the risks and rewards approach to assessing whether the grantor should recognize the asset. The risks and rewards

approach focuses on the economic aspects of the terms and conditions in the arrangement. The IPSASB did not believe this focus to be appropriate for service concession arrangements because 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. A control-based approach focuses on control over the service potential of the service concession asset.

BC112. The IPSASB also questioned whether sufficiently objective criteria could be established for assessing risks and rewards to enable consistent results to be determined. In addition, weighting of various risks and rewards was seen to be problematic.

BC123. The IPSASB also considered whether a rights and obligations approach was appropriate. Although such an approach could have conceptual merit, the IPSASB believes that it would represent a significant change in the accounting and financial reporting of assets and liabilities for public sector entities that could have implications beyond service concession arrangements. Given the IPSASB's decision to complement IFRIC 12, which uses a control-based approach, the IPSASB agreed that a rights and obligations approach was not appropriate for this Standard.

BC134. The IPSASB concluded that a control-based approach was the most effective means to determine whether the grantor should recognize the asset. The IPSASB concluded that if a control-based approach is used, it should be consistent with IFRIC 12, for the same reasons cited in paragraph BC2. Accordingly, this Standard addresses only arrangements in which the grantor (a) controls or regulates the services provided by the operator, and (b) controls any significant residual interest in the service concession asset at the end of the term of the arrangement. Consistent with IFRIC 12, in the case of whole-of-life assets, only condition (a) must be met for recognition of a service concession asset. The IPSASB concluded that it was important to stress that a service concession arrangement is a binding arrangement. Accordingly, the assessment of whether a service concession asset should be recognized is made on the basis of all of the facts and circumstances of the arrangement.

Consideration Given by the Grantor to the Operator

BC145. A service concession arrangement typically involves an operator constructing or developing the asset used to provide the public service or upgrading an existing asset (e.g., by increasing its capacity) and operating and maintaining the asset for a specified period of time. The operator is compensated for its services over the period of the arrangement. The arrangement is governed by a binding arrangement which will set out the type of rights that the grantor has in relation to the consideration due to the operator in exchange for the service concession asset. The consideration may give the operator rights to a determinable series of cash payments or a right to earn revenue from third-party users of the service concession asset or by granting the operator access to another revenue-generating asset for its use or a combination of both types of consideration.

BC15. IFRIC 12 distinguishes the type of asset that the operator recognizes by determining which party bears the demand risk, i.e., where compensation is determined based on the volume of usage of the service concession asset. Where the grantor bears the demand

risk, the operator is compensated by the grantor by the delivery of cash or another financial asset in exchange for the acquisition of the service concession asset. The payments to be made to the operator are set out in the binding arrangement. IFRIC 12 classifies this type of arrangement as the “financial asset model” because the operator receives a financial asset. This Standard refers to this type of arrangement as the “financial liability model” because the grantor has a financial liability.

BC16. Where the operator bears the demand risk, the grantor compensates the operator by the grant of a right (a license) to charge users of the public service related to the service concession asset. The grantor provides access to the service concession asset in order for the operator to be compensated. IFRIC 12 classifies this type of arrangement as the “intangible asset model.” This Standard refers to this type of arrangement as the “grant of a right to the operator model.”

BC17. The grant of a right to the operator model also occurs 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 party users, such payment is compensation in exchange for the usage of the service concession asset, not for the acquisition of the service concession asset. The grantor compensates the operator only to the extent of the usage of the service concession asset.

Financial Liability Model

BC18. A financial liability arises in cases when the grantor is obligated to make a ~~series of predetermined-determinable~~ series of cash payments to the operator because the grantor has a contractual obligation to deliver cash or another financial asset to another entity (the operator). The IPSASB concluded further that when there is a ~~series of predetermined determinable series of cash~~ payments, the payments should be allocated among portions that reduce the liability, an imputed finance charge and charges for services provided by the operator under the service concession arrangement.

Grant of a Right to the Operator Model

~~The IPSASB considered whether the credit when a service concession asset is recognized should be accounted for as revenue, as a contribution from owners (direct increase to equity), or as a liability. The IPSASB noted that the full amount should not be recognized immediately as revenue because IPSAS 9 requires that revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. In the case of a service concession arrangement, they will only flow to the entity over the term of the service concession arrangement. IPSAS 1 defines contributions from owners as “future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:(a) — Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or(b) — Can be sold, exchanged, transferred, or redeemed.~~

A service concession arrangement does not establish the operator's financial interest in the net assets/equity of the entity which meets the criteria in paragraphs BC15(a) and BC15(b).

The IPSASB concluded that the credit is a liability representing an advance receipt from the operator of the service concession asset, from which economic benefits or service potential will be flow to the grantor over the term of the service concession arrangement.

BC17. The IPSASB concluded that a performance obligation arises in cases when the grantor grants the operator the right to earn revenues, either from the service concession asset or from another asset because the grantor has received exchange consideration (i.e., an inflow of resources in the form of the service concession asset) in advance of its performance under the exchange (i.e., its obligation to provide the operator access to the service concession asset or another revenue generating asset).

BC19. Where a grantor receives a service concession asset and does not have a contractual obligation to deliver cash or another financial asset to the operator in compensation, the operator bears the demand risk that the cash flows generated by the third party users of the public service will be sufficient to recover its investment. It is expected that the demand for the public service will be sufficient for the operator to recover its investment. That is, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance is that the arrangement provides a gain to the grantor, and therefore revenue accrues and should be reported.

BC20. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9, *Revenue from Exchange Transactions* when considering the nature of the revenue and the timing of the recognition of that revenue. Further, in this type of arrangement, the grantor recognizes a service concession asset and the operator recognizes an intangible asset (as required by paragraph 17 of IFRIC 12). The IPSASB considers that this is an exchange of dissimilar assets, and that in accordance with paragraph 17 of IPSAS 9, this exchange is regarded as a transaction that generates revenue.

BC21. The IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result is consistent with IPSAS 9 as, any situation in which an entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues would lead to a similar result.

BC22. IPSAS 9 identifies three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB considered these types of transactions separately.

Alternative 1: Revenue Arises from the use by Others of the Entity's Assets

BC23. The IPSASB considered whether the revenue met the definition of revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. The IPSASB noted that interest received usually arises from the entity loaning cash to a third

party and dividends received usually arise from the entity's right as a shareholder of a third party entity. Neither of these situations appears to fit the type of revenue received from an exchange of dissimilar asset in a service concession arrangement.

BC23A. Royalties received usually arise from the entity permitting one or more of its assets to be used by a third party. Royalties include, but are not limited to, trademarks, copyright and licenses. A service concession arrangement where an exchange of dissimilar assets occurs usually means the grantor receives a service concession asset and the operator receives the grant of a right (a license) in exchange. The operator uses this license to earn revenue from third party users to provide the return on investment made in the provision of the service concession asset to the grantor and the cost of the ongoing services. The IPSASB considers that the operator is using the grantor's assets.

BC23B. Paragraph 34 of IPSAS 9 requires royalties to be recognized as they are earned in accordance with the substance of the relevant agreement. A service concession arrangement usually permits the operator to access the grantor's asset for a specified period, so during that period, the grantor has a continuing obligation to provide access to the service concession asset so that the operator can earn revenue. The question arises as to whether revenue should be recognized at one point in time or over the period of the arrangement. For most arrangements, the terms require that the grantor gives the operator access to the asset for the entire period of the arrangement and so in general, revenue is recognized on a straight-line basis of the life of the arrangement or another systematic basis that reflects the terms of the arrangement. This will usually be a matter of judgment.

Alternative 2: Revenue Arises from the Rendering of a Service

BC23C. The IPSASB considered whether the revenue met the definition of revenue arising from the rendering of services. Paragraph 7 of IPSAS 9 states that "the rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time." The IPSASB considers that the "agreed task" or transaction is the grantor allowing the operator access to the service concession asset for the period of the arrangement. Over that period, the operator uses the intangible asset to earn revenue to provide the return on investment made in the provision of the service concession asset to the grantor and the cost of the ongoing services.

BC23D. Paragraph 19 of IPSAS 9 requires that revenue from the rendering of services shall be recognized by reference to the stage of completion of the transaction at the reporting date. The agreed task or transaction by the grantor is the access to the service concession asset, so in most instances revenue will be calculated by reference to the amount of access the operator has received at the reporting date compared to the total amount of access to be received under the arrangement.

Alternative 3: Revenue Arises from the Sale of Goods

BC23E. The IPSASB considered whether the revenue met the definition of revenue arising from the sale of goods. Paragraph 28 of IPSAS 9 requires that the entity (the grantor) has

transferred to the purchaser (the operator) the significant risks and rewards of ownership of the goods. The IPSASB noted that in the case of a service concession arrangement, the grantor retains control over the price the operator receives for the services provided by the service concession asset over the period of the arrangement. The IPSASB concluded that the substance of this arrangement is that the grantor retains some of the significant risks and rewards of ownership on the date the assets are exchanged. Thus, revenue recognition will only occur when the grantor ceases to exercise control over the intangible asset.

BC23F. The IPSASB then considered when the grantor would cease to exercise control over the intangible asset. The IPSASB concluded that in most instances control over a past event is not possible; and that control is therefore lost gradually over time. The IPSASB also concluded that this pattern of loss of control requires revenue to be recognized over the period of the arrangement.

BC18. The IPSASB considered whether the grantor should recognize the operating expenses in the circumstances described in paragraph BC17. The IPSASB noted that the grantor's performance obligation recognized relates solely to the service concession asset recognized by the grantor. If the service expenses were recognized, the grantor would also have to recognize annually imputed revenue equal to the annual expense. The IPSASB did not believe this accounting would provide useful information, because revenue and an expense of equal amounts would be recognized annually. The IPSASB noted further that reliable information about the operator's expenses may not be available in any case. The IPSASB therefore concluded that the grantor should not recognize operating expenses associated with the service concession arrangement in the circumstances described in paragraph BC17.

BC15. When the grantor recognizes a service concession asset in accordance with this Standard, it must also recognize a liability of equal amount (increased for any cash received by the grantor and decreased by cash paid by the grantor). The liability reflects the grantor's obligation to compensate the operator for the asset. The IPSASB concluded that depending on the terms of the arrangement, the grantor might recognize any combination of a financial liability and a performance obligation.

Summary of Changes from ED 43

BC24. ED 43 proposed that when the grantor recognizes a service concession asset, a liability shall also be recognized. The ED noted that this liability may be any combination of a financial liability and a performance obligation. A financial liability occurs when the grantor has a determinable series of cash payments to make to the operator. A performance obligation occurs when the grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. ED 43 proposed that the grantor shall account for the performance obligation in accordance with IPSAS 19.

BC25. Respondents had a number of objections to this proposal, as summarized below.

- (a) The right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset was seen by some

respondents as independent of the compensation for the asset. These respondents highlighted that the requirement to provide access is a feature of most service concession arrangements, and if this is to be recognized, such recognition should not be dependent on the non-occurrence of a payment stream from the grantor to the operator.

- (b) While being described as a performance obligation, there is no obligation for an outflow of economic resources from the grantor in future periods. These respondents therefore question whether a liability as defined in IPSAS 1, or a provision as defined in IPSAS 19 could be fairly represented to exist.

BC26. In addition, a number of other respondents, possibly as a result of the above concerns, requested clarification of the meaning of “performance obligation” in the ED. A couple of these respondents queried whether the substance of the nature of this “balancing item” was deferred revenue.

BC27. In responding to these issues, the IPSASB reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from charging the users of the service concession asset or from accessing another revenue-generating asset. The IPSASB noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides a gain to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the Board referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. Discussion relating to IPSAS 9 is in paragraphs BC17–BC21 above.

BC28. Further, the IPSASB noted that using the term “performance obligation” could give rise to confusion because it is used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions.

BC29. The IPSASB’s decision to amend the terminology used in ED 43 from “performance obligation” to the Standard’s use of “revenue received in advance” does not change the grantor’s accounting treatment of a service concession arrangement from that proposed in ED 43.

Accounting Issues Addressed in other IPSASs

- BC3049. Because of the complexity of many service concession arrangement contracts, there may be additional accounting issues related to certain terms in the contract (e.g., revenues, expenses, guarantees, and contingencies). The IPSASB agreed that it was not necessary to repeat such existing guidance in this Standard. Accordingly, when an existing IPSAS specifies the accounting and reporting for a component of a service concession arrangement, that IPSAS is referred to in this Standard and no additional guidance is provided. However,

the IPSASB noted some cases (e.g., revenue recognition), when the application of such IPSASs would be difficult given certain unique features in service concession arrangements. To ensure consistent implementation of this Standard, the IPSASB provided specific guidance on how the principles in the other IPSAS would be applied.

Transition

BC~~3120~~³¹²⁰. This Standard requires an entity that has previously recognized service concession assets and related liabilities, revenues, and expenses to apply this Standard retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Standard also requires an entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting to apply this Standard prospectively, although retrospective application is permitted in such cases. The general requirement in IPSAS 3 is that the changes should be accounted for retrospectively, except to the extent that retrospective application would be impracticable.

BC~~3224~~³²²⁴. The IPSASB noted that there are two aspects to retrospective determination: reclassification and remeasurement. The IPSASB took the view that it will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in a grantor's statement of financial position, but that retrospective remeasurement of service concession assets might not always be practicable, particularly if an entity has not previously recognized service concession assets and related liabilities, revenues, and expenses.

BC~~3322~~³³²². The IPSASB noted that, when retrospective restatement is not practicable, IPSAS 3 requires prospective application from the earliest practicable date, which could be the start of the current period.

Draft Table of Source References⁶

Service Concession Arrangements: Grantor	
<i>Paragraph Number</i>	<i>Reference Source</i>
1	Based on IFRIC 12.4.
2	Based on IFRIC 12.2.
3	No reference source. Terminology specific to this Standard. Binding arrangement wording based on IPSAS 31.20.
4	IPSASB standard paragraph – scope.
5	IPSASB standard paragraph – GBEs.
6	IPSASB standard paragraph – GBEs.
7	No reference source.
8(a)	Based on IFRIC 12.7(a).
8(b)	No reference source.
8(c)	Based on IFRIC 12.27.
9	Based on IFRIC 12.9.
10(a)	Based on IFRIC 12.5(a).
10(b)	Based on IFRIC 12.5(b).
11	Based on IFRIC 12.6.
12	No reference source.
13	No reference source.
14	No reference source.
15	No reference source.
16	Not used.
17	Not used.
18	Not used.
19	Based on IFRIC 12.15.
20	No reference source.

⁶ Numbering of paragraphs has not been updated. This will be done for the June 2011 meeting.

Service Concession Arrangements: Grantor	
<i>Paragraph Number</i>	<i>Reference Source</i>
20A	Based on IFRIC 12.16.
20B	Based on IFRIC 12.19.
20C	Based on IFRIC 12.23.
20D	No reference source.
20E	Based on IFRIC 12.13.
20F	No reference source.
20G	Exchange of dissimilar assets wording based on IPSAS 9.38.
20H	No reference source.
20I	No reference source.
20J	Based on IFRIC 12.18.
20K	No reference source.
21	Not used.
22	Not used.
23	Not used.
24	Not used.
25	Not used.
26	Not used.
27	Based on SIC 29.6.
28	Based on SIC 29.7.
29	No reference source.
30	No reference source.
31	IPSASB standard paragraph – effective date.
32	IPSASB standard paragraph effective date.
AG1	Based on IFRIC 12.3.
AG2	Based on IFRIC 12.1.
AG6	AG2
AG7	AG3

Service Concession Arrangements: Grantor	
<i>Paragraph Number</i>	<i>Reference Source</i>
AG9	AG4
AG10	AG5
AG11	AG6
AG12	AG7
AG13	AG8
Implementation Guidance	Based on IFRIC 12, Information Notes 1 and 2

ED 43 RESPONDENTS' COMMENTS

Performance Obligation

This paper presents staff's analysis of the comments received on the performance obligation issue in ED 43, *Service Concession Arrangements: Grantor*.

List of Respondents on this Issue:

Response #	Respondent Name
1	Head of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)
2	Australasian Council of Auditors-General (ACAG) (Australia/New Zealand)
3	Accounting Standards Board (ASB) Committee on Accounting for Public Benefit Entities (UK)
11	Cour des comptes (Comité consultatif sur la normalisation des comptes publics) (France)
14	Japanese Institute of Certified Public Accountants (JICPA) (Japan)
15	Accounting Standards Board (ASB) (South Africa)
18	Wales Audit Office (UK)
20	Conseil de normalisation des comptes publics (CNOCP) (France)
25	Direction Générale des Finances Publiques (France)
26	Australian Accounting Standards Board (AASB) (Australia)
27	Contrôleur des finances du Québec (Canada)
29	Treasury Board of Canada Secretariat (Canada)
30	Mazars (International)
31	Governmental Accounting Standards Board (GASB) (US)
32	Office of the Comptroller General, Ministry of Finance, British Columbia (OCG BC) (Canada)
33	KPMG (International)

#	COMMENTS	PROPOSED IPSASB RESPONSE
1	<p>Letter</p> <p>However, HoTARAC has concerns with the proposed approach to grantor accountings as the proposal:</p> <p>...</p> <p>Does not adequately explain or justify the basis for recognizing a grantor's performance obligation and does not require such obligations to be recognized in all cases where they arise...</p> <p>Attachment 1</p> <p>Performance obligations exist independently of payment obligations</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 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 AG41).</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</p>	<p>The IPSASB has amended the approach taken in ED 43 relating to “performance obligation” and reconsidered the nature of the arrangement where a grantor compensates an operator for the receipt of a service concession asset by giving the operator a right to earn revenue from third party users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. The IPSASB considers that the nature of the arrangement is an exchange of a grant of a right (to the operator, who accounts for the right as an intangible asset) for a service concession asset (for the grantor). IPSAS 9, <i>Revenue from Exchange Transactions</i> requires that the exchange is a transaction that generates revenue. See paragraphs BC19–BC29 for a more detailed explanation. The timing of revenue recognition is dealt with separately in Agenda Paper 8.1.</p> <p>Paragraph 19 has been amended and paragraphs 21 and 22 have been deleted.</p>

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	<p>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	<p>A grantor's performance obligation is not a provision</p> <p>The ED requires the grantor to account for a performance obligation, where it is recognised, in accordance with Paragraph 22 IPSAS 19, <i>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"> • 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; • IPSAS 19 does not provide any specific guidance on performance obligations; 	References to IPSAS 19 have been deleted.

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	<ul style="list-style-type: none"> 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 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, AG4O). As the timing and amount of the performance obligation are determinable there does not appear to be any requirement for a provision. <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	<p>Definition and measurement of a Performance Obligation</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</p>	<p>The IPSASB has amended the approach taken in ED 43 relating to “performance obligation” and reconsidered the nature of the arrangement where a grantor compensates an operator for the receipt of a service concession asset by giving the operator a right to earn revenue from third party users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. The IPSASB considers that the nature of the arrangement is an exchange of a</p>

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	<p>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> <p>Definitions</p> <p>As discussed above, ACAG believes the performance obligation should be defined. ...</p>	<p>grant of a right (to the operator, who accounts for the right as an intangible asset) for a service concession asset (for the grantor).</p> <p>IPSAS 9, <i>Revenue from Exchange Transactions</i> requires that the exchange is a transaction that generates revenue. See paragraphs BC19–BC29 for a more detailed explanation. The timing of revenue recognition is dealt with separately in Agenda Paper 8.1. This means that a definition for the term “performance obligation” is not required.</p> <p>Paragraphs 22 and 23 have been deleted and references to IPSAS 19 have been deleted.</p>
3	<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>	<p>Further explanation has been included. See paragraphs BC19–BC29 for further details.</p>
11	<p>4. The notion of performance obligation proposed by the IPSAS Board</p> <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. Conversely, this debt would be representative of a “performance</p>	<p>The IPSASB has amended the approach taken in ED 43 relating to “performance obligation” and reconsidered the nature of the arrangement where a grantor compensates an operator for the receipt of a service concession asset by giving the operator a right to earn revenue from third party users of the service concession asset or by granting the operator access to another revenue-generating asset for its use.</p> <p>The IPSASB considers that the nature of the arrangement is an exchange of a grant of a right (to the operator, who accounts for the right as an intangible asset) for a service concession</p>

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	<p>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 funds.</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</p>	<p>asset (for the grantor). IPSAS 9, <i>Revenue from Exchange Transactions</i> requires that the exchange is a transaction that generates revenue.</p> <p>See paragraphs BC19–BC29 for a more detailed explanation.</p> <p>The timing of revenue recognition is dealt with separately in Agenda Paper 8.1.</p>

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	obligation that weighs on the grantor and likewise to draw the corresponding consequences within the conceptual framework and the regulatory mechanism of the IPSAS, which are in the process of being defined.	
14	<p>Other Comment</p> <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>	Further explanation has been included. See paragraphs BC19–BC29 for further details.
15	<p>Recognition and measurement of liabilities</p> <p>19. We recommend that more explanatory guidance be included on the recognition and measurement of the financial liability and the performance obligation to be recognized 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>20. The scenario dealt with in paragraph .23 is not included as an</p>	<p>Further explanation has been included. See paragraphs BC19–BC29 for further details.</p> <p>Paragraphs 21–23 have been deleted as have references to IPSAS 19.</p>

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	<p>option in paragraph 14. We recommend that the paragraph should be elaborated to explain how:</p> <ul style="list-style-type: none"> ○ the performance obligation, that was recognised as a result of the receipt of the service concession asset and as a result of the right to receive payments, should be reduced by the grantor; and ○ the contra entry should be recognised in the statement of financial performance under each of these circumstances. <p>Examples of these scenarios should also be included as part of the illustrative examples for further clarification.</p>	
18	<p>Recognition and measurement of liabilities – performance obligation</p> <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 (<i>Provisions, Contingent Liabilities and Contingent Assets</i>).</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>	<p>Further explanation has been included. See paragraphs BC19–BC29 for further details.</p> <p>Paragraph 19 has been amended and paragraph 22 has been deleted as have references to IPSAS 19.</p>
20	<p>The recognition of a performance obligation liability when the grantor compensates the operator by granting the operator the right to collect fees from users creates some pending accounting issues. As a consequence, no alternative accounting treatment was identified as of today which was approved unanimously. We understand that the performance obligation liability, according to the Exposure Draft, should be accounted in accordance with IPSAS 19 “Provisions, contingent</p>	<p>The IPSASB has used Respondent 20’s suggestion to use another approach, such as focuses on the exchange between the operator who recognizes an intangible asset and the grantor who recognizes a service concession asset. The draft Standard proposes that this transaction is an exchange of dissimilar assets which is accounted for in accordance with IPSAS 9.</p> <p>The IPSASB disagrees with Respondent 20’s suggestion that</p>

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	<p>liabilities and contingent assets” and IPSAS 1 “Presentation of financial statements”. In this standard, liabilities are defined as “(...) <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>” Where the grantor compensates the operator by granting the operator the right to collect fees from users, there is no outflow for the public entity and thus, according to us, no liability.</p> <p>Appendix 2 Detailed comments</p> <p>The recognition of a performance obligation liability when the grantor compensates the operator by granting the operator the right to collect fees from users raises some accounting principles issues.</p> <p>We approve of the principles set out in the Exposure Draft regarding the recognition of a financial liability when the grantor compensates the operator for the service concession asset by making payments on a contractual basis.</p> <p>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, we consider that the recognition of a “performance obligation” liability is not appropriate. The Exposure Draft does not define the exact nature of this liability and only indicates that it should be accounted in accordance with IPSAS19.</p> <p>We believe that this “performance obligation” is not compliant with IPSAS 19.18 which defines liabilities as “(...) <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>” and provision as “(...) <i>a liability of uncertain timing or amount.</i>” When an arrangement provides an operator with the right to collect fees from users of the service concession asset, there is therefore no outflow of resources from the public entity. On the contrary, we consider that when an asset is used to provide a public service, there the public entity “gains” an immediate service potential. The Exposure Draft also sets out that reductions in the liability should be done as access to the service concession asset is given (AG38), which generates a charge in the P&L.</p>	<p>revenue should not be recognized as a result of this transaction because it would not be in accordance with the requirements of IPSAS 9, i.e., the exchange of dissimilar assets which gives rise to revenue.</p>

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	<p>We question the nature or meaning of this charge, as this topic is not addressed in the Exposure Draft.</p> <p>We would also like to highlight the difficulties in terms of understandability, arising from the recognition of a “performance obligation” liability in the financial statements of a public entity. According to us, this liability could generate several inappropriate interpretations. We think that the recognition of a liability, as there is no direct payment made by the public entity, is contradictory with the fact that the asset is supposed to be controlled by the public entity. We also believe that the accounting treatment proposed in the Exposure Draft is aimed to avoid an immediate “gain” for the public entity, with no accounting basis, rather than to provide information on future outflows to the user of the financial statements. We firmly believe that this accounting treatment might generate confusion about the “meaning” of the liabilities recognized in the balance sheet of the grantor.</p> <p>We do not deny that the “performance obligation” which is evidenced by the ED43 is a contractual reality, but we do not think that such an obligation should be recognized in the balance sheet as it is not consistent with the actual definition of a liability (cf. IPSAS 1 and IPSAS 19). This issue has imperatively to be discussed and clarified through the conceptual framework, as we believe that introducing such a new accounting notion creates a significant risk to increase very broadly the scope of the potential obligations to be traduced as liabilities in public entities balance sheet. The CNOCP considers that there is a risk in setting out in a standard a notion which is not based on known accounting definitions. Furthermore, we think that the information on the “performance obligation” is already provided to the user of the financial accounts through the financial disclosures (ED43.BC2).</p> <p>As a consequence, we do not favor an accounting treatment of SCA for the grantor “mirroring” the accounting treatment set out by IFRIC 12 as it is explained in the Exposure Draft (ED43.BC2). The “symmetry” in the accounting treatment is a “construction” and is not justified, according to us, on contractual or economical ground. When an operator recognizes an intangible asset to the extent that it receives a right (a licence) to charge users of the public service in its balance sheet, there is no corresponding</p>	

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	<p>liability in the balance sheet of the grantor⁵.</p> <p>We believe that other approaches should be proposed. We think, in particular, that an approach based on the fact that the operation between the grantor and the operator is basically an “exchange” might be analysed. In this approach, the exchange is performed between the grantor and the operator, as set out in IFRIC 12 in the “intangible asset model”, which is the model to be used when the operator receives a right to charge user of the public service (vs. right to receive cash or another financial asset) in exchange of its services (e.g. constructing, operating, maintaining,..., an infrastructure). The operator receives from the grantor a right to charge users of the public service which is an intangible asset. This intangible asset <u>was not recognised previously in the balance sheet of the grantor</u>: it is “identified” by the grantor at the same moment as it is exchanged against an infrastructure provided by the operator.</p> <p>This exchange should have no impact on the balance sheet of the grantor, who exchanges an intangible asset for a tangible asset. Nevertheless, when the operation is performed an increase in the net assets of the grantor can be observed “automatically”, as the exchange is performed between an intangible which was not recognised previously in the balance sheet of the grantor (i.e. with a zero value) and a tangible asset. According to us, the counterpart of the increase in the net assets of the grantor cannot be accounted (i) as a liability (see above for explanations) nor (ii) as revenue: revenue is defined in IPSAS as the gross inflow of economic benefits or service potential during the reporting period. As described above, the increase of the net asset of the grantor is generated “automatically” because of the “zero value” of the intangible asset which was not recognised previously in the balance sheet of the grantor, but the exchange operation should have no impact on the net asset of the grantor. Therefore, according to us, the increase of the net asset should not be accounted as revenue of the reporting period nor any specific accounting period (we also think that such an accounting treatment would weaken the understandability and relevance of the financial performance reported for the period). As a consequence, we believe that the “exchange” described below has a direct impact on the residual interest in the assets of the entity after deducting all its liabilities, i.e. on the equity⁷.</p>	

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	<p>⁵ We consider that the approach developed in the project of the IASB concerning leases is not appropriate when analyzing SCA. There is a main difference between those two types of contracts: in a SCA, the grantor beneficiates of the use (ie. the service potential) of the asset and transfer to the operator only a right to operate whereas, in a lease, the operator beneficieate of the use (ie. the service potential) of the asset.</p> <p>⁶ <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.” (IFRIC12.17) and “IAS 38 applies to the intangible asset recognised in accordance with paragraphs 17 and 18. Paragraphs 45—47 of IAS 38 provide guidance on measuring intangible assets acquired in exchange for a non-monetary asset or assets or a combination of monetary and non-monetary assets.” (IFRIC12.26)</i></p> <p>⁷ <i>“Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.” (IPSAS1.7).</i></p>	
25	<p>Inconsistency of “Performance obligation” with definition of a liability</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, Contingent 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</p>	<p>The IPSASB agrees with the Respondent that the exchange of a grant of a right to charge users of the service concession asset for the service concession asset itself should be treated as an exchange of dissimilar assets.</p> <p>The draft Standard has been amended accordingly.</p> <p>However, in accordance with IPSAS 9, the IPSASB does agree that the exchange of dissimilar assets gives rise to revenue.</p> <p>The timing of revenue recognition is dealt with separately in Agenda Paper 8.1.</p>

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	<p>right to collect fees from users as there is no outflow of resources embodying economics benefits where as the grantor receives 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 an account receivable. This accounting seems not to be compliant with the “mirror” approach favoured by the Board.</p> <p>Alternative approach: exchange model</p> <p>We suggest the Board to develop the exchange model as set out in the IFRIC 12 in the intangible asset model. This model is based on the asset exchanges, the operator receives an intangible asset: the right to charge users for the exchange of its construction and/or upgrade services.</p> <p>This intangible asset is not recognised by the grantor previously to the service concession arrangement, as it cannot be reliably estimated. This is the service concession arrangement that gives rise to the intangible asset and lead to its reliable estimate. According to this approach, the accounting treatment should reflect two simultaneous operations:</p> <ul style="list-style-type: none"> • The recognition by the grantor of the pre-existent intangible asset representative of the right to charge users given rise by the concession service concession arrangement and, • The granting of this right to the operator in exchange for its construction and/or upgrade Services. <p>Finally, the exchange should lead to the recognition of the service concession asset by the grantor and the recognition of the intangible asset by the operator.</p> <p>This treatment would be compliant with the standard IPSAS 9 “Revenue from Exchange Transactions”, as the service concession arrangement is compliant with the definition of an exchange transaction.</p> <p>IPSAS 9.17 set out that “<i>when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue.</i>”</p> <p>Nevertheless, we believe that the exchange should not lead to the recognition of revenue of a specific period. Indeed, the exchange</p>	

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	transaction doesn't generate an inflow of economics benefits or potential service as the right to charge users exists previously to the service concession arrangement.	

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26	<p>Recognition of Performance Obligations</p> <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>Secondly, it is not clear from the ED whether the grantor has a</p>	<p>The IPSASB has amended the approach taken in ED 43 relating to "performance obligation" and reconsidered the nature of the arrangement where a grantor compensates an operator for the receipt of a service concession asset by giving the operator a right to earn revenue from third party users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. The IPSASB considers that the nature of the arrangement is an exchange of a grant of a right (to the operator, who accounts for the right as an intangible asset) for a service concession asset (for the grantor). IPSAS 9, <i>Revenue from Exchange Transactions</i> requires that the exchange is a transaction that generates revenue. See paragraphs BC19–BC29 for a more detailed explanation.</p> <p>The timing of revenue recognition is dealt with separately in Agenda Paper 8.1.</p>

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	<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	<p>2. Distinction between financial liabilities and performance obligations (Paragraphs 19 to 23 (pages 11 and 12), paragraphs AG21 to AG41 (pages 18 to 21) and paragraphs BC10 to BC18 (pages 28 to 30))</p> <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 particularly, non-monetary transactions related to performance obligations to be presented separately from monetary transactions related to the repayment of the financial liability.</p>	<p>The IPSASB has discussed and reaffirmed that it considers the “mirroring” of IFRIC 12 is appropriate. This means that the IPSASB does not consider it to be appropriate to present the income and expenditure relating to transactions by the partner.</p>
29	<p><i>Definition of performance obligation</i></p> <p>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.</p>	<p>The IPSASB has amended the approach taken in ED 43 relating to “performance obligation” and reconsidered the nature of the arrangement where a grantor compensates an operator for the receipt of a service concession asset by giving the operator a right to earn revenue from third party users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. The IPSASB considers that the nature of the arrangement is an exchange of a grant of a right (to the operator, who accounts for the right as an intangible asset) for a service concession asset (for the grantor). IPSAS 9, <i>Revenue from Exchange Transactions</i> requires that the exchange is a transaction that generates revenue. See paragraphs BC19–BC29 for a more detailed explanation.</p> <p>The timing of revenue recognition is dealt with separately in Agenda Paper 8.1. This means that a definition for the term</p>

#	COMMENTS	PROPOSED IPSASB RESPONSE
		“performance obligation” is not required.
30	<p>6. Recognition and measurement of the liability (performance obligation)</p> <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 “Provisions, Contingent Liabilities and Contingent Assets”. 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 “Revenue from Exchange Transactions”. 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 “Provisions, Contingent Liabilities and Contingent Assets”. On the contrary, the grantor should recognise revenue according to IPSAS 9 “Revenue from Exchange Transactions” and as stated in ED 43 AG43.</p>	Paragraphs 22 and 23 have been deleted as have references to IPSAS 19.
31	<p><i>Recognition and Measurement of Liabilities</i></p> <ul style="list-style-type: none"> 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 	Paragraph 19 has been amended.

#	COMMENTS	PROPOSED IPSASB RESPONSE
	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."	
31	<ul style="list-style-type: none"> 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. 	Paragraph 22 has been deleted.
32	<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 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</p>	<p>The IPSASB notes that cash paid to the operator may be for a variety of items relating to the arrangement, e.g., finance charges, operating costs, and therefore an up-front payment may not relate solely to the financial liability. The grantor will need to refer to the terms of the arrangement when allocating cash paid. Note also that paragraph AG32 states the following:</p> <p>"Where the grantor makes any payments to the operator in advance of the service concession asset being recognized, the grantor accounts for those payments as prepayments."</p>

#	COMMENTS	PROPOSED IPSASB RESPONSE
	<p>measured in accordance with paragraphs 15–17 unless the grantor makes payments to the operator during the construction period; in which case, the liability shall be initially measured at the same amount as the service concession asset less any payments made by the grantor to the operator during the construction period of the service concession asset.</p>	
32	<p>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—Revenue from Exchange Transactions. 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 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.</p>	<p>Paragraph 24 has been deleted. The terms of the binding arrangement will determine whether the arrangement is a service concession arrangement within the scope of this Standard, or some other kind of arrangement such as an agent/principal relationship. Where the arrangement is within the scope of the Standard, the grantor only recognizes revenue where it has received a service concession asset in exchange for granting the operator a right to collect fees from the third party users of the asset. The IPSASB is unclear as to why these fees would be revenue of the grantor where the arrangement is in the scope of this Standard. Note also that paragraph AG39 states the following:</p> <p>“When the operator collects third-party revenues, the grantor does not recognize revenue unless the arrangement also contains revenue-sharing provisions (see paragraphs AG48–AG49) or minimum-revenue guarantees (see paragraphs AG56–AG57).”</p>
33	<p><i>Recognition and Measurement of Liabilities</i></p> <ul style="list-style-type: none"> 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 	<p>The draft Standard has been amended to clarify where a financial liability will arise and the wording is based upon paragraph 16 of IFRIC 12.</p>

#	COMMENTS	PROPOSED IPSASB RESPONSE
	<p>obligation” referred to in paragraph 19 meets the definition of a liability in IPSAS 1, Presentation of Financial Statements. 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. 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> <ul style="list-style-type: none"> • 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, Financial Instruments: Presentation, IPSAS 29, Financial Instruments: Recognition and Measurement, and IPSAS 30, Financial Instruments: Disclosures, or a performance obligation requires additional clarification. <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 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, BC38) 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</p>	

#	COMMENTS	PROPOSED IPSASB RESPONSE
	<p>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. 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</i></p>	

#	COMMENTS	PROPOSED IPSASB RESPONSE
	<p><i>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 BC40 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> <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>	
33	<ul style="list-style-type: none"> 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 	<p>Paragraph 19 has been amended and paragraphs 21–23 have been deleted.</p>

#	COMMENTS	PROPOSED IPSASB RESPONSE
	<p>the ED.</p> <p>...</p> <ul style="list-style-type: none"> 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: <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>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 AG51 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>	

OTHER ISSUES BY RESPONDENTS

TO ED 43, *SERVICE CONCESSION ARRANGEMENTS: GRANTOR*

PURPOSE:

This paper presents the staff's initial 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. It is carried forward and updated from the paper presented (but not discussed) at November 2010 IPSASB meeting. The TBG will address the issues in detail following the IPSASB's direction at this meeting.

LIST OF RESPONDENTS:

Response #	Respondent	Response #	Respondent
1	Head of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Australia)	18	Wales Audit Office
2	Australasia Council of Auditors General (ACAG)	19	Fédération des Experts comptables Européens
3	Accounting Standards Board Committee on Accounting for Public-Benefit Entities (UK)	20	Conseil de normalization des comptes publics (France)
4	Joint Accounting Bodies (Aus)	21	Institute for the Accountancy Profession (Far) (Sweden)
5	Prof. Keith Glaister (University of Sheffield)	22	Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE)
6	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	23	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)
7	National Financial Management Authority (ESV) (Sweden)	24	Auditor General of Quebec (Canada)
8	Public Sector Accounting Board (PSAB) (Canada)	25	Direction Générale des Finances Publiques (France)
9	New Zealand Treasury	26	Australian Accounting Standards Board (AASB)
10	Audit Commission (UK)	27	Contrôleur des finances du Québec (Canada)
11	Cour des comptes (Comité consultative sur la normalization des comptes publics) (France)	28	Institute of Chartered Accountants of Pakistan

Response #	Respondent	Response #	Respondent
12	Ernst & Young	29	Treasury Board of Canada Secretariat
13	Institute of Chartered Accountants of Scotland (ICAS)	30	MAZARS
14	Japanese Institute of Certified Public Accountants (JICPA)	31	US Governmental Accounting Standards Board (GASB)
15	Accounting Standards Board (ASB South Africa)	32	Office of the Comptroller General of British Columbia (OCG BC) Canada
16	Association of Chartered Certified Accountants (ACCA) (global body for professional accountants)	33	KPMG
17	Dr. Joseph Maresca		

COMMENTS BY ISSUE

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1. Arrangements Outside the Scope of ED 43

#	COMMENT	PROPOSAL
	Arrangements Outside the Scope of ED 43	
1	<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 ...does not deal with service concession arrangements that fail the proposed grantor control criteria.</p> <p>Some arrangements are not contemplated</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 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> <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 at the end of the concession period but, applying the ED's proposed grantor, does not control the use of the property during the concession period. Such arrangements would be outside the scope of</p>	<p>The IPSASB agreed at its November 2010 meeting that it was not necessary to provide guidance.</p> <p>The IPSASB also agreed that the scope should not be broadened to include other types of public-private arrangements beyond those meeting the recognition criteria in ED 43; however, the Basis for Conclusions needs to explain clearly that these other types of arrangements are not within the scope of the proposed IPSAS and that the IPSASB may decide to undertake a project to address them in the future. (see draft Jakarta Minutes at Agenda Paper1.3, item 5).</p> <p>It should be noted that if the control criteria are not met, the arrangement is NOT a SCA for the purposes of the proposed Standard. This will also be clarified in the next version of the proposed Standard (in June 2011).</p>

#	COMMENT	PROPOSAL
	<p>Arrangements Outside the Scope of ED 43</p> <p>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>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>	
15	<p>39. 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>	See proposal under Respondent #1 above.
20	<p>Letter</p> <p>The prescriptions of the Exposure Draft regarding the accounting treatment of the SCA are not broad enough. The objective of the future standard is to prescribe an accounting treatment for SCA in the grantor financial statements as explained in the introduction to the Exposure Draft (ED43 .INI). We consider that the Exposure Draft in its actual form does not achieve this ambition, as there are no specific dispositions proposed for the assets which do not meet the control criteria or for the assets which partially meet those control criteria.</p>	See proposal under Respondent #1 above.

#	COMMENT	PROPOSAL
	Arrangements Outside the Scope of ED 43	
	<p>We believe that some provisions should have been proposed in the Exposure Draft (e.g. information to be given in the financial disclosures).</p> <p>We also consider that the nature or extent of the arrangements which are within the scope of the Exposure Draft is not clear enough. It should be clarified whether it includes all arrangements involving an operator constructing or developing an asset used to provide a public service (<i>ED43.IN5</i>) or the arrangements which oblige the operator to provide the public services (<i>ED43.7</i>)?</p> <p>We consider that the approach developed in the project of the IASB concerning leases is not appropriate when analyzing SCA. There is a main difference between those two types of contracts: in a SCA, the grantor beneficiates of the use (ie. the service potential) of the asset and transfer to the operator a right to operate whereas, in a lease, the operator beneficiate of the use (ie. the service potential) of the asset.</p> <p>Appendix 2</p> <p>The future standard should prescribe the accounting treatment by the grantor for SCA as explained in the introduction to the Exposure Draft (<i>ED43.IN1</i>). We consider that the Exposure Draft in its actual form does not achieve this ambition, as there are no specific dispositions proposed for the assets which do not meet the control criteria or for the assets which partially meet those control criteria. We believe that some dispositions should have been proposed in the Exposure Draft (e.g. information to be given in the financial disclosures). SCA for French hydraulic infrastructures are an illustration of this issue: the contracts do not include any price regulation clause and the grantor does not regulate the service provided. Nevertheless, the grantor regulates the utilization of the infrastructure and the operator must return the infrastructure to the grantor at the expiration of the concession arrangement. On the basis of the criteria set out by the Exposure Draft (<i>ED43.IO</i>), those assets would not be within the scope of the future standard and no specific information on those contracts would be provided: it highlights, according to us, a major issue regarding the scope of the Exposure Draft. For service concession assets which are not within the scope of the standard because they are not controlled, the implementation guidance (p. 31 & 32 of the Exposure Draft) which refer to IPSAS17 and IPSAS3 1 is not appropriate according to us.</p> <p>We also consider that the nature or extent of the arrangements which are within the scope of the Exposure Draft is not clear enough. It should be clarified whether it includes all arrangement involving an operator constructing or developing an asset used to provide a public service (<i>ED43.IN5</i> “<i>An arrangement within the scope of this Standard typically involves an operator constructing or developing an asset used to provide a public service</i></p>	

#	COMMENT	PROPOSAL
	Arrangements Outside the Scope of ED 43	
	<i>or upgrading an existing asset (e.g., by increasing its capacity) and operating and maintaining the asset for a specified period of time”) or the arrangements which oblige the operator to provide the public services (ED43.7 “To be within the scope of this Standard, an arrangement must be binding on the parties to the arrangement and oblige the operator to provide the public services related to the service concession asset to the public on behalf of the grantor”).</i>	
24	<i>Arrangements not involving the supply of public services</i> 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.	See proposal under Respondent #1 above.
25	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. The case of service concession arrangements that do not satisfy to all the control criteria 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.	See proposal under Respondent #1 above.
26	BOOT Arrangements 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. 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	See proposal under Respondent #1 above.

#	COMMENT	PROPOSAL
	Arrangements Outside the Scope of ED 43	
	residual interest being held by the grantor.	

2. Capital Work-in-Progress

#	COMMENT	PROPOSAL
	Capital work-in-progress	
1	<p>The ED discusses the timing of recognition of a service concession asset constructed by the operator. Paragraph AG20 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>	<p>It is proposed that the guidance in paragraph AG20 be amended to explain that the specific terms and conditions of the binding arrangement need to be considered.</p> <p>For example, where an operator has invoiced the grantor, it is likely that the grantor bears the construction risk and will recognize a work-in-progress (WIP) service concession asset. (The operator will have a WIP service concession asset in inventories.)</p>
1	<p>Paragraph AG20 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"> • 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. • 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. • 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 	<p>See proposal under Respondent #1 above.</p>

#	COMMENT	PROPOSAL
	Capital work-in-progress	
	over several years. 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.	
9	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. <ul style="list-style-type: none"> 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. 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. Treasury recommends that AG20 be reworded so that costs are normally recognised as they accrue. 	See proposal under Respondent #1 above.
15	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.	See proposal under Respondent #1 above.
20	Concerning the timing of the initial recognition, in the case where the operator builds or develops the asset, we do not agree with the application guidance set out in the Exposure Draft (ED43.A020) as it is based on the risk approach. This guidance is not consistent with the control approach set out by the Exposure Draft and the asset recognition criteria have to be consistent. As a consequence, we suggest to correct the application guide in order to propose a control based approach for the recognition of the concession asset during the construction phase.	See proposal under Respondent #1 above.
26	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	See proposal under Respondent #1 above.

#	COMMENT	PROPOSAL
	Capital work-in-progress	
	<p>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>	
30	<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</p>	See proposal under Respondent #1 above.

#	COMMENT	PROPOSAL
	Capital work-in-progress	
	<p>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	<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 JPSAS 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>	See proposal under Respondent #1 above.

3. Recognition and Measurement of Service Concession Assets

#	COMMENT	PROPOSAL
	(a) Timing of Recognition	
12	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.	The timing of the consideration of the control criteria is not specified in IFRIC 12. In practice, the criteria would likely be assessed before entering into/finalizing the terms of the arrangement. No change is proposed.
15	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.	See proposal under Respondent #12 above.

#	COMMENT	PROPOSAL
	(b) Initial measurement at fair value	
3	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.	Under IPSAS 9 (see Agenda Paper 8.1), exchanges of dissimilar assets are initially measured at fair value. Under IPSAS 17.38, and IPSAS 31.44, the fair value in such cases becomes the initial cost. This situation would not differ from other public sector assets which may be specialized. No change is proposed.
9	Treasury notes that the ED proposes that when a grantor recognises a service concession asset it should also recognise a corresponding liability, initially measured at the fair value of the asset. 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.	This issue will need to be considered in light of the IPSASB's preferred approach to dealing with the performance obligation issue (see Agenda Paper 8.1).

#	COMMENT	PROPOSAL
	<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"> • 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"> ○ 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. ○ 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. • 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: 	

#	COMMENT	PROPOSAL
	<ul style="list-style-type: none"> o 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 economic substance would not be reflected in the accounting; or o 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. <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	<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>	See proposal under Respondent #3 above.
12	<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>	See proposal under Respondent #3 above.
13	<p>Page 11, paragraph 17. Paragraph 17 makes a passing reference to using ‘estimation</p>	See proposal under Respondent #3 above.

#	COMMENT	PROPOSAL
	<p>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 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.</p>	<p>In addition, staff considers that it is not necessary to provide guidance on estimation techniques.</p>
15	<p>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.</p>	<p>See proposal under Respondent #3 above.</p>
20	<p>The initial measurement of service concession asset at fair value is not appropriate. We approve that the general dispositions of the Exposure Draft regarding recognition and measurement of assets, which are to be accounted for in accordance with IPSAS 17 “Property, plant and equipment” or IPSAS 31 “Intangible assets”. Nevertheless, the Exposure Draft set out that the grantor shall initially measure the original service concession asset at fair value (IPSAS17.15). We question this disposition, as this accounting treatment is not consistent with the ones set out in the above mentioned standards (<i>“an item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.”</i>). We believe that there should not be any inconsistency between the future standard for SCA and IPSAS17 and IPSAS 31 regarding recognition and measurement of assets: as a consequence, the asset has to be initially measured at cost and not at fair value”. This would also insure that the accounting treatment for a same category of assets (e.g. roads or highways) controlled by the grantor is consistent no matter if the asset is operate directly by the public entity or through a SCA.</p> <p>We believe that the fair value of the service concession asset would be in many cases evaluated at its cost as there is no market value for many infrastructure asset (hydraulic infrastructure, highways,...).</p> <p>It should also be clearly explained in the Exposure Draft that the cost model is to be applied even when the public entity does not directly finance the asset through payments: when the operator collects fees from users, information on the value of the infrastructure is often available in financial reporting communicated to the grantor and should be used to measure initially the asset, It is to be noted that the Exposure Draft already highlights the difficulties that might be encountered to evaluate the fair value of the assets (ED43.A024):</p>	<p>See proposal under Respondent #3 above.</p>

#	COMMENT	PROPOSAL
	it emphasizes, according to us, the inadequacy of the fair value model for SCA.	
29	<p><i>Determination of separable payments</i></p> <p>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.</p>	See proposal under Respondent #13 above.
30	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.	As described in Agenda Paper 8.1, the proposed Standard is intended to address exchange transactions. No change is proposed.
31	<p>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:</p> <p>The grantor shall initially measure <u>the original or 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></p>	<p>It was not the intent in ED 43 for existing assets of the grantor to be remeasured at fair value. It is proposed that paragraph 15 in ED 43 be amended as follows to clarify this issue:</p> <p>See proposed changes in Agenda Paper 8.2 (paragraph 13).</p>
32	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	See proposal under Respondent #3 above.

#	COMMENT	PROPOSAL
	arrangement assets' costs were also equal to their fair value.	
32	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.	See proposal under Respondent #3 above.
33	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: <i>The grantor shall initially measure the original or 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> 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.	Paragraph 15 has been deleted; this issue is dealt with in paragraph 15 (see Agenda Paper 8.2).
33	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: <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</i>	Under the proposed changes to ED 43 (see Agenda Paper 8.2), this paragraph is deleted. No change is proposed.

#	COMMENT	PROPOSAL
	<i>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>	
33	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: <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>	The TBG will consider the implications of making this change with respect to the addition of the second condition.
33	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 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. 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.	Paragraph AG26 refers to paragraph 14(b) (now 15(b)), which only deals with the grantor's compensation of the operator (the "grant of a right to the operator" model). The TBG will consider this comment further in light of the other changes related to paragraph 14(b) under the performance obligation issue.
33	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.	The allocation of the various forms of compensation from grantor to operator, and vice versa, would depend on the terms of the arrangement. The total value of all forms of compensation provided would be the fair value of the transaction.

#	COMMENT	PROPOSAL
	(c) Subsequent Measurement	
20	Concerning the measurement of the asset after recognition (ED43.18), we believe that the future standard should set out that for a same category of asset, the accounting principles and treatment have to be consistent no matter if the asset is operated directly by the public entity or through a SCA. The application guidance should also indicate that SCA specific contractual conditions (such as required replacements) might have an impact on the measurement of the asset value after recognition ³ .	Paragraph 18 has been deleted (see Agenda Paper 8.2). Staff agrees that accounting treatment should be consistent for same classes of assets – whether operated directly by the public entity or through a SCA..
32	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.	Subsequent measurement is in accordance with IPSAS 17. No change proposed.

4. Definitions

#	COMMENT	PROPOSAL
	Definitions	
2	As discussed above, ACAG believes the performance obligation should be defined.	N/A – see Agenda Paper 8.1.
2	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...".	Agree to make the change, as proposed below: (c) A service concession asset is an asset used to provide public services in a service concession arrangement that meets conditions for recognition set out in paragraph 10 (or paragraph 11 for a whole-of-life asset) <u>or for reclassification as set out in paragraph 13.</u>
12	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.	This is the format adopted in IFRIC 12, which is being mirrored in ED 43. See #26 below under "Definitions".
15	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". The section dealing with definitions should be included after the "scope".	See #26 below under "Definitions".
23	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. <ul style="list-style-type: none"> - Public service: where is the border, what is understood under this expression? - Operator - Key expressions, such as constructing/developing, operating, maintaining, because they are useful in determining whether it is a service concession arrangement. - 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)? - 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. 	See #26 below under "Definitions". Re: "public service", IFRIC 12, para. 1 includes a description of public service: "In many countries, infrastructure for public services—such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks—has traditionally been constructed, operated and maintained by the public sector and financed through public budget appropriation." This paragraph is adapted in paragraphs IN4 and AG2. It is not necessary to have a definition of public service, or the other expressions noted, because it is meeting the conditions in paragraph 10 of ED 43 that

#	COMMENT	PROPOSAL
	Definitions	
		determines whether an arrangement is in its scope. The IPSASB had previously decided not to specify that the useful life of an asset is a factor in determining whether it meets the definition of a service concession asset.
26	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.	Staff agrees with the Respondent’s comment that no change is required, for the reasons noted.
26	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.	Agree to the suggested change.

5. Whole-of-Life Assets

#	COMMENT	PROPOSAL
	Whole-of-life Assets	
12	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.	The IPSASB reconfirmed the “mirror” approach at its November 2010 meeting. The treatment of “whole-of-life” assets is consistent with IFRIC 12.BC19; no change is proposed.
15	Paragraph 11 determines that only the condition in paragraph 10(a) applies to 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. As an alternative, a definition could be included for “whole-of-life assets” as part of the definition section of this proposed IPSAS.	See comment under Respondent #12 above.

6. Move Application Guidance to Body of Standard

#	COMMENT	PROPOSAL
	Move Application Guidance to Body of Standard	
10	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.	Guarantees that are part of a service concession arrangement are not explicitly mentioned in the body of the Standard but only in the Application Guidance. Staff considers this to be the appropriate location.
15	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.	The IPSASB, consistent with IFRIC 12, does not provide details of other standards that also apply to SCAs. Those details are provided in the Application Guidance as they generally are related to other IPSASs. Note that Application Guidance has the same authority as the body of the Standard. This paragraph provides guidance on paragraph 10(b). No change is proposed.
15	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.	See proposal under Respondent #15 above.
15	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.	See proposal under Respondent #15 above.
15	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.	See proposal under Respondent #15 above.
15	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.	See proposal under Respondent #10 above.
15	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	See proposal under Respondent #15 above.

#	COMMENT	PROPOSAL
	Move Application Guidance to Body of Standard	
	should be included as part of the text of the proposed IPSAS.	
15	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.	This term is used in other IPSASs. It is not within the scope of this proposed Standard to set out recognition principles for prepayments. No change is proposed.
24	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.	See proposal under Respondent #15 above.
15	This section (recognition and measurement of expenses) 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. 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.	See proposal under Respondent #15 above.
26	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.	See proposal under Respondent #15 above. AG19 provides guidance on the situation described in paragraph 8(b), which it does not duplicate.
33	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.	Staff disagrees that these items are unique to SCAs and that the underlying principle would differ from IPSAS 9. No change is proposed.

7. Existing Assets of the Grantor

#	COMMENT	PROPOSAL
	Existing Assets of the Grantor	
8	<p>Paragraph 8 (c) indicates “<i>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</i>”, while paragraph 8 (d) indicates “<i>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.</i>”</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>	Paragraph 8(c) has been amended and paragraph 8(d) has been deleted (see Agenda Paper 8.2).
13	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.	See proposal under Respondent #8 above.
15	<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>	See proposal under Respondent #8 above.
15	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	See proposal under Respondent #8 above.

#	COMMENT	PROPOSAL
	Existing Assets of the Grantor	
	with recognition principles and should rather be included in the section dealing with recognition. 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.	
15	The proposed IPSAS requires the classification, or re-classification of existing assets, as service concession assets. We recommend that the guidance in the proposed IPSAS should be elaborated to explain when such assets should be re-classified to existing assets, for example to property, plant and equipment or intangible assets.	See proposal under Respondent #8 above.
18	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.	See proposal under Respondent #8 above.
18	Paragraph 12 refers to the reclassification of an existing asset of the grantor as a service concession asset. The paragraph states: <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> 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: <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</i>	See proposal under Respondent #8 above. The wording suggested by Respondent #18 has been taken into account in the amended paragraph 13 (formerly paragraph 12)..

#	COMMENT	PROPOSAL
	Existing Assets of the Grantor	
	<i>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>	
22	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. 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".	See proposal under Respondent #8 above.
24	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. 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 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.	See proposal under Respondent #8 above.
24	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.	See proposal under Respondent #8 above.
33	Paragraph 12 of the ED states the following: <i>Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph 10 (or paragraph 1] for a whole-of-life asset), the grantor <u>shall not recognize the asset as a service concession asset in accordance with this Standard.</u> 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> 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	Agree to clarify this paragraph (see Agenda Paper 8.2, paragraph 13).

#	COMMENT	PROPOSAL
	Existing Assets of the Grantor	
	that this phrase be deleted from the final standard or language similar to that in paragraph AG15 be incorporated into paragraph 12.	

8. Residual Interest

#	COMMENT	PROPOSAL
	Residual Interest	
1	<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>	<p>The guidance on residual interest is consistent with IFRIC 12. No change is proposed.</p>

9. Future Economic Benefits

#	COMMENT	PROPOSAL
	Future Economic Benefits	
1	<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. A control model based solely on a consideration of service potential without having regard to economic benefits may produce inappropriate outcomes. In many service 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. HoTARAC therefore recommends that the conceptual rationale for preferring service potential over economic benefits be reconsidered.</p>	<p>Staff disagrees with this comment. From the grantor's point of view, the primary purpose of entering into SCAs is to provide service potential to its constituents that it would not otherwise be able to provide. There may indeed be economic benefits but they ordinarily accrue to the operator.</p> <p>It is proposed to amend paragraph BC11 as follows:</p> <p>"...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 <u>to the public sector entity</u>, such as revenue generated by these assets from user fees".</p>
26	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.	See proposal under Respondent #1 above.

10. Recognition and Measurement of Liabilities

#	COMMENT	PROPOSAL
	(a) Recognition and Measurement of Liabilities	
9	<ul style="list-style-type: none"> 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 as these arrangements are for large amounts and often involve construction period covering a number of years. 	See proposal under "capital work-in-progress" issue above.
13	Page 11, paragraph 20. In general terms we agree that a service concession liability should be measured at the same amount as the service concession asset on initial recognition. However, we believe that the material on subsequent recognition of a service concession liability should be expanded to deal with circumstances where a service concession arrangement becomes onerous or, indeed, could be considered onerous at inception. We recommend that a cross-reference is included to the material in IPSAS 19 "Provisions, contingent liabilities, and contingent assets" on onerous contracts.	IPSAS 19 is referenced in a general sense. All the provisions of that Standard would apply.
15	<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"> the performance obligation, that was recognised as a result of the receipt of the service concession asset and as a result of the right to receive payments, should be reduced by the grantor; and the contra entry should be recognised in the statement of financial performance under each of these circumstances. 	<p>Paragraphs 21 and 22 have been deleted.</p> <p>Staff considers that the financial liability issue is appropriately addressed in other IPSASs, which are referred to, but not reintroduced, in the proposed Standard.</p> <p>With respect to the performance obligation, see the discussion in Agenda Paper 8.1.</p>

#	COMMENT	PROPOSAL
	(a) Recognition and Measurement of Liabilities	
	Examples of these scenarios should also be included as part of the illustrative examples for further clarification.	
31	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.”	See the proposed changes to ED 43 regarding the performance obligation issue in Agenda Paper 8.1. If there is a series of payments, there is a financial liability. No other change is proposed.
32	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: 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.	This pertains to the financial liability. The TBG will consider the need for this guidance. See also comment of Respondent #33 below.
33	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. 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	See comments under Respondent #31 above.

#	COMMENT	PROPOSAL
	(a) Recognition and Measurement of Liabilities	
	<p>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 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</p>	

#	COMMENT	PROPOSAL
	(a) Recognition and Measurement of Liabilities	
	<p>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> <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.</p>	
33	<p>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</p>	<p>This guidance was contained in paragraph BC15 of ED 43. It pertains solely to a financial liability.</p> <p>The TBG will consider whether this guidance</p>

#	COMMENT	PROPOSAL
	(a) Recognition and Measurement of Liabilities	
	ED.	should be reinstated (see Agenda Paper 8.1, which proposes changes to this section of ED 43 to address the performance obligation issue). See also comment of Respondent #32 above.
33	<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 AG51 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>	See Agenda Paper 8.1 for proposals regarding the performance obligation issue.

11. Finance Charge/Discount Rate

#	COMMENT	PROPOSAL
	Finance Charge/Discount Rate	
3	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 interest rate. The standard should, in our view, explain the rationale for the selection of the required rate.	This rate was chosen as it mirrors IFRIC 12. Paragraph AG33 requires the rate to be practicable to determine. Paragraphs AG34-AG36 provide guidance on when this rate is not practicable to determine. No change is proposed.
27	<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>	See comments under Respondent #3 above.
29	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.	See comments under Respondent #3 above.

#	COMMENT	PROPOSAL
	<p>Finance Charge/Discount Rate</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 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	<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</p>	<p>Staff is of the view that such guidance is beyond the scope of the project. No change is proposed.</p>

#	COMMENT	PROPOSAL
	Finance Charge/Discount Rate	
	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.	
33	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.	The TBG will consider adding guidance regarding the rate implicit in the arrangement specific to the service concession asset in paragraphs AG 34-36.

12. Depreciation

#	COMMENT	PROPOSAL
	Depreciation	
3	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 ‘Property, Plant and Equipment’.	Staff considers that this is implicit given that IPSAS 17 is to be followed. The TBG will consider the need to add a footnote to this effect in the Illustrative Examples.
15	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.	Agree.
20	IPSAS17.68&70 set out that “ <i>depreciation is recognized even if the fair value of the assets exceeds its carrying amount, as long as the asset’s residual value does not exceed its carrying amount Repair and maintenance of an asset does not negate the need to depreciate it. (...) The residual value of an asset may increase to an amount equal to or greater than the asset ‘s carrying amount. If it does, the asset’s depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset’s carrying amount</i> ” When an operator has a contractual obligation to maintain the performance of the asset and to restore it at the conclusion of the contract, the residual value of the asset might be equal to its carrying amount. As a consequence, the asset does not have to be depreciated. Therefore, only extraordinary events (such as an accidental destruction) would justify depreciation of the asset. On the other hand, when the operator has no obligation to restore the asset, depreciation has to be recognized.	Staff disagrees. If the asset is recognized by the grantor, it is depreciated like other property, plant and equipment or amortized (if an intangible asset).
30	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 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.	See proposal under Respondent #3 above.

13. Impairment

#	COMMENT	PROPOSAL
	Impairment	
15	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.	Agree to add these references.
15	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.	Paragraph 18 has been deleted.
15	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.	Agree to add these references.

14. Recognition and Measurement of Revenues

#	COMMENT	PROPOSAL
	Recognition and Measurement of Revenues	
15	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.	The TBG will consider adding a reference to the type of revenues that might arise under a service concession arrangement after paragraph 24; however, the Application Guidance (as amended in Agenda Paper 8.2) will remain as guidance on interpreting IPSAS 9 in specific cases.
32	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 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.	Paragraphs 22 and 24 have been deleted. Staff disagrees. The guidance in IPSAS 9 is sufficient for the cases described. If the operator receives third-party revenues, those are the operator's revenues, unless there are revenue-sharing provisions. Paragraphs AG48 and AG49 provide guidance on this issue. In addition, Agenda Paper 8.1 proposes changes to the guidance on revenue recognition related to the performance obligation issue. No change is proposed.
33	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	Agenda Paper 8.1 proposes changes to ED 43 to address the performance obligation issue, including related revenue recognition.

#	COMMENT	PROPOSAL
	Recognition and Measurement of Revenues	
	<p>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>	
33	<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.</p>	<p>Staff disagrees. There are various forms of compensation from the grantor-operator and operator-grantor, in a SCA.</p> <p>No change is proposed.</p>
33	<p>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>The TBG will consider the appropriate guidance in paragraph AG 51 to address this issue.</p>

15. Recognition and Measurement of Expenses

#	COMMENT	PROPOSAL
	Recognition and Measurement of Expenses	
15	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 guidance included in AG25 could, for example, be useful for inclusion in the proposed IPSAS.	Paragraph 16 has been deleted. The TBG will consider the need to provide additional guidance in the Application Guidance.

16. Presentation and Disclosure

#	COMMENT	PROPOSAL
	Presentation and Disclosure	
2	Other issues 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.	The presentation and disclosure requirements are derived from IFRIC 12. No change proposed.
4	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 ⁱ . 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.	See comments under Respondent #2 above.
7	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.	Positive support for the disclosure requirements.
7	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.	Positive support for the disclosure requirements.
15	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> . 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.	Agree that disclosure requirements in other IPSASs could be referenced in paragraph 27 (also in paragraph AG60). Construction risk would likely involve a contingent liability, and would be covered by IPSAS 19, including the specific disclosure requirements (see proposal above).

#	COMMENT	PROPOSAL
	Presentation and Disclosure	
	<p>Additional disclosure requirements that could be required include:</p> <ul style="list-style-type: none"> • Disclosure of the risks that the grantor are exposed to as a result of the service concession arrangement, for example construction risk; • Finance costs relating to the service concession arrangement; and • Circumstances or events that will result in step-in arrangements. 	<p>A description of risks faced by an entity is generally included in MD&A reports (see Agenda Item 7).</p> <p>Step-in arrangements would be covered by IPSAS 19, including the specific disclosure requirements (see proposal above).</p> <p>Paragraph AG61 addresses disclosure of the finance charge.</p>
23	<p>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.</p>	<p>Positive support for the disclosure requirements.</p>
26	<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> <p>(a) service concession assets recognised during the period; and</p> <p>(b) existing assets of the grantor that have been reclassified as service concession assets during the period.</p> <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>	<p>Positive support for the disclosure requirements.</p>
32	<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>	<p>See comments of Respondents #2, 7, 23, and 26 above.</p> <p>No change proposed.</p>

#	COMMENT	PROPOSAL
	Presentation and Disclosure	
	<p>(a) contractual obligations that involve a high degree of speculative risk;</p> <p>(b) contractual obligations to make expenditures that are abnormal in relation to the financial position or usual business operations; and</p> <p>(c) contractual obligations that will govern the level of a certain type of expenditure for a considerable period into the future.</p>	
33	<p>Paragraph 12 of the ED states the following: <i>Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph 10 (or paragraph 1) for a whole-of-life asset), the grantor <u>shall not recognize the asset as a service concession asset in accordance with this Standard.</u> 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>The above citation from paragraph 12 and other paragraphs in the ED refer to the classification (or reclassification) of the infrastructure underlying a service concession arrangement as a “service concession asset.”</p> <p>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.</p>	<p>The purpose of distinguishing these assets relates to accountability. Because of the significance and complexity of service concession arrangements, it is important to provide sufficient disclosure about them and to clearly distinguish service concession assets from those which the entity owns.</p>

17. Transitional Provisions and Effective Date

#	COMMENT	PROPOSAL
	Transitional Provisions/Effective Date	
5	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.	The Transitional Provisions take into account the two situations – where service concession assets have previously been recognized, but not under the SCA IPSAS, and those where SCA assets have not been recognized (and thus is less likely to have the information). The Transitional Provision in paragraph 30 recognizes that sufficient information may not be available in such cases; however, if such information is available, retrospective application is permitted. The requirement is consistent with IPSAS 31. No change is proposed.
8	Paragraph 29 indicates “ <i>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.</i> ”, 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> ” 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. 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.	See proposal under Respondent #5 above.
13	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	If the IPSAS is approved in June 2011, it is proposed that the effective date be January 1, 2013.

#	COMMENT	PROPOSAL
	Transitional Provisions/Effective Date	
	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.	
13	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".	See proposal under Respondent #5 above.
15	Consistent with other IPSASs, we recommend that the heading should be amended to "transitional provisions". 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.	See proposal under Respondent #5 above.
18	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. Further clarification of this point would be useful to ensure that the requirements of the standard are clearly understood.	See proposal under Respondent #5 above.
26	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 those that have previously recognised service concession arrangements. Such an approach would also be consistent with the transitional requirements in IFRIC Interpretation 12. 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	See proposal under Respondent #5 above.

#	COMMENT	PROPOSAL
	Transitional Provisions/Effective Date	
	financial reporting of service concession arrangements.	
33	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.	See proposal under Respondent #5 above.

18.No Guidance for GBEs

#	COMMENT	PROPOSAL
	No Guidance for GBEs	
1	<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. HoTARAC acknowledges that IPSASs are not normally intended to apply to GBE5. However, HoTARAC 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>	<p>Additional guidance may be required if the scope were expanded at this point to cover GBEs.</p> <p>GBEs are not in the scope of this project because, as noted in the Preface, IPSASs do not apply to GBEs. Although neither IFRIC 12 nor the proposed Standard apply to a GBE grantor, GBEs may find the proposed Standard useful. No change is proposed.</p>
4	<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>	See comments under Respondent #1 above.
26	<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 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>.</p>	See comments under Respondent #1 above

19. Relationship to IPSAS 13

#	COMMENT	PROPOSAL
	Relationship to IPSAS 13	
9	<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>	The IPSASB has this project on its list of future projects and will determine its priority relative to other potential projects (see Agenda Item 6).

20. Other Comments

#	COMMENT	PROPOSAL
	Other	
17	<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.</p> <p>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>	Not a comment on specific proposals in ED 43. No change required.
17	<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. The “Act of State Doctrine” is a judicially created doctrine that states the judicial branch of one country should not examine the validity of public acts committed by a recognized foreign government with regard to business activity or any activity within its own borders. The contract should provide for foreseeable conflicts in the conduct of the arrangement; such that, the discretion of the host country is not invoked adversely to the operator.</p> <p>The Doctrine of Foreign Immunity immunizes foreign nations from the jurisdiction of American Courts. A contractor or operator must be satisfied as to the proper venue to seek redress for major contractual non-compliance, non-cooperation or outright expropriation. 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>	Not a comment on specific proposals in ED 43. No change required.
27	We believe that the proposed accounting standard must also provide directives or	Consideration will be given to providing

#	COMMENT	PROPOSAL
	Other	
	<p>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>	<p>appropriate references to relevant IPSASs that would apply in the circumstance described.</p>

ⁱ 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.