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The Chair
Australian accounting Standards Board
PO Box 204
Collins street West
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Dear Kris,

ED261: Service Concession Arrangements: Grantor

This submission is made in my private capacity as someone who has had a long term interest in the development and application of accounting standards. In particular I was a member of the IPSASB working group which was involved in the initial development of IPSAS 32: *Service Concession Arrangements: Grantor* and participated in some of the IPSASB Board discussions on that Standard.

I welcome the Board's proposals and support the issue of this [draft] standard. In my opinion, the arrangements referred to in the proposal as 'service concession arrangements' were developed, amongst other reasons; to avoid the financial arrangements concerned being classified as finance leases with the consequential accounting treatments and disclosures. As a result the accounting treatments applied to such arrangements have been inconsistent and the financial disclosures about such arrangements have often been inadequate to properly inform interested parties. I acknowledge that in developing their standards applicable to the *Grantor* both IPSASB and the AASB have attempted to maintain consistency with IFRIC 12 *Service Concession Arrangements*. Because of this complication these standards for the public sector probably take a different approach and use different language from what might otherwise have been the case.

I agree with the application to all public sector entities. The IPSASB traditionally excludes GBE's on the basis that they are profit seeking and will apply IASB standards, but this is not true in all jurisdictions, and anyway there is no IASB standard applicable to *Grantors*. Consequently, for consistency the proposed standard should apply to all public sector entities in Australia.

I also agree with the broader scope proposed in paragraph 5 rather than just 'infrastructure'.

I agree with the application of the control concept because the judgement to be applied is likely to be less subjective than that required in balancing up the risks and rewards in what are often very complex agreements. It is also consistent with the approach to the recognition of assets taken in most modern accounting standards and frameworks. However, I am concerned that the control concept in paragraph

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8(a) is too narrow, particularly with the prominence given to price. Paragraph AG10 is important to assist interpretation, but as well as a cap, regulation may also be applied by setting criteria which allows a range. Importantly, the guidance doesn't consider alternative approaches such as where the price is not regulated but the return is, or where the Grantor receives additional payments when returns exceed certain criteria.

To me the critical factor is determining which entity controls the underlying infrastructure [assets] of a service concession agreement, as identified in the first sentence of paragraph AG10. I believe that additional indicators of control include:

1. That the effective use and benefit of the underlying asset is dependent on interconnection with an asset or a network of other assets controlled by the Grantor,
2. The asset concerned is situated on the Grantor's land and the Grantor retains an ongoing interest in the use of the land that goes beyond that covered by a normal sale or lease arrangement; and,
3. The Grantor's Criminal Justice system is applied to collect or recover revenue on behalf of the Operator.

I support the proposal that service concession assets are initially measured at fair value, but I do have concerns about how this can be reliably measured, without incurring undue cost, for an asset under construction where the Operator is managing the construction.

Given the complexity of service concession arrangements and the limited exposure of many preparers I believe that the inclusion of the guidance in paragraphs AG55 – AG64 of IPSAS 32 would be useful. In particular the example in the last sentence of AG59 highlights an important matter for arrangements with a term extending over several decades, in which case the time value of money may well be significant.

I am concerned that the proposed definition of a 'public service' is too narrow. Often, much of the infrastructure in a service concession asset would probably not meet the definition, eg offices, apartments and shops built as part of a railway station complex, or car parks built as part of a hospital. Does the inclusion of a significant proportion of such assets in an arrangement affect the application of paragraph 5 which sets the scope of the [draft] standard?

In conclusion, I believe that the proposals would result in financial statements that would be useful to users and that the proposals are in the best interests of the Australian economy. I would be disappointed to see any further delay in issuing such a Standard.

Yours faithfully,

Peter Batten, FCCA, FCPA, FCA

26 July 2015