



Accounting Standards Board

Aldwych House, 71-91 Aldwych, London WC2B 4HN

Telephone: 020 7492 2300 Fax: 020 7492 2399

www.frc.org.uk/asb



Stephenie Fox,
Technical Director,
International Public Sector Accounting Standards Board,
International Federation of Accountants,
277 Wellington Street, 4th Floor,
Toronto, Ontario, M5V 3H2 CANADA

26 May 2010

Dear Stephenie

IPSASB Exposure Draft 43: *Service Concession Arrangements: Grantor*

1 The UK Accounting Standards Board's (ASB) Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on IPSASB's proposals in Exposure Draft 43 '*Service Concession Arrangements: Grantor*'. As the ASB noted in responding to the earlier Consultation Paper, accounting for service concession arrangements is a very significant reporting issue for the UK public sector. We believe the proposals will promote consistency and comparability in how service concession arrangements are reported by public sector entities.

2 We agree with IPSASB that the requirements for recognition in accounting by the grantor should 'mirror' IFRIC 12 '*Service Concession Arrangements*' and therefore should be based on a controls based approach.

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.

4 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.

5 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*'.

6 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.

7 If you require any further information please contact me or Alan O'Connor a.oconnor@frc-asb.org.uk.

Yours sincerely



Andrew Lennard
Chairman, Committee on Accounting for Public-benefit Entities
DDI: 020 7492 2430
Email: a.lennard@frc-asb.org.uk