

June 23, 2010

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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**Re: Comments on Exposure Draft 43 - Service Concession
Arrangements : Grantor**

Thank you for the opportunity to comment on Exposure Draft 43 (ED 43). Please note that the comments below are views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).

Approach taken in ED 43

In general, we agree with the approach taken in ED 43 of mirroring the principles set out in IFRIC 12 but from the perspective of the grantor. This approach will allow more symmetry and consistency in the reporting of service concession arrangements between grantors and operators and between public sector entities and private sector entities.

Scope of ED 43

Paragraph IN4 provides a listing of assets used for public services that may meet the requirements of a service concession arrangement. The listing is largely consistent with paragraph 1 of the Background to IFRIC 12 although one exception is the inclusion of "intangible assets used for administrative purposes". In addition to not being consistent with IFRIC 12, no examples of "intangible assets used for administrative purposes" are provided.

The standard is appropriately directed at ensuring large-scale infrastructure projects involving private public partnerships are properly recorded in the financial statements of the operator or grantor. It is unclear what type of projects are intended to be captured by the inclusion of "intangible assets used for administrative purposes" and why the scope of ED 43 has been expanded to address such assets.

Reclassification of existing assets

Paragraph 8 (c) indicates "*Existing assets of the grantor which the operator upgrades for the purpose of the service concession arrangement. Only the cost of the upgrade is recognized as a service concession asset in accordance with paragraph 10, or paragraph 11 for a whole-of-life asset*)",

while paragraph 8 (d) indicates *“Existing assets of the grantor to which the grantor gives the operator access for the purpose of the service concession arrangement and of which the grantor retains control, as specified in paragraph 10 (or paragraph 11 for a whole-of-life asset). Such assets are reclassified as service concession assets in accordance with paragraph 12.”*

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.

Transition requirements

Paragraph 29 indicates *“An entity that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, –Accounting Policies, Changes in Accounting Estimates and Errors.”*, while paragraph 30 indicates *“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.”*

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.

Generally, we found ED 43 to be clear and concise, appropriately addressing the reporting for service concession arrangements by public sector grantors.

We hope that you find our comments and observations in this letter useful.

Yours truly,



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