



2008 July 17

Technical Director
 International Public Sector Accounting Standards Board
 International Federation of Accountants
 227 Wellington Street West
 Toronto Ontario
 M5V 3H2

Ladies and Gentlemen:

RE: Consultation Paper: Accounting and Financial Reporting for Service Concession Arrangements

On behalf of The City of Calgary (The "City"), I thank you for the opportunity to comment on the proposals in the above-noted Consultation Paper.

The proposals in this consultation paper are very timely given the increase in the number and variety of public-private partnership (PPP) arrangements, and more specifically, Service Concession Arrangements (SCA) in the public sector as a whole today.

As per your request, we have structured our response to the following questions:

1. It is proposed that a grantor report the property underlying and SCA as an asset in its financial statements if it is considered to control the property. Criteria for determining control are:
 - a. the grantor controls or regulates what services the operator must provide with the underlying property, to whom it must provide them, and the price ranges or rates that can be charged for the service; and
 - b. the grantor controls – through ownership, beneficial entitlement or otherwise – the residual interest in the property at the end of the arrangement.

Do you agree with this approach and the control criteria identified?

We understand that this proposal is largely based on the current definition of an asset in IPSAS1. It should be noted that the Canadian Public Sector Accounting Board Standards (PSAB) define an asset on a basis consistent with IPSAS1 in that for an asset to be a government's asset, that government must control the future economic benefit associated with the asset to the extent that it can benefit directly from the asset and generally can deny or regulate access to that benefit by others, and the transaction

or event giving rise to the government's control of the benefit has already occurred. We agree with this approach, however, feel certain of the control criteria identified are unnecessarily restrictive. The City agrees that control is established when ultimately the grantor remains accountable for the provision of services provided through the property to the public. The grantor continues to be subject to the risks and rewards related to service delivery that is associated with the property.

It is the requirement regarding the control or regulation of the price ranges or rates that can be charged for the service may be unnecessarily restrictive. We feel the same accountability can be articulated by noting that when the grantor has the ability to significantly influence the operating conditions (which would naturally include not only user charges, but standards of service and maintenance of the property to ensure the ultimate residual value that will revert back to the grantor), control would exist and an asset recognized.

We are also cautious about control “based on ownership, beneficial entitlement or otherwise” as it pertains to land (non-depreciable asset). In cases where the SCA involves significant land values, and the agreement does not contain specific terms that allow the land to be owned by the government (say, transfer of title or a bargain purchase option), then a significant loss on asset disposal would occur at the end of the SCA. The City would prefer that those payments or values specifically related to the land portion be expensed as incurred, similar to an operating lease.

We are in agreement with control “based on ownership, beneficial entitlement or otherwise” as it pertains to all other depreciable assets.

2. It is proposed that the underlying property reported by the grantor as an asset and the related liability (reflecting any obligation to provide compensation to the operator) is initially measured based on the fair value of the property other than in cases where scheduled payments made by the grantor can be separated into a construction element and a service element. In such cases, the present value of the scheduled construction payments should be used if lower than the fair value of the property. Do you agree?

Currently, PSAB differs from IPSAS 17 in that PSAB requires the use of historic cost only. Our preference would then be that in cases where the scheduled payments made by the grantor can be separated into a construction element and a service element, the historic cost of the asset be the lower of the present value of the scheduled construction payments and the fair value of the property. Otherwise, the fair value of the property should be the asset's cost.

In addition, The City supports the proposal that for SCA's involving existing property that the grantor has already reported as an asset, no additional accounting associated with the property generally should be required.

3. It is proposed that contractually determined inflows of resources to be received by a grantor from an operator as part of an SCA should be recognized as revenue by the grantor as they are earned over the life of the SCA beginning at the commencement of the concession term, that is, when the underlying property is fully operational. These inflows generally should be considered earned as the grantor provides the operator access to the underlying property, and amounts received in advance of providing a

commensurate level of access to the property should be reported as a liability. Do you agree?

The City agrees with this approach.

In addition, The City would like to comment on the proposal in section 178, which requires guarantees and commitments made by a guarantor as part of an SCA to be recognized as a financial liability related to the guarantee in the grantor's financial statements. The City disagrees with this approach as it would create an inconsistency in the approach to handling guarantees. The current CICA PSAB requirements for guarantees is that they be disclosed in the notes to the financial statements only. Adopting this proposal would mean that some guarantees are recognized in the financial statements and others only in the notes to the financial statements.

Thank you for the opportunity to comment on this Consultation Paper. Should you wish further clarification, please contact the undersigned at (403) 268-2638.

Sincerely,

“Signed”

Carla L Male, CA
Financial Reporting Officer

c: Chris Good, Chief Financial Officer and General Manager, Corporate Services
Eric Sawyer, City Treasurer & Director Finance & Supply
Wes Koehn, Manager, Financial Planning, Budget & Reporting