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Dear Stephenie

#### **EXPOSURE DRAFT ON SERVICE CONCESSION ARRANGEMENTS: GRANTOR**

The Public Sector Committee of The Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on IPSASB's Exposure Draft on "Service Concession Arrangements". The Public Sector Committee is a broad based committee of ICAS members with representation across the public services.

The Institute's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

#### **Overall comments**

We agree with the overall approach towards accounting for service concession arrangements by the grantor, which is to mirror the principles in IFRIC 12 for accounting by the operator. The basis of conclusions clearly sets out how and why the proposed standard has been developed and we welcome the inclusion of application guidance, implementation guidance and illustrative examples to accompany the standard. However, there is no explicit reference within the Exposure Draft to the performance of a regulatory impact assessment which examines both the costs and benefits of a standard to reporting entities. We recommend that in updating its strategy, IPSASB considers how to address this aspect of standard setting more explicitly, including the potential for undertaking post-implementation reviews.

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 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.

Our detailed comments on the Exposure Draft are set out in the Appendix.

Yours sincerely

A handwritten signature in black ink that reads "Christine Scott". The script is cursive and fluid.

CHRISTINE SCOTT  
Assistant Director, Charities and Public Sector

**APPENDIX**

We have a number of detailed comments on the Exposure Draft which are set out below:

- 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. We recommend that the proposed standard provides a bullet point list which states which IPSAS applies to each of the following: recognition; measurement; presentation; and disclosure.
- Page 11, paragraph 17. Paragraph 17 makes a passing reference to using ‘estimation 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.
- 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.
- 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”.
- Page 41, Table 2.3 (page 41) has errors. The figures in the cumulative surplus/ deficit line should not be bracketed and the word ‘deficit’ should be surrounded by brackets.