

Saskatchewan



Ministry of
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August 13, 2008

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Ms. Stephenie Fox, Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street East
TORONTO ON M5V 3H2

Dear Ms Fox:

Re: **Accounting and Financial Reporting for Service Concession Arrangements**

Thank you for the opportunity to provide comments on the International Public Sector Accounting Standards Board (Board) consultation paper, Accounting and Financial Reporting for Service Concession Arrangements. We are pleased that the Board has undertaken a project to provide guidance on this growing form of partnering with the private sector.

Accounting for service concession arrangements (SCAs) is a complex topic that covers various forms and types of agreements. We congratulate the Board for providing a paper that presents the proposals and supporting arguments and research in a clear and concise form.

Answers to the questions posed by the Board are provided below, followed by our other specific comments on the consultation paper. The consultation paper and the proposals make reference to the International Financial Reporting Interpretations Committee's (IFRIC) interpretation 12. Our comments are provided in absence of review of IFRIC 12, as we do not yet have access to IFRIC interpretations. However, we are in the process of arranging for access, and this will not be an issue in the future.

1. *It is proposed that a grantor report the property underlying an SCA as an asset in its financial statements if it is considered to control the property. Criteria for determining control are proposed in the consultation paper. Do you agree with this approach and the control criteria identified? (See Paragraphs 28-104)*

We agree that property underlying a SCA should be reported by a grantor if it is determined that the grantor controls the property. The concept of control is well-established in public sector standards and has proven to be an appropriate gauge for government reporting. We do believe that risks and rewards incidental to ownership are important criteria in determining whether a government reports property in its financial statements and that these risks and rewards would normally be passed to the party that controls the property and the related service potential.

We agree that the control criteria are appropriate to establish that a grantor has control over a property throughout and subsequent to its service life. We question however, whether it would be apparent to users of the standard that control would exist when the grantor is responsible for any subsequent liabilities related to the property. It may be important to clarify in supporting paragraphs that control of residual interest of a property would also be evident when the grantor has responsibility for losses subsequent to the end of the arrangement.

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? (See Paragraphs 105-140)*

We agree with the proposals on accounting for property in specific circumstances. Cost continues to be the most appropriate measure for initially reporting capital property, and the lesser of fair value and the present value of scheduled payments is the best estimate of cost in these types of SCAs.

In the consultation paper, there are a number of proposals for accounting for the property underlying the different types of service concession arrangement, which may lead to a less principles-based standard. We suggest that the proposals be combined where possible to help ensure the standard is not rules-based.

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? (See Paragraphs 191-196)*

We agree with this proposal for revenue recognition as it follows the principle that revenue be reported in the period that it is earned.

The revenue recognition proposals in paragraphs 190 and 196 are both based on the principle that revenue be recognized when earned, that is, when the service that brings about an economic benefit has been provided. As stated above, we agree with the principle, and understand that for discussion purposes the two issues need to be addressed separately. However, we suggest the standard include one recommendation for revenue recognition and any additional guidance on specific situations, including the assessment of any contingent events, be provided in supporting paragraphs.

The proposal for disclosure of SCAs includes information on future cash inflows and outflows and the impact of any uncertainty that would affect these flows. Disclosure on future cash flows is rarely required in financial statements. We grant that information on cash outflows might provide some relevant information to financial statement users, similar to information on future lease payments, although this seems to be covered in the requirement to disclose commitments. However, it is questionable whether providing information on expected future cash inflows would be relevant. The significant uncertainty surrounding most cash inflows would diminish the value of any disclosure. We suggest the Board reconsider the proposal to require disclosure on cash flows, particularly cash inflows.

We note that the consultation paper proposes a number of disclosures specific to SCAs and acknowledges that other existing proposals might overlap. We suggest that the guidance make reference to these possible overlaps, and recommend that professional judgment be used to determine appropriate disclosure in each case.

Ms. Stephanie Fox, Technical Director

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We thank you for the opportunity to comment on the consultation paper, and look forward to reviewing an exposure draft on this topic.

Sincerely,

Original signed by

Terry Paton, FCA
Provincial Comptroller

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