



COUNCIL ON CORPORATE  
DISCLOSURE & GOVERNANCE

7 June 2005

D12 Comment Letters  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

(By email: [CommentLetters@iasb.org](mailto:CommentLetters@iasb.org))

Dear Sirs,

**IFRIC DRAFT INTERPRETATION D12  
*SERVICE CONCESSION ARRANGEMENTS – DETERMINING THE  
ACCOUNTING MODEL***

1. We are writing to provide our response to the IFRIC Draft Interpretation D12 *Service Concession Arrangements – Determining the Accounting Model*.
2. The CCDG appreciates the efforts of the IFRIC in clarifying how concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.
3. The CCDG is in overall agreement with the proposals in the draft interpretation. Our comments below address the specific questions set out in the “Invitation to Comment” section.

**Question 1**

The proposal in paragraph 5 of the draft Interpretation reflects the IFRIC’s decision that whether an operator recognises service concession infrastructure as its property, plant and equipment should depend on whether it controls the use of that infrastructure. The IFRIC selected this approach instead of one based on the extent to which the risks and rewards of ownership lie with the operator. The rationale for selecting this approach is explained in paragraphs BC9-BC11 of the Basis for Conclusions. Do you support the approach selected?

**We are of the view that while control should be the determining factor as to whether an operator recognises a service concession infrastructure as its property, plant and equipment, the basis for rejecting the risk/reward model**

needs to be more robust than set out in BC11 given that the existing IASs already refer to this model. For example, IAS 17 *Leases* and IAS 18 *Revenue* uses the risk/reward model to determine whether control has passed.

Using the basis of control to determine whether the operator can recognise the infrastructure, instead of the risks and rewards model, may reduce the complexities and inconsistencies in lease classification. However, the control basis may also introduce new areas of complexities and inconsistencies e.g. how to determine which party has control. In paragraph 5(a) of the draft Interpretation, control is determined by examining the following:

- What services the operator must provide with the infrastructure;
- To whom it must provide;
- At what price.

These are basic parameters set out in almost any commercial contracts and examine only the demand aspect of control. Whether the operator has control over the asset goes beyond examining these 3 basic parameters. For example, the operator will need to “control” and manage the infrastructure well in order to meet the quality and quantity specified in the service concession arrangement or suffer the stipulated penalty e.g. payment deduction.

Also, the design aspect is ignored in the determination of the party having control. An operator who has the flexibility of altering the designs of the infrastructure should be deemed to have a certain degree of control of the infrastructure, and not just the right of access. Other relevant aspects of control that should be examined may include determining the party responsible for replacing obsolete technology and determining the party bearing the costs in the event of termination of contract.

## Question 2

Paragraph 11 of the draft Interpretation proposes that the operator should apply the financial asset model only if the grantor has primary responsibility to pay for the concession services. The rationale is explained in paragraphs BC24-BC43 of the Basis for Conclusions. Do you agree with this proposal? If not, what criteria would you use to determine whether the financial asset model should apply? How would you reconcile those criteria to the definition of a financial asset set out in IAS 32 *Financial Instruments: Disclosure and Presentation*.

**We agree with the proposal.**

**Question 3**

As explained in paragraph BC44 of the Basis for Conclusions, paragraph 13 of the draft Interpretation proposes that the identity of the party or parties with primary responsibility to pay for the concession services should be determined by reference to the substance of the contractual arrangements (which would not be affected by, for example, changing the parties through whom payment is routed). Do you agree with this proposal?

**We agree with the proposal.**

**Question 4**

The IFRIC aims to issue this and the two other proposed Interpretations on service concessions (D13 and D14) in final form before the end of 2005. It proposes that, subject to it achieving this aim, the three Interpretations should be applied for annual periods beginning on or after 1 January 2006. Do you agree with this proposal?

**In view of our comments to Question 1, there is relatively little time for operators to understand and apply the Interpretations to ensure compliance by 1 January 2006. We suggest that the three Interpretations be applied for annual periods beginning on or after 1 January 2007.**

4. Should you require any further clarification, please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at [jagtiani@icpas.org.sg](mailto:jagtiani@icpas.org.sg). Thank you.

Yours sincerely,

Derek How  
Secretary, CCDG