

Financial Reporting Advisory Board Paper

Secretariat paper

IFRIC DRAFT INTERPRETATIONS ON SERVICE CONCESSION ARRANGEMENTS: THE BOARD'S RESPONSE

Issue:	Agreeing the Board's response to IFRIC's draft Interpretations on service concession arrangements.
Impact on guidance:	N/A
UK GAAP adaptation?	N/A
IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Recommendation:	That the Board agrees the attached response.
Timing:	Responses are due with IFRIC by 31 May 2005.

DETAIL

Background

1. The International Financial Reporting Interpretations Committee issued three draft Interpretations relating to service concession arrangements on 3 March 2005. Responses were originally due by 3rd May, but this was subsequently extended to 31st May. As a result, the Board has the opportunity to debate more fully the proposed response to IFRIC. Board members were provided with copies of the draft Interpretations at the meeting on 7th March and might wish to bring them to the meeting on 9th May.

Board's response to the IFRIC draft Interpretations.

2. The Chairman asked a sub-group (comprising Martin Sinclair, Martin Evans, David Heald, Robin Lynch and Ken Wild) to consider a draft response, which would be prepared by the Secretary with

input as necessary from the Treasury. The sub-group has considered its response, which is attached.

3. The key points to note are briefly set out below: Board members are invited to read the letter itself for more detail.

4. The scope of the draft Interpretations is limited in several ways and the Board's response highlights concerns that the grantor's accounting is excluded; that many UK PFI projects could be excluded; and that only public-private service concessions are covered.

5. The choice of the control method from IAS 16 as against the risks and rewards method from IAS 17 (and the method that underpins UK accounting in FRS 5). The Board's response notes that one of the ways in which evidence of control is determined is the extent to which each party bears the risks and rewards in the concession.

6. The selection of the identity of the payer as the criterion for determining whether the operator has a financial asset or an intangible asset could mean that PFI projects that are economically similar might be accounted for differently.

Summary and recommendation

7. The Board is invited to approve the draft response.

David Watkins
Secretary