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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.*

*Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**IFRIC meeting: March 2006, London**

**Project: Service Concessions – Analysis of Remaining Comments  
(Agenda Paper 2C)**

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#### **Introduction and purpose of the paper**

- 1 The IFRIC received seventy-seven responses to the Draft Interpretations D12-14. The draft Interpretations, asked a total of nine questions, the analysis of responses received to five of those questions have been considered at previous IFRIC meetings.
- 2 This paper considers the responses received on the remaining four questions asked in the exposure draft and makes recommendations as to how the IFRIC might proceed on each
- 3 The four questions considered in this paper are;
  - (a) The differing accounting treatments for repairs and maintenance obligations under the financial asset model and the intangible asset model (Q1, D13 and Q3, D14);
  - (b) Allocation of contract revenue under the financial asset model (Q2, D13);

- (c) The appropriate timing of the initial recognition of the intangible asset (Q2, D1 The proposed effective date of the Interpretations (Q4, D12);4); and
- (d) The proposed effective date of the Interpretations (Q4, D12).

4 Whilst a specific question was not asked, an additional concern raised by a number of commentators was the IFRIC's (perceived) mandating of a straight-line approach to the amortisation of the intangible asset. This paper considers those comments and recommends how the IFRIC might clarify its position. Staff intends to deal with any remaining comments received on the exposure draft as sweep issues.

### **Summary of staff proposals**

5 The paper makes five proposals.

Proposal 1: The IFRIC should revisit the proposed treatment of accounting for repair and maintenance obligations under D13-14 when the IFRIC has concluded its deliberations on the dividing line between the financial and the intangible asset models. (Paragraphs 6 – 20)

Proposal 2: To strengthen the existing analysis contained in the Basis for Conclusions of D13 relating to different profit margins allocated to different activities within a service concession contract. (Paragraphs 21 – 33)

Proposal 3: The IFRIC should revisit the proposal not to mandate the timing of recognition of the intangible asset, when the IFRIC has concluded its post-exposure deliberations on the dividing line between the financial and the intangible asset models. (Paragraphs 34 – 49)

Proposal 4: To clarify the analysis in the Basis for Conclusions of D14 in relation to the amortisation of an intangible asset such that D14 specifically disallows the 'interest method' of amortisation, but clarifies that any other method that would be acceptable in accordance with IAS 38 is acceptable for service concession arrangements. (Paragraphs 50 – 55)

Proposal 5: The IFRIC should consider the effective date of the Interpretations when it has concluded its post-exposure deliberations. (Paragraphs 56 – 64)

## **Repairs and Maintenance Obligations**

### ***Issue Summary***

- 6 D14 proposes to exclude contractual maintenance, repair and restoration obligations from the cost of the intangible asset because they compensate the operator for the using up the service potential of its infrastructure. Hence, these obligations are not regarded as revenue-earning activities and should be recognised and measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e. at the best estimate of the expenditure required to settle the present obligation at the balance sheet date.
- 7 In its deliberations, the IFRIC noted that this proposal would lead to a different accounting treatment of repair and maintenance obligations under D14 as opposed to D13, which treats repair, and maintenance services as revenue-earning activities. In the invitation to comment, the IFRIC asked whether respondents agreed with the proposed treatment of maintenance and repair obligations and the resulting difference between the two models.

### ***Analysis of Comments Received***

- 8 In fifty-eight of the comment letters received, the issue was specifically addressed. The response was split between forty-four commentators who agreed with the IFRIC's interpretation of existing IFRS and fourteen respondents who disagreed with the different treatment of repair and maintenance obligations under the two models. Nineteen commentators did not express a view.

#### ***Respondents agreeing with the proposals***

- 9 Out of forty-four commentators who agreed with the proposal, thirty-two respondents stated that under IFRIC D13 the contractual obligations for maintenance and repair

are regarded as revenue-earning activities whereas under IFRIC D14 the obligations are not regarded as revenue earning activities and therefore should be measured in accordance to IAS 37. A further eleven commentators agreed with the IFRIC's interpretation but explicitly raised their concern about the dissimilar outcomes for economically similar transactions under the two models.

“We agree with the interpretations by IFRIC for both D13 and D14. A repair obligation under the intangible model should be recognised and measured in accordance to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e. at the best estimate of the expenditure required to settle the obligation at the balance sheet date. It is assumed that the terms of the operator's contractual obligation are such that the best estimate of the expenditure required to settle the obligation at any date is proportional to the usage of the concession by that date and increases periodically. The operator discounts the provision to its present value in accordance with IAS 37.”  
*(PWC, CL 55)*

“Yes, we agree that the IFRIC has interpreted existing IFRSs correctly. However, we are concerned with the difference in the measurement outcomes of using the financial asset model and intangible asset model where the economic substance of arrangements are the same.”  
*(Macquarie Bank, CL 27)*

#### *Respondents disagreeing with the proposals*

- 10 Of the fourteen respondents disagreeing with the proposals, many stated that maintenance and repair obligations should be accounted for in accordance with IAS 37 regardless of the model.
- 11 The following quotations taken from comment letters received from operators emphasise the view of many commentators that maintenance and repair obligations should be recognised and measured in the same way under both models. However, it should be noted that the concern expressed does not relate to the accounting for repair and maintenance obligations under the intangible asset model. Rather, the respondents have strong reservations about treating repair and maintenance obligations as revenue-earning activities under the financial asset model.

“BC 5 [of D13] states that all contractual obligations, including obligations to repair and maintain infrastructure, give rise to revenue for the operator when they are discharged and indicates that applying IAS 37 to those obligations might arrive to a different measure. Vinci thinks that this statement does not provide any sound reasoning to support the conclusion. Vinci estimates that the obligations such as a maintenance obligation has the same nature whatever the accounting model used and that they should be accounted for according to a common method. Vinci would support an accounting model based on IAS 37 for these obligations. ... We agree with paragraph 10, and paragraphs BC 16 through BC 18 [of D14] that obligations to repair and maintain

infrastructure should be recognised in accordance to IAS 37...” (*Vinci, CL 32*)

“No, we do not agree. We think that in both cases maintenance and repair obligations should be accounted for in accordance with IAS 37.” (*Suez, CL 63*)

### ***Staff Analysis***

- 12 The scope of IAS 37 states, that the rules do not apply to provisions that are covered by more specific standards, e.g. those that relate to construction contracts, the application of the revenue recognition criteria or the treatment of expenses [IAS 37.6; IAS 37.8].
- 13 IAS 18.13 provides guidance on certain situations in which it is necessary to apply the recognition criteria to separately identifiable components of a single transaction or conversely to two or more transactions together. The terms of the service concession contract generally include three distinguishable phases i.e. the service to construct the infrastructure, the service to operate and maintain it as well as to repair the infrastructure. As a consequence, the requirements of IAS 18 *Revenue*/ IAS 11 *Construction Contracts* are applicable to the recognition of revenue as well as the associated expense for each of the three separable activities.
- 14 In accordance with IAS 11.22 at the balance sheet date, the costs of each service activity - i.e. the construction, operation and maintenance service - shall be recognised as expenses by reference to the stage of its completion. Hence, maintenance and repair services should be recognised as an expense in the income statement in the accounting periods in which the maintenance and repair work to which the expense relate is performed [IAS 11.26].

### ***Staff comment and proposal***

- 15 It seems to staff that for the reasons discussed above the IFRIC concluded that revenue should be recognised on the maintenance and repair obligations under the financial asset model. This led to the different accounting treatments for maintenance and repair obligations proposed in D13 and D14.
- 16 It appears to staff that much of the discomfort expressed by commentators to the different accounting treatments of economically similar transactions (repair and

maintenance obligations) under D13 and D14 is intrinsically linked with the ‘double recognition of revenue’ under D14. Furthermore, staff believe that the conclusions drawn by the IFRIC in relation to the dividing line between the financial asset and the intangible asset models may influence the conclusion on this matter.

- 17 The dividing line between the D13 and D14 is the subject of Agenda Paper 2A to be considered at this meeting. Staff believe that if the dividing line is retained in its current position, the IFRIC deliberations at this meeting will enable it to better explain why two economically similar arrangements result in different accounting treatments.
- 18 If, on the other hand the IFRIC agree that bifurcation of arrangements may often be necessary, the staff believe it will be necessary to further analyse the point or points at which revenue and expenses are recognised under both models. The analysis will ascertain whether as suggested by commentators IAS 37 could be applied to both models for the operator’s repairs and maintenance obligations. Or whether revenue could be recognised on the operator’s repairs and maintenance obligations under both models.
- 19 Accordingly, staff propose that this matter be revisited when the IFRIC has concluded its post-exposure deliberations on the dividing line between the financial and the intangible asset models.

20	Does the IFRIC agree?
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## **Allocation of Revenue under the financial asset model**

### ***Issue Summary***

- 21 IAS 11 *Construction Contracts* requires contract revenue to be measured at fair value of the consideration received or receivable and to be recognised by reference to the stage of completion of the contract activity. Since the stage of completion of a contract may be determined in a variety of ways [IAS 11.30], D13 proposes to allocate revenue to the different activities of a service concession arrangement by reference to the fair values, i.e. to the construction, operations and maintenance as well as repair activity. As a consequence, the entity might report different profit

margins on those activities, even though the contract has not been segmented for the purpose of applying IAS 11, *Construction Contracts*.

- 22 In its invitation to comment, the IFRIC asked whether respondents agreed with this proposal.

### *Analysis of Comments Received*

- 23 Fifty-seven commentators specifically addressed the question. The response was split between forty-four respondents who agreed and thirteen commentators who disagreed with the IFRIC's interpretation that different profit margins can arise on different activities within a single contract.

#### *Respondents agreeing with the proposals*

- 24 While forty-four commentators agreed with the principle of the proposal, some of those respondents raised concerns with regards to the difficulty in establishing the fair values in practice.

“We agree with this conclusion in principle. Different profit margins can arise on different activities within a single contract because the services they represent are provided in different markets. However, establishing the fair values will often be very difficult, so margins will be correspondingly difficult to ascertain...” (ICAEW, CL 11)

“We fully agree that the operator might recognise different profit margins on different activities undertaken within a single concession contract, providing that these margins can be reliably estimated. (Eiffage, CL 28)

- 25 Staff note that despite the concerns raised in the comment letters, discussions with many preparers indicate that they can and do reliably estimate the fair value of respective parts of the contract. In fact, many have expressed a view that if they were not able to do so, they would be failing in their duties. That is, if they are unable to accurately determine the return on different phases of the project they should not be entering into the contracts. Preparers indicate that such profiling is completed before the entity has decided whether or not to participate in the bid process. Based on these comments staff believe that determining the fair value of the relative components, while not simple, is indeed possible.

### *Respondents disagreeing with the proposals*

- 26 Of the thirteen respondents who disagreed with the proposal, some referred to IAS 11.8 and stated that these requirements should be met in order to allocate different profit margins to the activities of service concession arrangements. Others opposed by stating that the method would not result in a reliable measurement.

“We do not agree with the conclusion that, by applying IAS 11, *Construction Contracts*, operators might recognise different profit margins on different activities undertaken within a single service concession contract. Especially, we do not believe the paragraph 30 of IAS 11 permits revenue to be allocated to different activities within a single contract by reference to the fair values of those activities. Such method of revenue-allocation intends to separate different activities within a single contract and determine the stage of completion of each activity independently. However, such a method is unacceptable unless the requirements for segmenting contracts (paragraph 8 of IAS 11) are satisfied. That is to say, it is necessary to segment contracts in accordance with paragraph 8 of IAS 11 so that contract revenue may be allocated to different activities within a single contract by reference to the fair values of those activities....” (*International Accounting Standards Review Committee of KASB, CL 30*)

“BG does not agree with this conclusion. BG considers that the contract should be considered as a whole rather than a set of different activities.” (*BG Group plc, CL 46*)

### *Staff Analysis*

- 27 The respondents who referred to IAS 11.8 might not have considered that in addition to the requirements of combining/segmenting contracts for the purpose of applying IAS 11, the unbundling criteria in IAS 18 *Revenue* may also be relevant
- 28 In accordance with IAS 11.7-10 the operator identifies whether construction contract accounting is applied separately to each identifiable component of a single contract or to a group of contracts. Generally the separate components of service concession contracts are not subject to separate negotiations and cannot be accepted or rejected separately. Hence, it seems reasonable not to separate the service concession arrangement for the purpose of applying IAS 11 when, as stated in the Basis of Conclusions, “...the contract has not been segmented for the purpose of applying IAS 11”. Similarly, a bundle of contracts may in fact constitute one service concession arrangement. This is particularly true where more than one sovereign government is party to the arrangement. Just as it would not seem sensible to separate the service concession arrangement where there is one contract, it is not sensible to necessarily

separate the service concession arrangement where there are many contracts building up into a single service concession arrangement.

- 29 As a consequence, the recognition and measurement principles of IAS 11 apply to the whole service concession contract. Since the recognition criteria of IAS 11 and IAS 18 interlink [IAS 18.20, IAS 18.21], it seems necessary to consider the recognition guidance provided in IAS 18 to service concession arrangements as they involve rendering services.
- 30 As noted in the analysis above IAS 18.13 provides guidance on certain situations in which it is necessary to apply the recognition criteria to separately identifiable components of a single transaction or conversely to two or more transactions together. In the case of service concession arrangements, three separable identifiable services are being acquired within a single contract. Generally, the service concession arrangement includes a distinguishable amount for three different services, i.e. the service to construct the infrastructure, the service to operate and maintain it as well as to repair the infrastructure. As a consequence the revenue recognition criteria of IAS 18.20-28 regarding rendering of services would apply to each of those activities separately even though the service concession arrangement meets the criteria of a single contract in accordance with IAS 11.8. These requirements are consistent with IAS 11.22-35.
- 31 If the recognition criteria are applied to each activity separately, revenue would be recognised by reference to the stage of completion of each separate contract activity. Since IAS 11.30 and IAS 18.24 refer to a variety of ways (as opposed to a single way) to determine the stage of completion, it seems plausible to allocate revenue by reference to the fair values of those activities providing the method used measures *reliably* the work performed.
- 32 If the IFRIC reconfirms its decision that different profit margins can be recognised on different phases of a service concession arrangement staff will utilise the above discussion to strengthen the analysis set out in the Basis for Conclusions of D13.

33 Does the IFRIC agree that revenue can be allocated to different phases of a service concession contract without meeting the segmenting criteria in IAS 11 providing that the respective fair values can be measured reliably?
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## Timing of recognition of the intangible asset

### *Issues Summary*

34 In question two of the Invitation to Comment in D14, IFRIC asked constituents:

As explained in paragraph BC6 of the Basis for Conclusions, the draft Interpretation does not specify the timing of recognition of the intangible asset. The IFRIC identified three possible approaches. Do you agree that the proposed Interpretation should remain silent on this matter? If not, which of the three approaches do you think should be specified and in what circumstances?

35 Paragraph BC6 is quoted below:

BC6 The IFRIC considered whether to address within the Interpretation the timing of recognition of the intangible asset. It noted that an operator could be regarded as receiving its right to charge users at three different points in time: (a) at the outset of the contract (with a corresponding obligation to provide construction services in exchange); (b) as construction services are provided, by reference to the stage of completion; or (c) once construction is complete, in settlement of the amount due by the grantor for the construction services. The IFRIC decided not to specify when the operator should first recognise an intangible asset. The draft Interpretation is therefore silent on this matter.

### *Analysis of Comments Received*

36 Fifty-five commentators on the exposure draft specifically addressed the issue. An overwhelming majority (forty-eight) of those respondents preferred that the IFRIC identify the point when the operator starts to recognise an intangible asset.

37 In addition, most of the respondents who gave a view on which approach to choose acknowledged that if the IFRIC chose to be silent on the timing of the recognition of intangible assets, inclusion of examples illustrating the different alternatives would be helpful<sup>1</sup>.

#### *Respondents agreeing with the proposals*

38 Five respondents (mostly operators) agreed that the IFRIC should remain silent on this issue. Most who supported this view believed that the nature of each concession contract is so specialised that the point at which an entity recognises the intangible

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<sup>1</sup> CL6, CLCL26 and CL67

asset can vary for each contract. Therefore, the operator should be able to choose when to recognise the intangible asset based on the substance of the arrangement. Lend Lease (CL29) and Companies Operating Highway concessions in San Paulo (CL48) also proposed that when the operator chooses the basis of recognition, that basis should be disclosed.

*Respondents disagreeing with the proposals*

- 39 Four respondents who support approach (a) agreed with the basis for conclusions that a corresponding obligation would have to be recognised when an intangible asset is recognised at the onset of the contract. Mazars (CL24) noted the right to access the asset, even if not yet built, exists at the beginning of the contract as an in-progress intangible asset. Other respondents noted that approach (a) results in the recognition of an executory contract and therefore should not be adopted.
- 40 The seven respondents who support approach (b) believe that the operator is in effect ‘purchasing’ or ‘building’ a right to operate an asset as it earns the right to charge users for services that the infrastructure will provide.
- 41 Twenty-six commentators specifically believed that an intangible asset should be recognised when construction is complete. Most of these respondents reasoned that the operator’s right to operate is normally conditional upon completion of the concession asset. Another reason supporting approach (c) is that it better evidences the exchange that underpins the barter transaction that gives rise to the revenue, and it could be argued that no intangible asset exists prior to that time. Most of the respondents chose this approach based on the presumption that the IFRIC would accept the intangible asset model as proposed in the draft Interpretation. A sample of some of the respondents’ caveats is given below:

“If the intangible asset model is accepted, ... given that the accounting model being proposed is vastly different from what has been applied in practice, .... We believe the use of alternative (c) is technically correct.” (*Deloitte, CL3*)

“If the line is taken as above, that the contract should not be segmented then, arguably the intangible asset builds up as construction occurs, with no revenue/profit recognised during the construction phase, in accord with the argumentation at BC9. If, however, profit is recognised at the completion of the construction phase the alternative (c) (as employed in the illustrative example) would appear to be the most appropriate approach.” (*NAO, CL31*)

- 42 The remaining respondents either did not express a preference on which alternative to choose or could not decide between two different recognition points simultaneously.

### ***Staff Analysis***

- 43 Staff believe that it would be most useful to preparers if the IFRIC were to specify the timing of the recognition of the intangible asset.
- 44 Some staff concur with the view expressed by some respondents that approach (a) as suggested in paragraph BC 6 of D14 is not valid, as this would be akin to the recognition of an executory contract.
- 45 Staff can see the merits of approach (b) as suggested in paragraph BC 6 of D14. This would effectively result in the recognition of an intangible asset (ie the licence) as construction services are delivered. However, staff is concerned about how this treatment could be adequately ‘ring-fenced’ so as to ensure that entities do not seek to analogise to this treatment when seeking to capitalise subsequent expenditure on other types of acquired intangible assets.
- 46 Staff can also see the merits of approach (c) as suggested in paragraph BC 6 of D14. Staff note that approach (c) may be an implicit conclusion based on the explicit conclusion reached at the January 2005 IFRIC meeting in respect of the ‘double recognition of revenue’ under the intangible asset model. That is, at that meeting, it was agreed that the double recognition of revenue was a result of the exchange transaction. It could be inferred from this conclusion that the IFRIC would support approach (c). Staff however note that while the benefit of consistency is not immaterial, the arguments for approach (c) over approach (b) or (a) do not appear to be justifiable by reference to conceptual arguments.

### ***Staff Conclusions***

- 47 Staff acknowledge that there may be an argument for approaches (a), (b) or (c) depending on the situation, therefore staff can empathise with those who agree with the proposal in D14 not mandate the point at which an entity recognises the intangible asset.

48 However, staff believe that the conclusions drawn by the IFRIC in relation to the dividing line between the financial and the intangible asset models may influence the conclusion on this matter. Accordingly, staff believe this question should be revisited when the IFRIC has concluded its deliberations on the dividing line between the financial and the intangible asset models (see Agenda Paper 2A for this meeting).

49 Does the IFRIC agree to revisit this matter after concluding its post-exposure deliberations on the dividing line between the financial and the intangible asset models?
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## **Amortisation of the intangible asset**

### ***Issue Summary***

50 Paragraph 6 of the Consensus of D14 requires that intangible assets shall be accounted for in accordance with IAS 38 *Intangible Assets*. The intangible asset model applies when the grantor does not have the primary responsibility to pay the operator for concession services

51 With regard to amortisation of the intangible asset, the Basis for Conclusions of D14 states:

BC 3 The draft Interpretation proposes to require the operator to account for its intangible asset in accordance with IAS 38 *Intangible Assets*. Amongst other requirements, IAS 38 requires an intangible asset with a finite useful economic life to be amortised over that life. Paragraph 97 states that ‘the amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.’

BC 4 The IFRIC considered whether it would be appropriate for service concession intangible assets to be amortised using an ‘interest’ method of amortisation, ie one that takes account of the time value of money in addition to the consumption of the intangible asset, treating the asset more like a monetary than a non-monetary asset. But the IFRIC concluded that there was nothing unique about service concession intangible assets that would justify use of a method of depreciation different from that used for other intangible assets. The IFRIC noted the observation in paragraph 98 of IAS 38 that, for intangible assets with finite useful economic lives, there is rarely, if ever, persuasive evidence to support an amortisation method that results in less accumulated amortisation than would result from applying the straight-line method (emphasis added).

BC 5 Hence, the draft Interpretation does not provide exceptions to permit use of interest methods of amortisation.

## *Analysis of Comments Received*

52 Eleven comment letters disagreed with the above conclusion, noting that the IFRIC should not prohibit other methods of amortisation, such as the use of the unit of production method. They argued that this method was not inconsistent with IAS 38 paragraph 98 and the definition of amortisation contained in paragraph 8 of that standard. For example one constituent noted that:

“We believe that the ‘unit of production amortisation method’ would properly reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. The future economic benefits are represented by the future quantity of tolls which will be received by the entity.” [CL 28, Eiffage]

53 Staff believes that the inclusion of the last sentence of BC4 led some constituents (in particular operators and certain regulators) to believe that IFRIC is mandating the use of straight-line amortisation and prohibiting the use of unit-of-production amortisation for intangible assets recognised under D14. The staff believes that the intent of the paragraph is to point out that IFRIC observed that the ‘interest’ method of amortisation is not an appropriate method of amortisation for the reasons noted in BC4.

## *Staff Analysis*

54 Staff propose that the IFRIC amend the Basis for Conclusions as set out below to clarify that D14 does not prohibit the use of a method of depreciation different from that used for other intangible assets.

### **Intangible asset**

BC3 The draft Interpretation proposes to require the operator to account for its intangible asset in accordance with IAS 38 *Intangible Assets*. Amongst other requirements, IAS 38 requires an intangible asset with a finite useful economic life to be amortised over that life. Paragraph 97 states that ‘the amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.’

BC4 The IFRIC considered whether it would be appropriate for service concession intangible assets to be amortised using an ‘interest’ method of amortisation, ie one that takes account of the time value of money in addition to the consumption of the intangible asset, treating the asset more like a monetary than a non-monetary asset. But the IFRIC concluded that there was nothing unique about service concession intangible assets that would justify use of a method of depreciation different from that used for other intangible assets. The IFRIC noted that paragraph 98 of IAS 38, provides for a variety of amortisation methods for intangible assets with finite useful lives. These methods include the straight-line method, the diminishing balance method and

the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. The IFRIC noted the observation in that paragraph 98 of IAS 38 that, for intangible assets with finite useful economic lives, there is rarely, if ever, persuasive evidence to support an amortisation method that results in less accumulated amortisation than would result from applying the straight-line method.

BC 5 Hence, the draft Interpretation does not provide exceptions to permit use of interest methods of amortisation.

55 Does the IFRIC agree with the proposed amendment to the Basis for Conclusions of D14?

## **Effective Date of the Interpretations**

### *Issue Summary*

- 56 The IFRIC aimed to issue Interpretations D12-14 in final form before the end of 2005. It proposed that, subject to achieving this aim, the three Interpretations should be applied for annual periods beginning on or after 1 January 2006.
- 57 In the invitation to comment within IFRIC D12, the IFRIC asked the commentators whether they agreed with this proposal.

### *Analysis of Comments Received*

- 58 Forty-five commentators agreed with the IFRIC's proposed timeline and seventeen disagreed. Fifteen commentators did not express a view on this matter.

#### *Respondents agreeing with the proposals*

- 59 Some of the forty-five commentators who agreed with the proposed timeline, expressed concern over the lack of guidance for the interim and annual financial statements for 2005. The IFRC considered these comments and others received on transitional arrangements at its November 2005 meeting.

*Respondents disagreeing with the proposals*

- 60 Of the seventeen respondents who disagreed with the proposals, sixteen stated that the new guidance should be applicable for periods commencing later than 1 January 2006. Only one commentator supported an earlier date of application. Of the sixteen who stated that the new guidance should be applicable for periods commencing later than 1 January 2006 the following reasons for delay were given: seven commentators were of the view that due to the further work required the effective date should be delayed; six commentators thought the effective date should be delayed to allow time for operators to understand the interpretations and the remaining three said that they would prefer a new standard rather than an Interpretation.
- 61 The following quotations emphasise the commentators' view that the effective date of the Interpretations should be later than 1 January 2006.

“No. Given the issues raised by our response, and the fact that Australian Governments have implemented another methodology, we request any application to be deferred until the issues are adequately resolved. We therefore support the efforts of the International Public Sector Accounting Standards Board (IPSASB) in exploring with the IASB Chair participation in a joint IASB/IPSASB project to develop financial reporting requirements for Service Concession Arrangements by both the Grantor and the Operator.”  
*(HoTARAC, CL10)*

“As we have stated at the beginning of this response, we consider it preferable to have some inconsistency in the short term (through entities continuing their current practice to account for such concessions) than to have inadequate guidance for a year or two”. *(Grant Thornton, CL13)*

“We find transitional provisions as expressed do not make much sense. We rather propose the interpretations be applied for annual periods beginning on or after 1 January 2007, which would widen the use of retrospective application rather than mere reclassification of carrying amounts. We then suggest that during the transition period previous accounting treatments be carried on and we support grandfathering.  
If application date is 1 January 2007, we support full retrospective treatment. Indeed a prospective treatment would lead to contracts being accounted for differently depending on whether they were signed before or after the application date of the interpretations. Concession arrangements are contracts signed on very long periods and such differences in treatment would be carried on for years.  
Furthermore, we would find useful clarification on whether impracticability is to be determined contract by contract or globally.” *(Mazars, CL24)*

***Staff Comment***

62 The majority of respondents who commented on this matter supported the IFRIC's proposed date of transition for the three Interpretations, subject to the IFRIC issuing the three Interpretations before the end of 2005, although some expressed concern over the lack of guidance for the interim and annual financial statements for 2005.

63 Staff propose that, the IFRIC consider the effective date of the Interpretations when it concludes its post-exposure deliberations.

64 Does the IFRIC agree?
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