

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
EC4M 6XH
31 October 2011

Dear Mr Upton

IFRS Interpretations Committee's Meeting Agenda – 17-18 January 2012
IFRIC 12 – Service Concession Arrangements – Payments made by an operator

Firstly, we would like to congratulate IFRS Interpretations Committee for the effort put in the analysis of the themes concerning the application of IFRIC 12. We are enthusiastic about this initiative, because we understand that this Interpretation actually has many opportunities for improvement.

The range and complexity of the theme *payments made by an operator* can be noticed from reading the 36 pages of the Staff Paper of November, 2011, complemented by the 33 pages of the Staff Paper of January, 2012. We have no doubts that the referred subject needs appropriate time and broad discussion with the interested parties to be properly addressed. It is important to remember that the subject was not contemplated in IFRIC 12, even though several years were consumed for this project to be concluded. Consequently, we are concerned in realizing that such matter will have only one hour of debate in the next Committee meeting and that, since the Committee meeting of November, 2011, the intention to be addressed at a very short notice.

Our main concern still lies in the fact that we understand the intention to address now the fixed concession fees only, which are understood to be those that do not suffer any kind of contingent change in the future. It is very difficult to understand the reasoning of addressing a determined subject only partially, especially in view of the fact that many concession fees in emerging economies are hybrid, that is, own a fixed characteristic and are commonly adjusted by inflation indexes (contingent variable component). How to appropriately account for these variable components strictly connected to the fixed concession fee?

Regarding the adverse impacts such variable components may bring, if not appropriately addressed, (question which we assume to be identical to what the Leases Project deals with) we made our contributions through the presentation of models and examples discussed in person with IASB's senior management in November, 2011, as well as in the Emerging Economies Group's meeting, which is an IASB's advisory group, which took place in New Delhi – India, December, 2011.

Aiming at broadening our contribution to the understanding of the theme, attached to this letter, there is a paper prepared by Professors Eliseu Martins and Ernesto R. Gelbcke, both accounting thinkers of the utmost importance in Brazil and members of the Brazilian ASB.

The importance of this technical report is that it discusses:

1. Concession fees paid in fixed installments;
2. Concession fees paid with fixed installments, but adjustable – traditional accounting treatment;
3. Concession fees paid with fixed installments, but adjustable – alternative accounting treatment; and

4. A separated section is dedicated to comparative analysis of the methods.

The relevance of this technical report can be verified by the reproduction of some selected paragraphs as follows:

“The method of recognition of liability updating directly against income (one hit impact) causes the most blatant misstatements, with great chances of recognition of losses at first and for a good part of the contract term, with negative equity for most of the time, in a complete lack of adherence with the need of reliable representation of the financial statements.”

“The new layer method produces a much less misstated income than the ones produced by the one hit impact, although the mismatch flaws caused by the appropriated financial expenses pro rata tempore based on the exponential method are still there.”

“Finally, the similarity of the problems of the concession rights paid in installments over the contract term and the discussion of assets recognition of the right of use related to the operational leasing contracts are subjects that should be studied jointly. Still, problems with the indexation of liabilities occur not only in these concessions paid in installments and, also, not only in long term contracts of operational leases, but as well as in long term contracts which finance property, plant and equipment.”

“Considering all the above, we reach the conclusion that this subject needs a much deeper and broader discussion, and that many risks exist in any rushed deliberation.”

Due to the reason that there are at least three related themes to IFRIC 12 in discussion at the Committee (Payments made by an operator in a service concession arrangement, Classification of net flows for service concession arrangements, Selection of amortization method), as well as due to the subject payments made by an operator being so similar to what is intended to be addressed in the Leasing project, it seems to us that it would be reasonable that these subjects be treated jointly, not in isolation, according to the recommendation of item 42 (a) (i) of the Staff Paper from January, 2012.

Finally, we understand that it would be of great value to the process of construction of the amendment proposed to IFRIC 12 if all the parties interested in the subject had the sufficient time and opportunity to discuss the subject and participate in the process.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me.

We kindly ask IASB not to disclose submitter's name.

Yours sincerely,

[Submitter]