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Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street

Berlin, 07 November 2006

London EC4M 6XH  
United Kingdom

Dear Sir David,

### **Comment Letter on IFRIC Interpretation [X] *Service Concession Arrangements***

We appreciate the publication of the near-final draft of IFRIC X and acknowledge the efforts the IFRIC has made in revising the draft Interpretations IFRIC D12-14. However, we would like to bring to your attention an issue that is still troubling us and that should be further discussed in the course of the November meeting of the IASB.

According to paragraph 7 of IFRIC D14 the service concession operator was regarded as receiving an intangible asset from the grantor in exchange for the construction or other services it provides to the grantor. Paragraph 7 of the draft Interpretation proposed that the operator should recognise revenue and profit or loss on that exchange. In our comment letter on IFRIC D12-14 dated 30 May 2005 we expressed our disagreement with this proposal and argued as follows:

*In our view, the construction costs arising for the infrastructure represent a payment for acquiring an intangible asset. Since the construction does not represent a revenue earning activity the total revenues cannot exceed the total cash inflows.*

*The IFRIC's proposal causes an inappropriate difference compared to the financial asset model and can result in two service concession arrangements (having the same risk structure) being accounted for very differently with regard to revenue recognition. In addition, the IFRIC's proposal is not consistent with the principles applying to other intangible assets.*

*The IFRIC's argument that there is an exchange resulting in the recognition of revenue and profit or loss contradicts the IFRIC's justification in paragraph BC13*



*of D12<sup>1</sup> for disregarding IAS 17 as the appropriate accounting treatment with regard to the recognition of the infrastructure. In BC13 of D12 it is stated that there is no lease because the operator does not have a right of use of the infrastructure, but it has only access to the infrastructure to provide the services. The same argument, however, makes clear that there is no exchange transaction. IAS 38.46 states that an exchange transaction has only commercial substance if the future cash flows of the entity are expected to change as a result of the transaction. This is not true for the exchange referred to in D14 because this transaction does not generate extra cash flows for the operator. It is not the infrastructure that generates cash flows but only the use of the intangible asset.*

*Finally, there is no exchange because the rendering of the concession services is dependent on the construction of the infrastructure. Both construction and rendering of service are part of a coherent contractual agreement. We cannot see why a part of such an arrangement should be viewed as an exchange resulting in the recognition of revenue and profit or loss.*

The way this important issue within the intangible asset model was dealt with in IFRIC D14 caused substantial concerns among the constituency. To our regret, the IFRIC confirmed its decision and did not include any further explanation why the concerns raised in many comment letters were not considered to be persuasive.

We still believe that our arguments are valid and that – when applying the intangible asset model – the recognition of revenue and profit or loss in the construction phase of an arrangement leads to an inappropriate accounting. We would therefore highly appreciate if this issue would be revisited by the Board in its November meeting.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

*Stefan Schreiber*  
AIC, Chairman

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<sup>1</sup> Now included in IFRIC X.BC22 et seqq.