2 June 2005

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The Chairman
International Financial Reporting Interpretation Committee
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

IFRIC Draft Interpretations D12 to D14 - Service Concession Arrangements
IFRIC Draft Interpretation D15 Reassessment of Embedded Derivatives

The Malaysian Accounting Standards Board (MASB) appreciates the opportunity to offer its views on the following 4 IFRIC Draft Interpretations:

(i) D12 Service Concession Arrangements - Determining the Accounting Model;

(ii) D13 Service Concession Arrangements - The Financial Asset Model;

(iii) D14 Service Concession Arrangements - The Intangible Asset Model; and

(iv) D15 Reassessment of Embedded Derivatives.

We appreciate the efforts of IFRIC to provide guidance on the accounting by operators for public infrastructure service concessions and the move to clarify reassessment of an embedded derivative.

Having reviewed the draft Interpretations and feedback received from the Malaysian constituents, we have no objections to the proposal laid out in D15.

However, there are areas in D12, D13 and D14 which merit considerable attention.

Generally, we are of the view that a project of such pervasive nature as a service concession should have been dealt with by the Board, via a separate standard, rather than having to address it through interpretations. Clearly, the three Interpretations could have been amalgamated for more efficient guidance for stakeholders, and at the same time could avoid users having to refer to many other related standards.

An approach that can be taken is for the IASB to consider determining an appropriate accounting model that reflects more comprehensively government-private sector collaboration based on service concession practices across jurisdictions, including those in Malaysia. There could be established models for such. We believe that the model within a separate financial reporting standard can address the shortcomings of the principles proposed in the draft interpretations which seemed to have conflicting accounting treatments even under circumstances where the arrangements for which the associated cash flows and risks are essentially the same. An example is where the grantor makes the payments or where the grantor guarantees the operator's returns. The degree of risk faced by the operator in both instances would be low under both situations and yet, they are accounted differently under the draft Interpretations.

In the process of determining a model, it will be appropriate to then consider treating service concession arrangement and the underlying asset as a separate class of assets and accounted for as such. This approach is similar to the approach taken by the IASC in considering investment property within a separate standard and in classifying investment property as a separate class of assets.

The draft Interpretations seem incomplete in respect of the election of application of the accounting model. For example it has not clarified whether the determination of the accounting model is a one-off election made at inception of the concession arrangement or a matter of reassessment. The Interpretations are also silent on the timing of recognition of intangible asset under the intangible asset model.

The drafts Interpretations have also drawn an inappropriate line between the financial asset model and intangible asset model, such that similar transaction will have to be accounted differently even though they are essentially the same. For example, the treatment for maintenance and repairs obligations provided in D13 is different from the one in D14 even though in substance the contractual obligation in both models is of the same nature.

In essence, while the proposed Interpretations are meant to ensure consistency in practice, there are areas to improve in the drafting to maintain clarity and avoid unnecessary inconsistency in application. The macro view is that a separate standard issued by the Board is recommended to address more comprehensively the treatment of government-private sector collaborations.

Should you require further information, please contact Dr. Nordin Mohd Zain, the Executive Director of MASB, via e-mail at nordin@masb.org.my.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman