



ASSOCIAZIONE ITALIANA  
SOCIETÀ CONCESSIONARIE  
AUTOSTRADE E TRAFORI

Rome, the 28<sup>th</sup> of February 2007

*IL SEGRETARIO GENERALE*

**Subject : *IFRIC 12 – Service Concession Arrangements – Comment letter on the draft endorsement advice***

Dear Mr. Enevoldsen,

AISCAT is the Italian Association of Toll Motorways and Tunnels Operators, whose objective is the collection and comparison of the experiences and common needs of its members, addressing all issues concerning the planning, construction and operating of motorways and tunnels. The Association's members are companies, entities and consortia that own a concession for the construction and/or management of Italian toll motorways or tunnels; there are currently 23 members, representing approximately 5,600 kilometers of motorway network.

AISCAT is pleased for having the opportunity to comment on the IFRIC-12 Interpretation, expressing the Association's concerns about the approval of the document.

MR/ES/MS  
Prot. 07.241

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For the attention of  
Mr. Stig Enevoldsen  
EFRAG Chairman and CEO  
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CONFINDUSTRIA



In particular, the IFRIC – 12 document states that the Grantor controls or regulates both the services to be provided by the Concessionaire concerning the infrastructure in concession and the tariffs on the basis of which those services are provided (paragraphs 4 and 5).

IFRIC Interpretation is therefore based on the concept of “control” operated by the Grantor both on the infrastructure in concession and on the Concessionaire; the concession contract is consequently seen as a “*management on behalf of the Grantor*” (paragraph BC 28) where the Concessionaire provides a public service within specific guidelines issued by the Grantor.

In this context the infrastructure is a property of the Grantor and therefore it cannot be recorded in the Concessionaire’s balance sheet.

According to our opinion, the Ifric Interpretation 12 does not take into account the “*risks & rewards*” approach, which actually regulates concession contracts in Italy, where the “Motorway Infrastructure” is recorded as “fixed assets” for the following reasons:

- a) The operator substantially bears all risks from the management of the infrastructure, for a long period of time which may cover up to 40 years, which is therefore out of the grantor’s operative control (business risks, infrastructure repair and maintenance risks - also in extreme cases such as natural or accidental events, etc.).
- b) The duration of the concession exceeds the useful life of a non insignificant portion of the infrastructure. As a consequence, the nature of the asset is equivalent to an asset owned by the operator.
- c) The nature of the infrastructure assets is so peculiar that such assets can be utilised by the operator for the purposes of the concession arrangements only.
- d) The grantor does not control the tariff. Once agreed at the inception of the contractual arrangement between the grantor and the operator the formula on which the tariff is based, the tariff is no longer controlled by the grantor as it is, in

substance, influenced either by external metrics (i.e. forecasted inflation) or internal metrics (i.e. operator's efficiency, quality of the services provided, etc.), the latter being under the exclusive control of the operator and impacting any changes in the tariff.

- e) The infrastructure can be utilised by the operator to generate revenues from ancillary activities. For example, in the motorways industry ancillary activities such as petrol and food stations, telephone networks, optical fibres, etc. are substantially under the sole control of the operator.

Taking into account all the above, the control over the Motorway infrastructures is held by the Concessionaire. Therefore the infrastructure is recorded, in the financial statements, according to the IAS 16 (*Property, plant and equipment*).

#### **Applicability of the models foreseen in "IFRIC Interpretation 12"**

We also highlight that the accounting models proposed by IFRIC ("*Financial Asset Model*", "*Intangible Asset Model*", or the "*Mixed Model*") are not easy to be applied in the Motorways sector, where a high number of variable elements has to be taken into account (such as construction costs of the infrastructure, cost of further enlargements, definition of toll rates, operating costs, financial burdens, etc.); therefore it is quite difficult to use the above models to disclose the activity of a motorway operator.

#### **Conclusions**

On the basis of the above explanations Companies we believe that i) the Italian Motorways do not fall all within the scope of the Ifric Interpretation 12 and ii) the proposed accounting schemes would not present a "true and fair view" of the operations of the motorway business.

We therefore suggest a closer examination of the issue, since the current Interpretation does not represent the actual configuration of the whole Italian Toll Motorways system and are likely to pose some relevant problems both in existing and future concessions.

We remain at your disposal for any further information you may need.

Sincerely yours,

Massimo Schintu

