



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
5

DATE: May 1, 2009
MEMO TO: Members of the IPSASB
FROM: Joy Keenan
SUBJECT: Service Concession Arrangements

OBJECTIVE OF THIS SESSION

- To **review** a draft Exposure Draft (ED).
- To **approve** the next steps for this project.

AGENDA MATERIAL

- 5.1 Draft IPSAS XX (ED 43), “Service Concession Arrangements”
- 5.2 Draft Implementation Guidance/Illustrative Examples (to be distributed before the IPSASB meeting) – see Appendix A for a list of examples planned to be developed

BACKGROUND

1. In March 2008, the IPSASB issued a Consultation Paper (CP) on “Accounting and Financial Reporting for Service Concession Arrangements” (SCAs). The CP considered a number of existing sources, including IFRIC 12 of the International Financial Reporting Interpretations Committee, “Service Concession Arrangements.”
2. The CP explored various approaches for determining whether the grantor (public sector entity) should recognize the underlying property of the SCA as its asset. Ultimately the conclusion in the CP was that the grantor recognize an asset if the grantor controls the property. This is similar to IFRIC 12. The CP focused on the recognition and measurement of that asset and the related liability to provide the operator with access to the asset. It also indicated which other IPSASs would apply in cases when either or both of the control conditions were not met.
3. The CP also addressed the possibility that the grantor might control the operator entity for financial reporting purposes as well as required disclosures for SCAs.
4. The IPSASB reviewed responses to the CP in October 2008, and noted strong support for the overall scope, structure, principles and guidance of the CP. In addition it is noted that in the UK practice has been implemented based on the principles of the CP and were strongly supported. The responses indicated that clarification on certain issues was needed. At the October 2008 meeting, the IPSASB directed staff to provide further analysis and proposed solutions to those

- issues for discussion at its February 2009 meeting (see Analysis, Key Issue 2, below).
5. Staff were directed to begin developing an exposure draft based on the principles of the CP because of the support respondents to the CP expressed. This first draft ED closely mirrors the scope, structure, principles and guidance set out in the CP and is annotated [CP source for wording shown in square brackets at the end of each paragraph].
 6. In terms of the workplan for this proposed ED the goal is to have a complete ED for approval by the IPSASB at the September 2009 meeting. In order to achieve this, Staff intends to further develop the proposed ED subsequent to this IPSASB meeting based on the feedback provided at the meeting. It is anticipated that a revised version of the proposed ED would then be distributed for feedback out of session, ideally in late June 2009 in order that amendments can be made and a final draft be prepared for distribution at the beginning of August 2009.
 7. Staff has not yet developed detailed application guidance pending the IPSASB's agreement on the core of the ED. The application guidance currently provided is modified from IFRIC 12 to reflect the grantor.
 8. Greg Driscoll (who was primarily responsible for drafting the CP while on secondment from KPMG (US) to the GASB) assisted in preparing the illustrative examples, which will be not included in Agenda Paper 5.1, but are expected to be distributed before the meeting.
 9. In response to the Intangible Assets ED, one member indicated his approval was contingent upon the SCA project addressing the issue of the intangible asset of the grantor. His arguments are set forth in Key Issue 3 of the Analysis section of this paper.
 10. In March 2009, the IASB issued Discussion Paper DP/2009/01, "Leases," which considers a new approach to accounting for leases, and which may affect this project. Its response date is July 15, 2009. Staff will monitor the impact of the proposals in this project on the SCA standard and report back to the IPSASB as necessary.

KEY ISSUES FOR DISCUSSION AND RESOLUTION

Staff requires the IPSASB's views and decisions on the following issues in order to develop an ED for approval in September 2009:

1. Scope, structure, terminology, principles and guidance

(a) Scope

As indicated above, the Staff used the CP as the basis for developing the proposed ED. The proposed ED does not, therefore, address issues not raised and/or discussed in the CP. Nor does it go beyond the supporting arguments in the CP for the positions developed. (See a specific scope issue in item 3 below)

The CP included guidance on what the grantor should do in cases when some or all of the control criteria are not met. The proposed ED contains a similar section (paragraphs 47-58).

It has been indicated by a Member that including grantor reporting when control conditions are not met is inconsistent with the scope and definition of an SCA – i.e., if an arrangement does not meet the conditions for control, it is not an SCA, and thus should not be addressed in the proposed ED. However, given the complexity of public-private contractual arrangements, Staff believes it is appropriate to give some guidance on the accounting in such cases, to ensure consistency in accounting and financial reporting (note: this is similar to how ED 40 deals with intangible items that do not meet the definition of an intangible asset and are expensed).

Another Member questioned whether the proposed ED should address arrangements involving only a service provision element. IN23 indicates that contractual arrangements involving service contracts only are accounted for as any service contract.

Key Issue 1(a):

- **Does the Board agree that the scope of issues addressed and the related guidance provided in the proposed ED should be consistent with those in the CP?**
- **In particular, do you believe that additional principles to those proposed in the CP are required, or that any of the principles require additional guidance?**

(b) Structure

Staff used judgment in determining how much of the detailed analysis contained in the CP to support the proposals should be included in the body of the proposed ED. Some of it has been incorporated in the Introduction and Basis for Conclusions sections as deemed appropriate. Your views are therefore important to ensure the right balance is struck among the Introduction, proposed ED, Application Guidance, Implementation Guidance/Examples and Basis for Conclusions.

Staff has included the definitions in Appendix A, consistent with recently issued IFRSs and certain of the recently approved IPSASB proposed EDs. However, on balance, Staff favours definitions being included in the body of the Standard. This issue will be discussed as it relates to all IPSASs during this meeting (see agenda item 8).

Key Issue 1(b):

- **Is additional explanation and/or guidance required in the body of the proposed ED?**
- **Consider whether the material required should be included in the Introduction, Basis for Conclusions, Application Guidance, Implementation Guidance or Illustrative Examples.**

(c) Terminology

The proposed ED uses the CP terminology. Notably, the proposed ED uses the term grantor for the public sector entity in the arrangement. It has been questioned whether this term is appropriate in the case of a SCA, which is an exchange transaction and whether another term would be more suitable.

The CP used a variety of terms to describe the property used in an SCA, including “underlying property,” “property underlying an SCA” and “infrastructure and/or public property.” The proposed ED uses “asset” to describe the underlying property when the control conditions in paragraph 8 are met, and “underlying property” in cases when it has not been determined whether the control conditions are met, or in cases when they are not met (paragraphs 47-58), except when the term has already been used in a sentence (in which case “property” is used).

Staff has used the general term “contractual arrangement” in cases when the discussion is referring to the contract itself or to the general category of arrangements between the public and private sectors, of which SCAs are one type, and in cases when the control conditions are not met.

Staff has used the abbreviated “SCA” only in non-bold paragraphs of the proposed ED.

Key Issue 1(c):

- **Do you agree with the terminology used (e.g., “grantor,” “asset,” “underlying property,” “contractual arrangement” and “SCA” respectively)?**
- **Do you agree with the definitions of key terms as presented?**
- **Are other definitions required?**
- **Are definitions of the various types of arrangements comprising the definition of a SCA required?**

(d) Principles – Discount Rate

The Proposals set out in the CP have been used to develop the principles (in boldface type) in the proposed ED. The CP proposed that the operator’s cost of capital related to the asset be used to determine the imputed finance charge. In March 2009, the IASB issued Discussion Paper DP/2009/01 entitled, “Leases: Preliminary Views.” The paper sets out the following preliminary views:

- “4.15 The boards tentatively decided to initially measure the lessee’s obligation to pay rentals at the present value of the lease payments, discounted using the lessee’s incremental borrowing rate.
- 4.16 The boards noted that in most leases the present value of the lease payments discounted using the lessee’s incremental borrowing rate would be a reasonable approximation to fair value. Consequently, requiring lessees to measure the obligation to pay rentals using this approach would provide users of financial statements with information similar to measuring the obligation at fair value. In addition, this approach would normally be simpler for lessees to apply than a requirement to measure the obligation to pay rentals at fair value.

- 4.17 The boards tentatively decided to require the use of the lessee’s incremental borrowing rate to discount the lease payments because determining the implicit rate is often difficult for lessees. The boards tentatively decided not to retain the approach to discount rates used in the existing standards because it would be more complex for preparers to apply and might reduce comparability for users.”

Although paragraphs 34-36 of the proposed ED allow for the grantor’s incremental borrowing rate to be used in cases when the operator’s cost of capital is not available (consistent with IPSAS 13), this is not presented as the primary principle in the proposed ED.

The response date for the DP is July 17, 2009; however, the project would still need to be issued for public exposure, during which time there could be changes to this preliminary view. Staff is, therefore, seeking the IPSASB’s views on whether or not to change paragraphs 34-36 to be consistent with DP/2009/01.

Key Issue 1(d):

- **Should the principle and guidance on the discount rate used to determine the imputed finance charge be revised in the proposed ED consistent with that in IASB DP/2009/01?**

2. Introduction and Basis for Conclusions

The IPSASB directed that the Staff should initially draft:

- the Introductory wording and Basis for Conclusions on the IPSASB’s rationale for using the control-based approach,
- additional material discussing the contractual nature of SCAs; and
- a statement that the proposed ED uses extant definitions of an asset and a liability in IPSAS 1.

That material should also address the guidance on what the term “regulate,” used in the “control over use” control condition means in the public sector context, and how the control condition dealing with “control over any significant residual value” applies in whole-of-life assets, as well and the guidance on the discount rate used to determine the imputed finance charge.

The IPSASB asked that this material be distributed to Members out-of-session at an early date, and that it should be followed up by a document that would set out the structure of the proposed ED. Staff was able to issue the first material noted above. However, there was insufficient time to distribute a draft of the proposed ED. As noted, based on the discussion at this meeting, Staff anticipates sending a further developed ED for feedback by the end of June 2009.

Key Issue 2:

- **Does the Board agree with wording of the Introductory and Basis for Conclusions sections of the proposed ED?**
- **What additional issues (if any) should be addressed?**

- **Are there additional arguments that need to be presented? Consider in particular the material in BC10 that was drafted to explain the IPSASB's rationale for adopting a control-based approach.**

3. Grantor intangible asset

As indicated above, one Member raised the issue of whether the grantor has an intangible asset related to granting the operator the right to charge users for the service under an SCA. In his view, there is an intangible asset for the grantor in cases where the SCA would involve the operator charging users directly for services.

Staff believes this issue should be addressed consistently with ED 40, "Intangible Assets" — i.e., powers to grant rights and to tax are outside the scope of this project pending development of the IPSASB's Conceptual Framework.

The proposed ED makes a specific reference to this issue, which was addressed indirectly in the CP in paragraphs 133-134 for an existing asset of the grantor. The conclusion in the CP is that the right to charge a fee is reflected in the recorded value of the underlying property (i.e., its future economic benefits/service potential). This service potential is not impaired by granting the right to charge users a fee to the operator in an SCA.

In cases when the asset is being constructed, IFRIC 12 requires the operator to recognize the intangible right to charge users during construction. Recognition of an intangible asset by the grantor would double-count the right to charge users.

Paragraphs IN22, 23-24 and BC1-20 of the proposed ED address this issue.

Key Issue 3:

- Does the Board agree with the Staff proposal that the proposed ED specifically identify that the grantor does not recognize an intangible asset in cases when the SCA involves the operator receiving the right to charge user fees?

4. Changes to Other IPSASs

Existing IPSASs do not refer to service concession arrangements; however, the proposed ED does refer to other IPSASs, particularly when the conditions for control are not met. The main IPSASs affected are IPSAS 13, "Leases" and IPSAS 17, "Property, Plant and Equipment." Proposed changes are indicated below, but have not been added to the proposed ED pending the IPSAS's decisions:

IPSAS 13.25-.27

Leases and Other Contracts

25. A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate and/or transfer assets as discussed in IPSAS XX, "Service Concession Arrangements." Public

sector entities often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. For example, a public sector entity may construct a tollway. It may then lease the tollway to a private sector entity as part of an arrangement whereby the private sector entity agrees to:

- (a) Lease the tollway for an extended period of time (with or without an option to purchase the facility);
- (b) Operate the tollway; and
- (c) Fulfill extensive maintenance requirements, including regular upgrading of both the road surface and the traffic control technology.

Other agreements may involve a public sector entity leasing infrastructure from the private sector.

- 26. Where an arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard are applied in accounting for the lease component of the arrangement.
- 27. Public sector entities may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether or not a lease, as defined by this Standard, has arisen. IPSAS XX requires the grantor to determine whether a contractual arrangement that does not meet both conditions for control set out in IPSAS XX.8 contains a lease. In these cases, professional judgment is exercised, and if a lease has arisen this standard is applied; and if a lease has not arisen entities account for those agreements by applying the provisions of other relevant International Public Sector Accounting Standards, or in the absence thereof, other relevant international and/or national accounting standards.

IPSAS 17.4

4. This Standard applies to property, plant and equipment including:

- (a) Specialist military equipment; and
- (b) Infrastructure assets and other public facilities, including those recognized under IPSAS XX, "Service Concession Arrangements."

Key Issue 4:

- Does the Board agree with the Staff proposals noted above?

5. Effective Date and Transitional Provisions

The IPSASB needs to determine what the transitional provisions should be for this proposed ED. The IPSAS 17 provisions are included the proposed ED, for the IPSASB's consideration. They are consistent with IFRIC 12, and also take into account the public sector situation when the accrual basis of accounting is first adopted.

Key Issue 5:

- What are your views on the transitional provisions required for the proposed ED?

APPENDIX – PROPOSED EXAMPLES TO BE PROVIDED

1. All conditions for control are met (asset and liability treatment)
2. Whole-of-life SCA
3. Revenue-sharing provisions
4. User pays SCA
5. “Control over use” condition met, but “any significant residual value” condition not met
6. “Control over use” condition not met, but “any significant residual value” condition met
7. Neither control condition met
 - a. Arrangement is a lease
 - b. Arrangement is not a lease
8. SPEs (from CP)
9. Contingencies (guarantees, commitments etc)

October 2009

*Proposed International Public Sector Accounting
Standard*

Service Concession Arrangements



International Federation
of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, “Intangible Assets,” for publication in May 2009. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by February 28, 2010. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Email responses should be sent to: edcomments@ifac.org and stepheniefox@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

IPSAS XX (ED 43)—SERVICE CONCESSION ARRANGEMENTS

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Comment [j1]: Propose moving the definitions to precede paragraph 8 (see Agenda Papers 5 and 8 on this issue).

Comment [j2]: Propose moving these into the body of the ED, preceding paragraph 8.

Comment [j3]: To be developed with Greg Driscoll

Introduction

Background

- IN1. In many jurisdictions, infrastructure assets and other public facilities (e.g., roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks) have traditionally been constructed, operated, maintained and financed by the public sector. [From paragraph 1 of IFRIC 12]
- IN2. In some countries, governments have introduced contractual arrangements to attract private sector participation in the some or all of the development, financing, operation and maintenance of such property. The property may already exist, or may be constructed during the period of the contractual arrangement. A contractual arrangement within the scope of this Standard typically involves a public sector entity (the grantor) contracting with a private sector entity (the operator) to construct the property used to provide the public service or upgrade it (e.g., by increasing its capacity), operate and maintain that property for a specified period of time and return it to the grantor at the end of the contractual arrangement. These arrangements are typically complex, may involve a number of parties and are governed by a contract that deals with a range of matters including performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes. These contractual arrangements typically reflect one of two approaches to payment, although some may include elements of both approaches. The first approach is similar to a lease, in which the grantor pays the operator over the period of the contractual arrangement (“grantor pays”). The second approach is one in which the operator charges the individual users of the service in accordance with the terms of the contract (“user pays”). For the purposes of this Standard, such a contractual arrangement is referred to as a “service concession arrangement” (SCA). [From paragraph 2 of IFRIC 12]
- IN3. A feature of SCAs is the public service nature of the services the operator provides related to the underlying property (e.g., construction and operation), irrespective of the identity of the party that operates the services (i.e., the grantor ultimately retains the service delivery risk). The SCA contractually obliges the operator to provide the services to the public on behalf of the grantor. Other common features may include:
- (a) The grantor is a public sector entity;
 - (b) The operator is responsible for at least some of the management of the underlying property and related services and does not merely act as an agent on behalf of the grantor;
 - (c) The contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the contractual arrangement; and
 - (d) The operator is obliged to hand over the property to the grantor in a specified condition at the end of the period of the contractual arrangement,

for little or no incremental consideration, irrespective of which party initially financed it.

Reasons for Issuing this IPSAS

- IN4. The use of service concession arrangements (SCAs) by the public sector has continued to grow worldwide over recent years as a vehicle to build or improve infrastructure assets and other public facilities, and provide the services associated with these structures. This growth is reflected in both the number of countries in which such contractual arrangements have been executed or studied and the types of infrastructure assets and other public facilities that are associated with these contractual arrangements. SCAs differ from other types of public-private contractual arrangements such as operations concessions in that the control over the underlying property, along with the risks and benefits associated with constructing, owning and operating the property, are shared by the public sector entity and private sector entity in an SCA. The sharing of these aspects of the property, as well as the general complexity of these transactions, often has made the financial reporting of elements of SCAs by public sector entities unclear. As such, there may be inconsistent information provided in the financial statements of various public sector entities, resulting in a possible lack of full comparability regarding the financial reporting of SCAs. [From paragraph 3 of IFRIC 12 and Executive Summary of CP]
- IN5. The International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) issued Interpretation 12, “Service Concession Arrangements” (referred to herein as IFRIC 12) in 2006 to address the accounting by the operator entity for SCAs.
- IN6. Although IFRIC 12 has been a useful framework in the absence of a public sector standard, it does not address the specific accounting and reporting issues of the grantor. The IPSASB has developed this IPSAS to respond to these public sector issues..

Main Features of the IPSAS

- IN7. The Standard is based on definitions of the elements of financial statements (e.g., assets and liabilities) set out in IPSAS 1, “Presentation of Financial Statements.” The IPSASB is currently in the process of developing a conceptual framework that may change these definitions. The impact of such changes on this Standard will be determined when the conceptual framework is complete.

Scope

- IN8. This Standard defines SCAs, and prescribes the accounting and financial reporting by the grantor for SCAs.
- IN9. The principles for recognition of an asset and liability by the grantor for the infrastructure or public facility used in an SCA do not apply to other types of contractual arrangements that might exist between public and private sector

entities that do not meet the criteria for control set out in this Standard. Guidance is provided on the relevant IPSASs that apply in such cases.

- IN10. The Standard does not apply to the accounting for the contractual arrangement by a public sector operator. When the public sector operator is a government business enterprise (GBE) the International Financial Reporting Standards (IFRSs) issued by the IASB would apply.

Recognition of the Asset and the Related Liability

- IN11. The Standard requires the grantor to recognize an asset for the underlying property and a related liability when the grantor is determined to control the property. The related liability is accounted for as a financial liability as set out in IPSAS XX (ED 37), “Financial Instruments: Presentation” and IPSAS XX (ED 39), “Financial Instruments: Disclosures.”

- IN12. IFRIC 12 uses a control-based approach for prohibiting recognition of the underlying property as an asset by the operator. IPSAS XX (ED 40) also uses a control-based approach that is consistent with, although not identical to that in IFRIC 12. It is expected that the application of consistent criteria for assessing which party to an SCA should recognize an asset in respect of the underlying property by the grantor and the operator will result in only one party recognizing it. However, there is no requirement in the Standard to enforce this.

- IN13. The criteria for control in paragraph 8 of the Standard are as follows:

- (a) The grantor controls or regulates what services the operator must provide with the underlying property, to whom it must provide them, and the price ranges or rates that can be charged for services; and
- (b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the property at the end of the term of the arrangement.

The Standard highlights the importance of assessing the substance over the form of the terms and conditions of the contract when determining whether or not the grantor meets the control criteria specified for recognition of the underlying property as an asset.

- IN14. The Standard provides guidance on the term “regulates” in the context of the public sector. It notes that the term is not used in the broad sense of a government’s regulatory authority, but rather, in the context of the specific terms and conditions of the service concession contract.

- IN15. Guidance is provided on cases when the grantor does not have a significant residual interest in the underlying property at the end of the term of the contractual arrangement (“whole of life” arrangements). In such cases, the

Standard states that the entity is only required to meet criterion 8(a) for recognition of an asset.

- IN16. In accordance with IPSAS 17, “Property, Plant and Equipment,” the Standard requires that, for constructed property, when the construction costs cannot be reasonably estimated, the grantor recognize the asset when construction is completed. When the construction costs can be reasonably estimated, the grantor recognizes the underlying property as an asset during construction of the asset.

Measurement of the Asset and Related Liability

- IN17. When the construction and service elements of the scheduled payments by the grantor to the operator can be separated, the underlying property is required to be reported at the fair value of the underlying property, or if lower, the present value of the payments related to construction. When the construction and service elements cannot be separated, or the operator directly collects third-party usage fees or receives other non-cash compensation from the grantor, the underlying property is required to be reported at fair value.

- IN18. The liability is initially recognized at the same amount as the asset, adjusted as required at inception of the SCA for cash received by or paid by the grantor.

- IN19. Subsequent to initial recognition, the grantor measures the asset in accordance with IPSAS 17 with respect to depreciation, impairment and subsequent measurement using the cost or adjusted fair value using the revaluation model.

- IN20. The grantor is required to measure the liability subsequent to initial recognition in accordance with the requirements of IPSAS 13, “Leases” pertaining to finance leases, with a portion of the scheduled payments reducing the liability and a portion as an imputed finance charge. The portion of the payments related to the service element is required to be expensed as incurred. Ordinarily, the operator’s cost of capital is the rate used to determine the imputed finance charge; however, additional guidance is provided on the discount rate to use when it is impracticable to use the operator’s rate.

Revenue-sharing Provisions and other Contractually-determined Inflows

- IN21. The grantor recognizes as revenue contractually-determined inflows received from the operator (e.g., upfront payment from the operator or installment payments from the operator) as they are earned and reports as a liability any consideration received in advance of performance of its obligation to provide the operator with access to the underlying property.

- IN22. The grantor is not permitted to recognize its right to share in the revenues of the operator as an intangible asset. This right is part of the fair value of the asset initially recorded, for which the service potential to the grantor is not diminished as a result of granting to the operator the right to collect revenues.

Grantor Financial reporting when the Control Criteria are not Met

IN23. Guidance is provided on the grantor's accounting in cases when one or more of the indicators of control set out in IN4 are not met, as noted below:

- Neither control criterion is met;
- Only the "Control over Use" criterion is met; and
- Only the "Control over Residual Interest" criterion is met.

In cases when the operator only provides services on behalf of an entity, the provisions in paragraph 31 apply.

Guarantees and other Commitments

IN24. The Standard requires the grantor to assess whether guarantees and other commitments meet the definition of a financial guarantee contract as defined in IPSAS XX (ED 38), "Financial Instruments: Recognition and Measurement." If it does, the grantor follows the guidance in that ED. If it does not, the grantor follows the guidance in IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets."

Consolidation

IN25. The grantor is required to evaluate its relationship with the operator to determine whether the grantor has an ownership or equity interest in the operator in accordance with IPSAS 7, "Investments in Associates" or IPSAS 8, "Interests in Joint Ventures," or whether the grantor controls the operator for financial reporting purposes in accordance with IPSAS 6, "Consolidated and Separate Financial Statements."

Disclosures

IN26. The grantor is required to disclose information about service concession arrangements in effect during the period. When it is not practicable to disclose details of each service concession arrangement, aggregation is permitted. In addition, consideration should be given as to whether certain additional disclosures may be better provided in other financial reports and documents of the grantor, rather than in its financial statements.

Effective Date and Transitional Provisions

IN27. IPSAS XX (ED 43) requires an entity applying the Standard for the first time to reconsider whether property previously recognized as assets and whether property previously expensed or not recognized meet the criteria for asset recognition under the Standard. Adjustments for such items are treated as changes in an

accounting policy in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”

- IN20. IPSAS XX (ED 43) also contains certain exemptions for recognition of assets and liabilities under IPSAS XX (ED 43) by entities adopting the accrual basis of accounting for the first time.

Objective

1. The objective of this Standard is to prescribe the accounting and financial reporting for service concession arrangements (SCAs) by a public sector entity. It addresses recognition and measurement of the underlying property, the related liabilities, revenues and expenses and prescribes disclosures.

Scope

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.**
3. **This Standard applies to property used in a service concession arrangement involving whole-of-life assets when the criteria in paragraph 8(a) are met.**
4. This Standard does not apply to the recognition of property that was held and recognized as property, plant and equipment by the grantor before entering the SCA. The requirements set out in IPSAS 17, “Property, Plant and Equipment,” apply to such property.
5. This Standard does not apply to accounting by operators.
6. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
7. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that GBEs apply International Financial Reporting Standards (IFRSs), which are issued by the International Accounting Standards Board (IASB).

Recognition of the Asset and Related Liability

8. **A grantor shall report the underlying property in a service concession arrangement as an asset in its financial statements if it controls the property for financial reporting purposes. The grantor controls the property if:**
 - (a) **The grantor controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and**
 - (b) **The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the property at the end of the term of the arrangement. [From CP.102/IFRIC 12.5]**

Comment [j4]: It is expected the definitions would move to precede this section of the ED>

9. Property that the grantor controls under the criteria in paragraph 8 is recognized as property, plant and equipment. The operator has access to operate the underlying property to provide the public service on behalf of the grantor in accordance with the terms specified in the contract. [IFRIC 12.11 as amended] Because the SCA is a contract, the terms and conditions of the contract need to be carefully assessed to determine whether the criteria in paragraph 8 are met.

Meaning of “Regulate”

10. The contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the arrangement. [IFRIC.3c] In this Standard, the term “regulate” is not intended to be used in the broad sense of the power of governments and government entities to regulate the behavior of entities by use of their sovereign or legislative powers to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. [From IPSAS 6.36(a) with additional lead-in combined with Cash Basis, Appendix, para. 8] Rather, it is intended to be applied in the context of the specific contract for the SCA.
11. For the purpose of the criterion in paragraph 8(a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, contract or regulator, for example by a capping mechanism. However, the criterion is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if for example, a contract purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator’s return is capped and the price element of the control test is met. [IFRIC 12.AG3]
12. Sometimes the use of underlying property is partly regulated in the manner described in paragraph 8(a) and partly unregulated. However, these arrangements take a variety of forms:
 - (a) Any underlying property that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in IPSAS 26, “Impairment of Cash-Generating Assets” is analyzed separately if it is used wholly for unregulated purposes (e.g., this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and
 - (b) When purely ancillary activities (such as a hospital shop) are unregulated, the control tests are applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph x, the existence of ancillary activities does not detract from the grantor’s control of the underlying property . [IFRIC 12.AG7]

Whole-of-Life Assets

13. Paragraph 8(b) requires the grantor to control any significant residual value in the asset at the end of the term of the arrangement. In most cases, there will be a significant residual value because of the long-lived nature of the underlying property, and the frequent inclusion of a contractual requirement for the operator to return the property in a state of good condition at the end of the arrangement. In rare cases, the underlying property is used for the entire useful life during the term of the SCA (i.e., whole-of-life assets), such as when the SCA:
- (a) Involves property used to deliver a service that is not expected to continue after the end of the arrangement; or
 - (b) Requires the operator to demolish the property at the end of the arrangement and return the underlying land in clean condition. [From CP.80]

In those rare cases, there may be no significant residual value to control at the end of the SCA. Consequently, the entity is only required to meet criterion 8(a) for recognition of an asset, as provided for in paragraph 3.

14. In cases when the SCA involves a whole-of-life asset and criterion 8(a) is not met, the entity will need to assess the substance of the terms and conditions of the contract (see paragraphs 47-58 for guidance when some or all of the control criteria in paragraph 8(a) are not met).

Timing of Recognition

15. **When the asset recognized under paragraph 8 is constructed, and value of the construction-in-progress cannot be reliably measured, the grantor shall recognize the asset when the construction is complete, in accordance with IPSAS 17.** [From CP.135]
16. **When the asset recognized under paragraph 8 is constructed, and the value of the construction-in-progress can be reliably measured, the grantor shall recognize the asset during construction of the asset in accordance with IPSAS 17.** [From CP.135]
17. Asset construction contracts typically require the contractor to be paid on an interim basis. In many SCAs, on the other hand, the operator is not compensated until the asset is operational or the operator is able to charge users for the use of the asset. Consistent with IPSAS 17, when the cost cannot be measured reliably during construction the asset is recognized when construction is complete. When the asset is being constructed, and the cost or fair value of the asset to the entity can be measured reliably during construction the asset is recognized during construction.

18. **When the entity recognizes an asset in accordance with paragraph 15 or paragraph 16, the entity shall also recognize a liability reflecting the obligation of the grantor to provide cash or non-cash compensation to the operator.** [From CP.112]

Measurement of the Asset and Related Liability

Asset Measurement

19. **The grantor shall report the asset at fair value, or if lower, the present value of the payments related to construction when:**
- (a) **The construction and service elements of the scheduled payments by the grantor to the operator can be separated; and**
 - (b) **The operator does not directly collect third-party usage fees.** [From CP.136]
20. In some cases, based on the terms of the contract or other information, it is possible to determine which portion of the payments made by the grantor to the operator pertaining to the construction element and the service element respectively. In this case, measurement of the asset and related liability for the construction element is determined on the same basis as is used for finance leases in IPSAS 13.
21. **The grantor shall report the asset at fair value when:**
- (a) **The construction and service elements of the scheduled payments by the grantor to the operator cannot be separated; or** [From CP.137]
 - (b) **The operator directly collects third-party usage fees or receives other non-cash compensation from the grantor.** [From CP.138]
22. **Subsequent to initial recognition, the grantor shall measure the asset in accordance with IPSAS 17 with respect to depreciation, impairment and subsequent measurement using the cost or adjusted fair value using the revaluation model.** [From CP.136]
23. In applying the impairment tests in IPSAS 17, the grantor does not consider the granting of the service concession to the operator as a circumstance that causes impairment. The value of the asset has not been reduced because there is no reduction in service potential of the asset through granting the operator the right to collect fees from users of the asset or to charge the grantor for services rendered (e.g., operations or maintenance). [From CP.133-134]

24. Consistent with IPSAS XX (ED 40), the grantor does not recognize an intangible asset related to its power to grant rights to the operator. [ED 40 proposed principle]

Liability Measurement

25. **The liability recognized under paragraph 18 at inception of the service concession arrangement shall be initially recorded at the same amount as the asset recognized under paragraph 19 or paragraph 20, as appropriate.** [From CP.126]
26. The liability related to the asset in an SCA is recorded at the same amount as that asset because the liability reflects the grantor's obligation to compensate the operator for that asset. [From CP.136]
27. **The liability initially recorded under paragraph 26 shall be adjusted as required for cash received by or paid by the grantor at inception of the service concession arrangement.** [From CP.126]
28. The liability initially recorded is increased to reflect consideration received (i.e., the asset) in advance of performance related to its obligation to provide access to the asset. Likewise, the initial liability is decreased for amounts paid, or to be paid in the future, by the grantor. [From CP.126]
29. **Subsequent to initial recognition, the grantor shall measure the liability in accordance with the requirements of IPSAS 13, "Leases" pertaining to finance leases as follows:** [From CP.136]
- (a) **When the construction and service elements of the contract can be separated, the construction element of the scheduled payments shall be allocated between the imputed finance charge and the reduction of the grantor's outstanding liability to the operator; and**
 - (b) **When the construction and service elements of the contract cannot be separated, the scheduled payments shall be allocated between amounts that reduce the liability associated with the asset, imputed finance charges and charges for services provided by the operator.**
30. When the construction and service elements of the scheduled payments are not readily separable, the portion of the scheduled payment allocated to each element needs to be estimated based on the fair value of the asset. [From CP.119]
31. **The service element of the scheduled payments determined in accordance with paragraph 29 shall be expensed as incurred.** [From CP.114, CP.120]

32. The service element of the scheduled payments is expensed as the economic benefits of the service are rendered. [From CP.114]
34. **The imputed finance charges in paragraph 29 should be determined based on the operator's cost of capital specific to the asset, if this is practicable to determine. If the operator's cost of capital specific to the asset is not practicable to determine, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the contract, shall be used.** [From CP.137, IPSAS 13.28]
35. Where sufficient information is not available, the rate used to determine the imputed finance charges may be estimated by reference to the rate that would be expected on acquiring a similar asset (e.g., a lease of a similar asset, in a similar location and for a similar term). The estimate of the rate should be reviewed together with:
[Feb 2009 IPSASB papers]
 - (a) The present value of the lease payments;
 - (b) The assumed fair value of the asset; and
 - (c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.
36. In cases when the grantor takes part in the financing (e.g., by lending the operator the funds to construct the asset, or through guarantees), it may be appropriate to use the government's incremental borrowing rate to determine the imputed finance charges. [Based on Feb 2009 IPSASB papers – based on IPSAS 13 and FRS Application Note 5 (F16)]
37. **The liability related to the asset recognized in a service concession arrangement shall be reported as a financial liability in accordance with IPSAS XX (ED 37), "Financial Instruments: Presentation" and IPSAS XX (ED 39), "Financial Instruments: Disclosures."**
38. The grantor reports a financial liability to the extent that it has an unconditional contractual right to pay cash or another financial asset to the operator for the construction services (i.e., when the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law). The grantor has an unconditional right to pay cash if the grantor contractually guarantees to pay the operator:
 - (a) Specified or determinable amounts; or
 - (b) The shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is

contingent on the operator ensuring that the underlying property meets specified quality or efficiency requirements. [From IFRIC 12.16]

39. The nature of the consideration given by the grantor to the operator is determined by reference to the contract terms and, when it exists, relevant contract law. [From IFRIC 12. 19]

Revenue-sharing Provisions and other Contractually-determined Inflows

40. **The grantor shall recognize as revenue contractually-determined inflows received from the operator as they are earned in accordance with IPSAS 9, “Revenue from Exchange Transactions.”** [From CP.190, CP.196]
41. The grantor may receive contractually-determined inflows in the form of an upfront payment from the operator or installment payments over the term of the SCA. The revenue is recognized based on the substance of the contract. In the case of a revenue-sharing provision, this would occur after any contingent event, such as the achievement of a revenue threshold is deemed to have occurred. [From CP.190] In the case of installment payments, the present value of the payments is determined at inception of the SCA and is allocated on a systematic and rational basis over the term of the SCA.
42. **The grantor shall report as a liability any consideration received in advance of performance of its obligation to provide the operator with access to the asset.** [From CP.192, 196]
43. In cases when the cash payments made by the grantor to the operator for construction of the asset are reduced or eliminated because the operator directly collects third-party usage fees or receives other non-cash compensation from the grantor (e.g., through granting the operator use of additional grantor-owned land for a nominal amount), the liability reflects the receipt of consideration (i.e., the asset) in advance of performance (i.e., the provision of access to the asset). [From CP.138]
44. Contractually-determined inflows to be received by the grantor from the operator are recognized over the life of the SCA, beginning at the commencement of the concession term (i.e., when the asset is fully operational and the operator has the ability to use the asset to generate third-party user fees). Before this point, the grantor cannot begin to deliver on its obligation to provide the operator with access to the asset. After the asset becomes fully operational, the grantor recognizes the contractually-determined inflows as revenue, using the straight-line method, or a method that better reflects the operator’s economic consumption of its access to the asset and/or the time value of money, taking into account the facts and circumstances of the SCA, set out in the contract. [From CP.196]

45. **The grantor shall not recognize its right to share in the revenues of the operator as an asset.** [From CP.188]
46. Before the event described in paragraph 42 occurs, future economic benefits or service potential cannot be expected to flow to the grantor from a revenue-sharing provision (i.e., the past event required for asset recognition under IPSAS 1, “Presentation of Financial Statements” has not occurred). Accordingly, no asset is recognized by the grantor.

Grantor Reporting when the Control Criteria are Not Met

Neither Control Criterion is Met

47. **When neither of the control criteria in paragraph 8(a) or 8(b) is met, the grantor shall not recognize the underlying property as an asset and shall expense any expenditures related to the contractual arrangement as incurred. If the underlying property exists and is reported by the grantor as an asset at the time the contractual arrangement is entered into, the property shall be derecognized as an asset in accordance with IPSAS 17.** [From CP.159]

Only the “Control over Use” Criterion is Met

48. **When the grantor controls the use of the underlying property only during the term of the contractual arrangement in accordance with paragraph 8(a), the contractual arrangement does not involve a “whole-of-life” asset as described in paragraphs 13-14, and the contractual arrangement meets the definition of a lease, the grantor shall follow the accounting and reporting by lessees set out in IPSAS 13.** [From CP.160]
49. A contractual arrangement in which the grantor controls the use of the underlying property, and which is not a whole-of-life arrangement, may often meet the definition of a lease in IPSAS 13, with the grantor considered the lessee and the operator considered the lessor. If the contractual arrangement does meet the definition of a lease, the grantor follows the guidance in IPSAS 13 to determine whether the contractual arrangement is a finance lease or an operating lease. [From CP.146]
50. If the contractual arrangement involves existing property reported by the grantor as an asset, and the grantor transfers ownership of the property to the operator but retains control over its use the grantor follows the guidance in IPSAS 13 on sale-leaseback transactions and for determining whether the lease is a finance lease or an operating lease. [From CP.147]
51. **When the grantor controls the use of the underlying property during the term of the contractual arrangement in accordance with paragraph 8(a), and the contractual arrangement does not meet the definition of a lease and:**

- (a) **The grantor maintains ownership of the underlying property during the contractual arrangement, the grantor shall report the property as an asset in accordance with paragraph 8 during the term of the arrangement and shall derecognize the asset at the end of the term of the contractual arrangement in accordance with IPSAS 17; [From CP.161]**
 - (b) **The grantor does not own the underlying property during the contractual arrangement, the grantor shall not report the property as an asset and shall expense any expenditures related to the contractual arrangement as incurred. [From CP.161]**
52. If the criterion in paragraph 51(a) is met, the grantor retains ownership and control of the underlying property during the term of the contractual arrangement and the operator controls the residual interest. The grantor reports the underlying property as an asset during the term of the contractual arrangement in accordance with this Standard. At the end of the term of the contractual arrangement, the grantor derecognizes any remaining carrying value of the underlying property. [From CP.148]
53. If the contractual arrangement does not meet the definition of a lease and the grantor does not own the underlying property, and the grantor does not recognize the property as an asset under paragraph 8, the scheduled payments under the contractual arrangement relate solely to the service element and are expensed as incurred. [From CP. 148]

Only the “Control over Residual Interest” Criterion is Met

54. **When the contractual arrangement involves a newly constructed property and the grantor meets the control criterion in paragraph 8(b), but not the criterion in paragraph 8(a), the grantor shall recognize as an asset the excess, if any, of the expected fair value of the property at the end of the term of the contractual arrangement over the amount the grantor will be required to pay the operator upon reversion. The excess is accreted to the asset over the term of the contractual arrangement. [From CP.162]**
55. The circumstances described in paragraph 54 involve the case when the grantor controls the residual interest in a constructed asset, but does not control the use of the asset over the term of the SCA. The excess of the expected fair value over the amount to be paid by the grantor upon reversion is allocated to the asset over the term of the contractual arrangement to reflect that payments to the operator contain both a service element and an element representing the asset for the prepayment for the underlying property. This approach also allocates the service expense associated with the contractual arrangement. [From CP.154]

56. **When the contractual arrangement involves an existing property of the grantor and the grantor meets the control criterion in paragraph 8(b), but not the criterion in paragraph 8(a), the grantor shall:**
- (a) **If the contractual arrangement meets the definition of a lease, follow the guidance for lessors in IPSAS 13; or**
 - (b) **If the contractual arrangement does not meet the definition of a lease, derecognize the property as an asset and recognize as an asset the operator's obligation to return the property to the grantor at the end of the term of the contractual arrangement. This asset shall be recognized at the expected fair value of the property at the end of the term of the contractual arrangement. The difference between the asset derecognized and the asset recognized shall be reported as a gain or loss in the period in which the contractual arrangement was entered into. [From CP.163]**
57. If paragraph 56(a) applies, the grantor assesses whether the contractual arrangement is a finance lease or an operating lease under IPSAS 13. If it is considered a finance lease, the grantor no longer reports the underlying property as an asset, as described in IPSAS 13. If it is considered an operating lease, the grantor continues to report the underlying property as an asset. [From CP.158]
58. If paragraph 56(b) applies, the underlying property is no longer an asset of the grantor. The grantor is not typically required to fulfill any obligation to be entitled to the reversion of the underlying property at the end of the term of the contractual arrangement. Accordingly, the right to reversion is an asset of the grantor. The derecognition of the asset is considered a disposal of an asset and a gain or loss is reported equal to the net derecognition amount adjusted for any cash paid or to be paid by the operator. [From CP.157]

Guarantees and Other Commitments

59. **The grantor shall apply IPSAS XX (ED 38), "Financial Instruments: Recognition and Measurement," determine whether guarantees and commitments made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract and to recognize and measure the related financial liability. [From CP.178]**
60. Certain guarantees made by a grantor, such as a contractual guarantee of repayment of the operator's debt in the event of default, may meet the definition of a financial guarantee contract. [From CP.168]
61. **For guarantees and commitments that do not meet the definition of a financial guarantee contract in IPSAS XX (ED 38), the grantor shall apply**

IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.” [From CP.179]

62. In many cases a provision would not be recognized in the grantor’s financial statements until the contingent event that is the subject of the guarantee occurs or does not occur (e.g., the operator does not achieve a minimum revenue threshold). The grantor discloses certain information about guarantees and commitments made in an SCA in accordance with paragraph 67.

Consolidation

63. **The grantor shall evaluate its relationship with the operator to determine whether the grantor has an ownership or equity interest in the operator in accordance with IPSAS 7, “Investments in Associates” or IPSAS 8, “Interests in Joint Ventures,” or whether the grantor controls the operator for financial reporting purposes in accordance with IPSAS 6, “Consolidated and Separate Financial Statements.”** [From CP.216]
64. IPSAS 6 provides guidance for determining whether one entity (a controlling entity) controls another entity (the controlled entity) for financial reporting purposes. In the context of an SCA, the grantor would typically be the potential controlling entity and the operator would be the potential controlled entity. [From CP.199]
65. Where the operator is a government business enterprise (GBE) certain of the criteria required for control of the entity set out in paragraph 39 of IPSAS 6 (i.e., power conditions and benefit conditions) will often exist in the relationship between the grantor and the operator, particularly if the GBE was created to act as the operator of the SCA. In such cases it would be appropriate to consolidate the GBE in the grantor’s financial statements in accordance with IPSAS 6. [From CP.204]
66. When the operator is a special purpose entity (SPE), the conditions of control of the entity set out in paragraph 39 of IPSAS 6 will typically not exist; however the contractual terms of the SCA may result in the presence of certain of the indicators of control in paragraph 40 of IPSAS 6. Nevertheless, the grantor considers whether the sponsors or shareholders of the SPC exhibit a greater degree of control over the SPC than the grantor does, through their voting rights or ownership interest in the SPE. In such cases the operator would not be controlled by the grantor, and the grantor would not consolidate the operator SPE. [From CP.208]

Disclosures

67. **The grantor shall disclose for service concession arrangements:** [From CP.228, except as additionally noted]
- (a) **A general description of the service concession arrangements in effect during the reporting period, including management’s objectives for entering into them;**
 - (b) **The nature and extent of the grantor’s rights acquired under service concession arrangements, which may include rights to expect the provision of services, revenue sharing or rights to residual ownership of the asset;** [Residual ownership reference from GASB document]
 - (c) **For each period in which a guarantee or commitment exists by the grantor to the operator, the nature, extent, duration and significant contract terms of specific obligations, guarantees, and other commitments assumed under service concession arrangements, including the guarantees of operator debt and guarantees of minimum revenue amounts for the operator;** [Reference to duration and significant contract terms added from GASB document]
 - (d) **Aspects of service concession arrangements that may affect potential service delivery to constituents, which may include property operation and maintenance requirements specified in the contract, events of operator default and their potential effect on service delivery and information on the financial condition of the operator at inception of the contractual arrangement and in each subsequent reporting period during the term of the contractual arrangement;**
 - (e) **The nature and amount of assets and liabilities related to service concession arrangements that are recognized in the grantor’s statement of financial position; and**
 - (f) **Future cash inflows and outflows associated with service concession arrangements, and any significant conditions or contingencies that may affect the amount, timing and uncertainty of those future cash flows.**
68. In cases when the grantor has several service concession arrangements in effect in the period, it may be appropriate to aggregate the information required in paragraph 50. In doing so, the costs of providing the information in the financial statements would be compared with the expected benefits. [From CP.229] For example, some information may be of interest to some of the grantor’s constituents, but is not relevant to users’ understanding of the financial

statements. In such cases certain information may be more appropriately included in other financial reports and documents of the grantor, rather than in the financial statements. [From CP.227]

69. **The grantor shall also disclose the following information about aspects of the service concession arrangement:**
- (a) **Information about the asset related to the underlying property in accordance with IPSAS 17;**
 - (b) **Information about the related financial liability in accordance with IPSAS XX (ED 37) and IPSAS XX (ED 39); and**
 - (c) **Information about contingent liabilities in accordance with IPSAS 19.**
[From CP.230]

Transitional Provisions

70. **Entities are not required to assets and liabilities related to service concession arrangements, determined under paragraphs 8 and 18 respectively, for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards.**
71. **An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards shall initially recognize the asset at cost or fair value.**
72. **The entity shall recognize the effect of the initial recognition of the asset determined under paragraph 8 and the related liability as determined under paragraph 18 as adjustments to the opening balance of accumulated surpluses or deficits for the period in which the asset and liability are initially recognized.**
73. Prior to first application of this Standard, an entity may recognize the underlying asset it does not control under paragraph 8 of this Standard, or it may control assets under paragraph 8 of this Standard that it has not recognized. This Standard requires entities to initially recognize constructed assets at the lower of fair value and the present value of the payments related to construction when the construction and service elements of the scheduled payments can be separated and the operator does not collect third party usage fees. When the construction and service elements of the scheduled payments cannot be separated or the operator directly collects third party usage fees, entities are required to report the underlying property at fair value.

74. **If, for any particular SCA, it is impracticable for a grantor to apply this Standard retrospectively at the start of the earliest period presented, it shall:**
- (a) Recognize the asset and liability that existed at the start of the earliest period presented;**
 - (b) Use the previous carrying amounts of the asset (however previously classified) as its carrying amount as at that date; and**
 - (c) Test the asset recognized at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period. [From IFRIC 12]**
75. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an asset for the underlying property in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.
76. Paragraph 8 of this Standard requires the cost of the underlying asset in an SCA to be recognized as an asset if, and only if:
- (a) The grantor controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and
 - (b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the property at the end of the term of the arrangement.
77. The transitional provisions in paragraphs 70 and 71 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt accrual accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of assets. For this reason, for a five-year period following the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, entities are not required to comply fully with the requirements of paragraph 8.
78. Notwithstanding the transitional provisions in paragraph 70 and 71, entities that are in the process of adopting accrual accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.
79. The exemption from the requirements of paragraph 8 implies that the associated measurement and disclosure provisions of this Standard do not need to be

complied with in respect of those assets or classes of asset that are not recognized under paragraphs 70 and 71.

80. **When an entity takes advantage of the transitional provisions in paragraphs 70 and 71 that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 70 shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but that are now recognized shall be disclosed.**

Effective Date

81. **An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**
82. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix A – Defined Terms

This Appendix is an integral part of IPSAS XX (ED 43).

Build-Own-Operate – Transfer (BOOT) arrangement A contractual arrangement in which the operator owns the constructed property, and provides the associated services and asset maintenance until the end of the arrangement, then transfers that ownership to the grantor at the end of the arrangement. [From CP.14]

Design-Build-Finance-Operate (DBFO) arrangement A contractual arrangement in which the operator constructs the property, finances its construction costs, and provides the associated services and asset maintenance, typically returning the property to the grantor at the end of the arrangement. [From CP.13]

Design-Build-Operate-Maintain (DBOM) arrangement A contractual arrangement in which the operator constructs the property, and provides the associated services and asset maintenance, typically returning the property to the grantor at the end of the arrangement. [From CP.13]

Grantor The public sector entity that contracts with the operator through a service concession arrangement.

Operations concession arrangement A contractual arrangement in which the grantor conveys to the operator the right to provide services to the public through the use of an existing property, for which the operator is paid directly by the grantor or by users of the services. The operator assumes an obligation to provide such services, normally in accordance with the grantor's performance requirements. [From CP.12]

Operator The entity (typically a private sector entity) that is contracted by the grantor through a service concession arrangement to construct the property used to provide the public service or upgrade it (e.g., by increasing its capacity) and operate and maintain that property for a specified period of time. [From IFRIC 12.2]

Service concession arrangement A complex contractual arrangement between a grantor and an operator that combines at least two elements: an asset that the operator acquires, constructs or rehabilitates for the purpose of providing public services on behalf of the grantor; and an operations concession element (e.g., build-own-operate-transfer, design-build-finance-operate and design-build-operate-maintain arrangements). [From CP.22]

The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and

Comment [J5]: See commentary in Agenda Paper 5.0, and the discussion in Agenda Paper 8 regarding placement of this. It is proposed that the definitions would be moved into the body of the ED for the next draft before paragraph 8.

arrangements for arbitrating disputes and that contractually obliges the operator to provide the services to the public on behalf of the public sector entity. [From IFRIC 12.2] The contractual arrangement provides for the operator to be paid either directly by the grantor or by users of the public services or ancillary services provided by the underlying asset. It may also involve an upfront cash payment by the operator to the grantor.

Whole-of-life assets

Property used in a service concession arrangement for its entire useful life.

Appendix B – Application Guidance

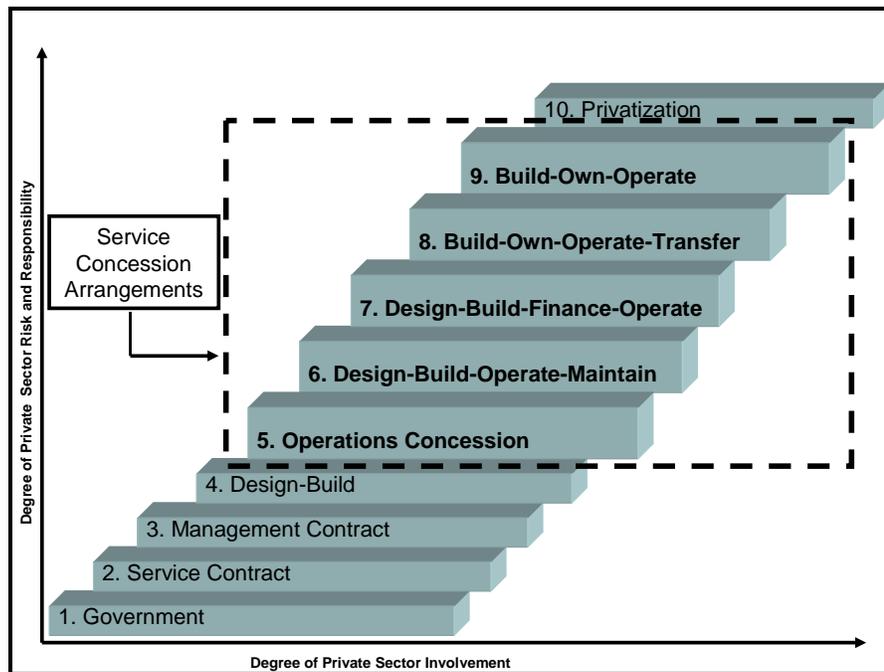
This Appendix is an integral part of IPSAS XX (ED 43).

Scope

AG1. The Standard addresses the accounting and financial reporting issues related to (a) operations concession arrangements, and (b) other PPP arrangements that combine a construction element with an operations concession element. These arrangements are more commonly referred to collectively as service concession arrangements (SCAs), as depicted in Exhibit A.

Comment [j6]: Adapted from IFRIC 12. Additional AG will be developed based on the IPSASB's decisions at the May 2009 meeting.

Exhibit A—Types of Public-Private Arrangements



Recognition of an Asset (paragraph 8)

AG2. Paragraph 8 specifies that the grantor recognizes an asset in relation to underlying property in an SCA when the following conditions apply:

- The grantor controls or regulates what services the operator must provide with the underlying property, to whom it must provide them, and at what price; and
- The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the property at the end of the term of the arrangement.

AG3. The control or regulation referred to in criterion (a) could be by contract or otherwise (such as through a regulator that is a separate entity from the grantor), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. In applying this criterion, the grantor and any related parties are considered together. If the grantor is a public sector entity, the reporting entity of which the public sector entity is a part, together with any regulators acting in the public interest, are regarded as related to the grantor for the purposes of this Standard.

AG4. For the purpose of criterion (a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, contract or regulator, for example by a capping mechanism. However, the criterion are applied to the substance of the agreement. Non-

substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if for example, a contract purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

- AG5. For the purpose of criterion (b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the underlying property and give the grantor a continuing right of use throughout the period of the arrangement. The residual interest in the underlying property is the estimated current value of the property as if it were already of the age and in the condition expected at the end of the period of the arrangement.
- AG6. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 8(a) and any significant residual interest in the underlying property, the operator is only managing the property on the grantor's behalf—even though, in many cases, it may have wide managerial discretion. Thus, the grantor has control of the asset.
- AG7. Conditions (a) and (b) together identify when the underlying property, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of the property during the period of the arrangement (e.g., the top layer of a road or the roof of a building), the property is considered as a whole. Thus criterion (b) is met for the whole of the underlying property, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.
- AG8. Sometimes the use of underlying property is partly regulated in the manner described in paragraph 8(a) and partly unregulated. However, these arrangements take a variety of forms:
- (a) Any property that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in IPSAS 26, "Impairment of Cash-Generating Assets" are analyzed separately if it is used wholly for unregulated purposes. For example, this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients.
 - (b) When purely ancillary activities (such as a hospital shop) are unregulated, the control tests are applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 8, the existence of ancillary activities does not detract from the grantor's control of the underlying property.
- AG9. The operator may have a right to use the separable property described in paragraph AG7(a), or the facilities used to provide ancillary unregulated services described in paragraph AG7(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for by the grantor in accordance with IPSAS 13.

Appendix C – Amendments to other IPSASs

Implementation Guidance – Illustrative Flowcharts

This Implementation Guidance accompanies, but is not part of, IPSAS XX (ED 43).

IG1. The flowcharts in Exhibit B and Exhibit C illustrate the proposed standard for various types of contractual arrangements addressed in this Standard.

Exhibit B—Accounting and Financial Reporting by Grantors

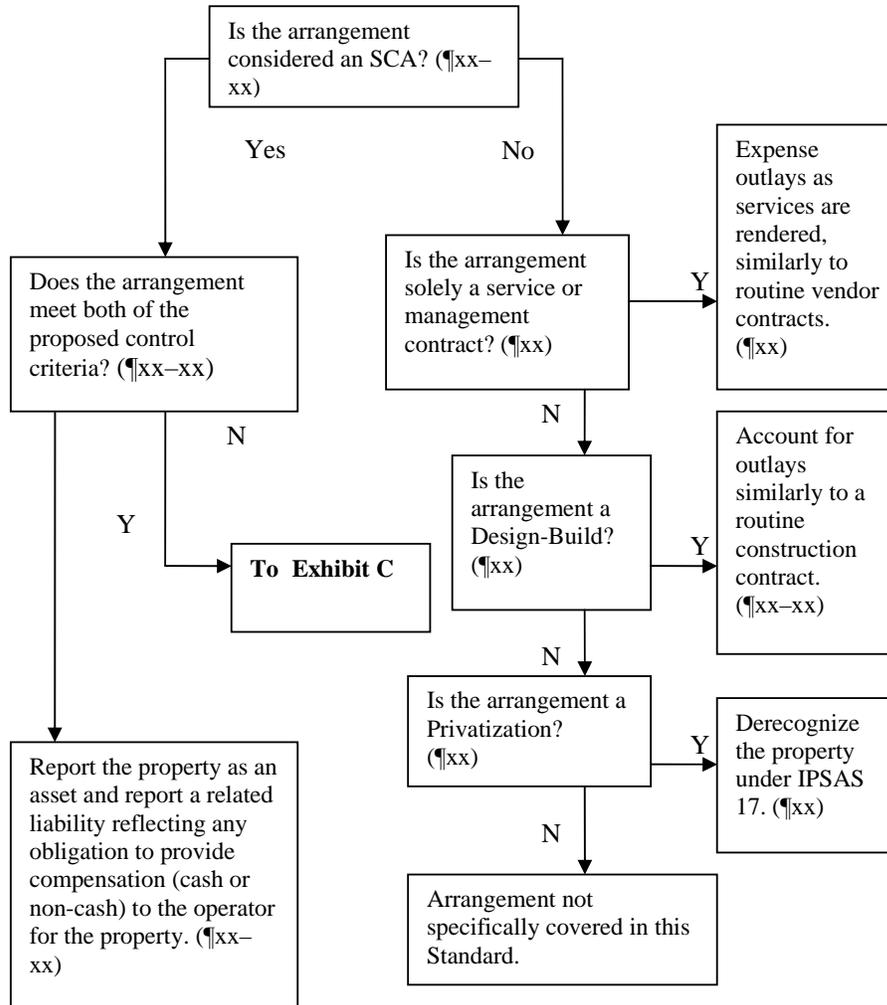
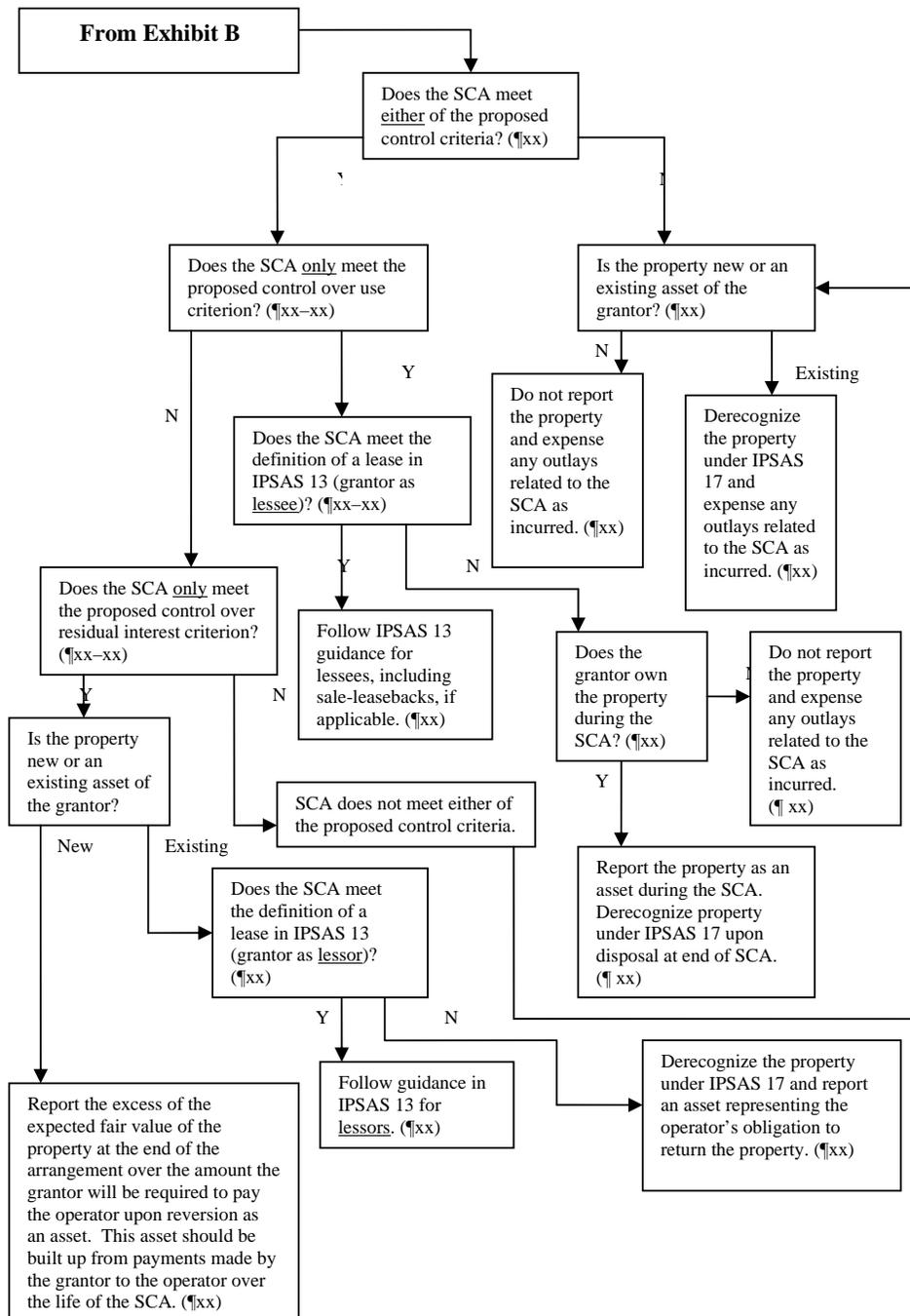


Exhibit C—SCAs That Do Not Meet Both of the Proposed Control Criteria



Implementation Guidance (from IFRIC 12, Information note 2)

This Implementation Guidance accompanies, but is not part of, IPSAS XX (43).

The table sets out the typical types of service concession arrangements and provides references to IPSASs that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements. It is not the IPSASB's intention to convey the impression that bright lines exist between the accounting requirements for public-to-private arrangements.

IG2. References to IPSASs that apply to typical types of public-to-private arrangements

Category	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., grantor leases asset to operator)	Service and/or maintenance contract (specific tasks e.g., debt collection)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/Privatization/Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by licence)
Residual interest	Grantor				Operator	
Relevant IFRSs	IPSAS 13	IPSAS 9	IPSAS XX (ED 43)		IPSAS 17	

Illustrative examples

These examples accompany, but are not part of, IPSAS XX (43).

Comment [j7]: To be developed with Greg Driscoll and distributed under separate cover before the May 2009 IPSASB meeting.

Basis for Conclusions

Introduction

- BC1. Service concession arrangements (SCAs) are prevalent in the public sector as a means of expanding or improving the ability of public sector entities to deliver services to their constituents through the construction or rehabilitation of infrastructure assets and other public facilities. Such arrangements ordinarily involve a the grantor contracting with a private sector entity (the operator) to construct the property used to provide the public service or upgrade it (e.g., by increasing its capacity), operate and maintain that property for a specified period of time and return it to the grantor at the end of the contractual arrangement. Such arrangements are material not only because of the value of the underlying property, but also because of the future risks and commitments associated with them.
- BC2. The International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board issued Interpretation 12, “Service Concession Arrangements” in 2006 to address accounting issues faced by operators in such arrangements. In the absence of an International Public Sector Accounting Standard (IPSAS) to address SCAs from the grantor’s point of view, accounting and disclosure of SCAs is inconsistent and results in a lack of comparability in the financial statements of public sector entities.
- BC3. In March 2008, the IPSASB issued a Consultation Paper (CP), “Accounting and Financial Reporting for Service Concession Arrangements” to identify and explore the issues related to SCAs from the grantor’s point of view. Based on supportive comments received to that CP, the IPSASB issued IPSAS XX (ED 43), “Service Concession Arrangements” in October 2009, which incorporates the proposals in the CP.
- BC4. The Standard is based on the definitions of elements of financial statements (e.g., liabilities and assets) set out in IPSAS 1, “Presentation of Financial Statements.” The IPSASB is currently in the process of developing a conceptual framework for public sector entities. The impact of any changes to the definitions of the elements on the accounting and financial reporting for SCAs will be determined when the conceptual framework project has been completed.

Definitions and Scope

- BC5. The Standard uses the term “grantor” to describe the public sector entity in the arrangement, and “operator” to describe the private sector entity, consistent with IFRIC 12.
- BC6. The Standard defines various types of service concession arrangements that typically combine a construction element with an operations concessions element. They are governed by a contract that contractually obliges the operator to provide the services to the public on behalf of the public sector entity and that sets out

Comment [J8]: Rationale for BFC generally taken from CP, unless specifically noted as from IFRIC 12 or another IPSAS.

performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

- BC7. This Standard applies only to the grantor's accounting and financial reporting. IFRIC 12 applies to operators, most of which the IPSASB believes would be profit-oriented entities, including GBEs.
- BC8. The asset and liability recognition principles in this Standard are not intended to apply to other public-private arrangements outside the scope of the definition of an SCA (see paragraph BC10). The IPSASB concluded, however, that guidance was necessary on the appropriate IPSASs to follow in those cases.
- BC9. Other types of arrangements may exist because one or more of the control criteria does not exist in an arrangement. The Standard refers to guidance in existing IPSASs that would apply in the following circumstances
- (a) Neither control criterion described in paragraph BC12 is met;
 - (b) Only the "Control over Use" criterion described in BC 12(a) is met; and
 - (c) Only the "Control over Residual Interest" criterion described in BC 12(b) is met.

Asset Recognition – Control-based Approach

BC10. One of the key proposals set out in the CP was that grantors should use a control-based approach in accordance with the definition of assets to assess whether to recognize the underlying property in an SCA as an asset of the grantor. In developing that proposal, the IPSASB considered other approaches, such as the risks and rewards approach applied in some jurisdictions. The IPSASB reaffirmed that a control-based approach is appropriate for a number of reasons, including the following:

- A control-based approach is consistent with a view that public sector entities should be accountable for assets they control, as described in IPSAS 1.
- The empirical evidence showing that the risks/rewards approach may result in inconsistent application in practice, and thus the possibility of a lack of full comparability in public sector entities' financial statements;
- SCAs, by nature, are intended to share risks and rewards, thus, by definition, it is difficult to conclude on asset recognition by analyzing the risks and rewards. For example, in a particular SCA, both the grantor and the operator may respectively bear the majority of different types of risk, or the same type of risk may be borne to a considerable degree by both the grantor and the operator (e.g., residual value risk, third-party revenue risk);
- There is significant subjectivity, and possibly bias, in identifying, assigning and evaluating (weighting) the risks, resulting in inconsistent application;

- Various jurisdictions apply a risks/rewards approach in different ways (e.g., in some cases, certain risks are excluded entirely from the analysis and in others, certain risks are given an “automatic” weighting), resulting in a lack of comparability;
- Recent asset accounting proposals of the IASB follow a control-based approach (e.g., consolidation, revenue recognition), and IASB Discussion Paper DP/2009/01 proposes changes to IAS 17, “Leases” (on which IPSAS 13, “Leases” is based); and
- A “risks and rewards” approach, as currently applied in various jurisdictions assumes that rewards coincide with risks, and in effect, focuses primarily on risks, which is generally understood to encompass the potential for gain and exposure to loss. This focus is less relevant in respect of public sector entities that apply IPSASs, for which the ability to obtain access to the service potential embodied in the underlying property is considered to be more relevant than does the risk of economic gain or loss arising from that property.

BC11. The control-based approach set out in IPSAS XX (ED 43) is consistent with that in IFRIC 12 to prohibit the operator from recognizing the underlying property as an asset. IPSAS XX (ED 43) requires the grantor to recognize the underlying property as an asset (and a related liability) when the following criteria are met:

- (a) The grantor controls or regulates what services the operator must provide with the underlying property, to whom it must provide them, and the price ranges or rates that can be charged for services; and
- (b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the property at the end of the term of the arrangement.

BC12. The IPSASB noted that in the public sector, the term “regulates” has a specific and usually broad connotation. Governments may regulate various activities in a broad sense. However, in IPSAS XX (ED 43), “regulate” is in the context of the terms and conditions specific to the SCA contract. It refers either to terms and conditions specified in the contract or regulations of a public sector entity that in substance only apply to such arrangements. The Standard provides guidance on the term “regulates” in control criterion (a).

BC13. The CP differed from IFRIC 12 on whether to require control of “any significant interest” in the underlying property for control to exist. The CP proposed that the residual interest be controlled by the grantor for control to be present. Based on comments, that proposal was amended in the Standard to refer to “any significant residual interest,” consistent with IFRIC 12 for the operator.

BC14. The Standard therefore contains specific requirements for “whole-of-life” assets. In such cases, there is not likely to be any significant residual value at the end of

the term of the arrangement. Control criterion (b) requires that the grantor control any significant residual interest in the property. In a “whole-of- life” arrangement, the grantor obtains all of the economic benefits and service potential of the property during its entire useful life (i.e., the term of the service concession arrangement). Thus, the grantor controls the property if it meets control criterion (a).

- BC15. The IPSASB believes these “whole-of-life” arrangements to be rare in practice. In most service concession arrangements, there will be a significant residual interest at the end of the term of the arrangement because of the long-lived nature of the underlying property. Further, the contract will generally contain terms and conditions that require the operator to maintain the property to a certain state of good condition at the end of the term of the arrangement. Therefore, in most cases, there will be a significant residual value and the “significant residual value” criterion will be a substantive threshold.
- BC16. In response to concerns that a control-based approach may not give due emphasis the extent of risk borne by the public sector entity in an SCA, which is often disproportionate (e.g., the public sector entity ultimately bears the risk of service delivery and also may bear a disproportionate share of other risks in an SCA), the Standard emphasizes that SCAs should primarily be accounted for as contracts between the grantor and the operator. IPSAS XX (ED 43) requires entities to assess the substance of all of the facts and circumstances in the SCA contract when determining whether the public sector entity controls the underlying property, and requires various disclosures about those risks.
- BC17. The CP provided specific guidance, consistent with IPSAS 17, for when to recognize constructed assets. Respondents generally supported that guidance, which is included in the Standard. It requires that when the construction costs can be reasonably estimated, the grantor recognizes the underlying property as an asset during construction of the asset. When the construction costs cannot be reasonably estimated, the grantor recognizes the asset when construction is completed.
- BC18. IFRIC 12 requires the operator to recognize an intangible asset related to its right to earn revenues from the asset (e.g., tolls or a service contract with the grantor). Consistent with the IPSAS XX (ED 40), “Intangible Assets,” the IPSASB does not believe the grantor should recognize the intangible asset for the power to grant rights associated with an SCA.
- BC19. For assets constructed by the operator, an intangible asset only comes into existence when the service concession arrangement takes effect and the right to charge third party users a fee is transferred to the operator, which recognizes the intangible asset under IFRIC 12.

BC20. If the grantor had constructed the asset itself, the provisions related to internally-generated intangible assets in ED 40 would apply. Because the cost to develop the right for internal use would not be measurable during its development as required in ED 40.66(f), no intangible asset could be recognized for an existing asset. Further, for existing assets of the grantor, any rights to charge users are an integral part of the fair value of the tangible asset initially recorded, for which the service potential to the grantor is not diminished as a result of granting to the operator the right to collect revenues.

Measurement of the Asset and Related Liability

BC21. Respondents to the CP supported the measurement guidance in the CP. The Standard therefore indicates that the value at which the asset is initially recognized depends on whether the asset and service elements of the service concession arrangement are separable. If they are separable, the asset is initially valued at the fair value of the underlying property, or the present value of the scheduled payments, if lower. The liability is measured initially similarly to a liability resulting from a finance lease in IPSAS 13.

BC22. The CP proposed that if the construction and service elements are not separable, the underlying property is reported at its fair value, along with the related liability. Scheduled payments must be allocated between repayment of a liability, an imputed finance charge and the operating costs related to the service element of the arrangement. Respondents agreed with those proposals, which are included in IPSAS XX (ED 43).

BC23. The CP proposed that the imputed finance charge be based on the operator's cost of capital. Respondents to the CP requested additional guidance on this interest rate. Additional guidance is provided on the discount rate to use when the operator's rate is not practicable to determine. In such cases, the IPSASB agreed that existing guidance in IPSAS 13 may be appropriate. IPSAS XX (ED 43) indicates that, in such cases, the discount rate may be estimated based on the rate required to acquire a similar property or the grantor's incremental cost of capital may be used, particularly when the grantor participates in financing (e.g., through lending funds to the operator to construct the asset, or through guarantees).

BC24. In the cases identified in BC 21 and BC22, IPSAS XX (ED 43) requires the service element is expensed as the economic benefits are rendered, similar to any other service contract.

Guarantees and other Commitments

BC25. The IPSASB acknowledges that guarantees are a common feature of SCAs. In addition to the financial statement liabilities reported by a grantor related to the underlying property, a grantor may also report liabilities resulting from guarantees and other commitments it makes as part of an SCA. These guarantees and commitments generally are made to the operator, or to third parties on its behalf.

A common example of a guarantee made by a grantor as part of an SCA is a commitment to repay the debt of the operator in the event of default. In many countries, debt issued by public sector entities has a lower cost than debt issued by private sector entities. Also, in some circumstances, lenders may require the grantor to guarantee the financing to the operator. In some circumstances, the grantor may take on the responsibility of repaying operator debt in the event of default even in the absence of a contractual requirement. A second type of guarantee commonly made under SCAs is a guarantee of minimum revenue for the operator. This guarantee is often made in contractual arrangements in which the payments to the operator are based on third-party use of the underlying property.

- BC26. The grantor is required to assess whether guarantees or commitments that meet the definition of a financial guarantee contract in IPSAS XX (ED 38) and to account for them as appropriate. If the guarantee or commitment does not meet the definition of a financial guarantee contract, IPSAS 19 applies.

Revenue-sharing Provisions and other Contractually-determined Inflows

- BC27. In an SCA, the grantor may receive inflows of resources from an operator under two main scenarios. The operator may receive fees for services directly from third-party users of the underlying property in which the grantor shares (usually above a predetermined amount or level), or the operator may pay the grantor directly for concession rights, either upfront or on an installment basis.
- BC28. In cases where there is a contingent event, such as a predetermined threshold for revenue-sharing, the grantor is not permitted to recognize the revenue and related receivable under IPSAS 19 until the contingent event has occurred.
- BC29. The IPSASB noted that the consideration provided by the grantor when there are contractually-determined inflows from the operator, is analogous to that for rendering of services in IPSAS 9, "Revenue from Exchange Transactions." The IPSASB concluded that the grantor should recognize as revenue contractually-determined inflows received from the operator (e.g., upfront payment from the operator or installment payments from the operator) as they are earned and report as a liability any consideration received in advance of performance of its obligation to provide the operator with access to the underlying property.
- BC30. The IPSASB does not believe that the grantor should recognize its right to share in the revenues of the operator as an asset. Only when the prescribed thresholds are met and the contingent event is satisfied, can future economic benefits or service potential be expected to flow to the grantor.

Consolidation

- BC31. The IPSASB noted that in addition to determining whether the grantor controls the underlying property for purposes of financial reporting, it also needs to be

determined whether the operator should be considered a controlled entity of the grantor for financial reporting purposes under the authoritative guidance in IPSAS 6. In this case, the financial accounts of the operator would be included in the grantor's consolidated financial statements. This issue may be particularly relevant when the operator in the SCA is a GBE. In these cases, the GBE operator is often closely related to the grantor, or the GBE may even be created by the grantor or another governmental entity for the purpose of serving as the operator. This issue may also be relevant when the operator in an SCA is a special purpose entity (SPE). An SPE will often be created by a project consortium to serve as the "legal" operator in an SCA. The consortium may include a number of participants, such as construction entities, operations entities, and equity investors. The sole purpose of the SPE is to carry out the operator's responsibilities under the SCA.

- BC32. The IPSASB concluded that the relationship between the grantor and the operator in an SCA should be evaluated to determine whether the grantor controls or jointly controls the operator for financial reporting purposes.

Disclosures

- BC33. The IPSASB noted the complexity of SCAs and the potential magnitude of their impact on the financial statements of the grantor, in the current and in future periods. Using the objectives of general purpose financial reporting set out in IPSAS 1, "Presentation of Financial Statements," the IPSASB developed specific disclosures related to SCAs, in addition to those that might be required in respect of specific elements of the SCA in other IPSASs. The IPSASB took into account that in some cases, the costs of developing detailed information about SCAs might be greater than the resulting benefits. In such cases, the Standard allows for aggregated disclosures.

- BC34. The IPSASB also recognized that certain types of information related to SCAs may not be required for users' understanding of the financial statements, but might nevertheless be useful to some constituents. Such information could be provided in other documents outside of the financial statements.

Effective Date and Transitional Provisions

- BC35. Because some entities may have previously applied a standard for SCAs that differs from IPSAS XX (ED 43) in terms of recognition of the asset, liability, revenues and expenses, IPSAS XX (ED 43) requires entities to reassess whether items previously recognized, and whether items not previously recognized meet the recognition criteria in IPSAS XX (ED 43). If any changes are required as a result of these reassessments, they are accounted for in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors."

- BC36. To facilitate the adoption of accrual-basis IPSASs, the Standard also provides transitional provisions for entities apply the accrual basis of accounting for the first time, consistent with those set out in IPSAS 17.